United Nations TD/B/C.II/ISAR/85

United Nations Conference on Trade and Development

Distr.: General
16 August 2018

Original: English

Trade and Development Board

Investment, Enterprise and Development Commission
Intergovernmental Working Group of Experts on
International Standards of Accounting and Reporting
Thirty-fifth session
Geneva, 24–26 October 2018
Item 3 of the provisional agenda

Enhancing the comparability of sustainability reporting: Selection of core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals

Note by the UNCTAD secretariat

Executive summary

This note presents the main issues raised by stakeholders since the previous session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting. These issues relate to the development of the guidance on core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals and the metadata guidance on indicator 12.6.1 concerning the number of companies publishing sustainability reports. Both guidance documents are aimed at enabling member States to measure and report on the contribution of the private sector to sustainable development in alignment with Sustainable Development Goal monitoring indicators.

The note builds on deliberations relating to the core Sustainable Development Goal indicators for companies at the previous sessions of the Intergovernmental Working Group of Experts in 2016 and 2017, which addressed key conceptual and technical issues, such as principles and criteria for selection of the core indicators, and the suggested list of a limited number of core indicators. The note elaborates further on the continuing challenges in achieving comparability, consistency and usefulness in Sustainable Development Goal reporting by companies. These challenges include reporting boundaries, the balance between universality and materiality, the relationship between consolidated and legal entity reporting, external verification and assurance, corporate governance indicators and the alignment of accounting data and statistical indicators. The note also discusses the main issues relating to the metadata guidance on Sustainable Development Goal indicator 12.6.1 developed by UNCTAD and the United Nations Environment Programme as co-custodians of this indicator. Finally, the note highlights issues that require further elaboration at the thirty-fifth session of the Intergovernmental Working Group of Experts.

I. Introduction

1. In light of the increasing role of sustainability reporting in recent years, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting has underlined the need for practical tools to assist countries in their efforts to measure the contribution of the private sector to sustainable development, in particular to the achievement of the Sustainable Development Goals.

2. In concluding its deliberations at its thirty-fourth session, the Intergovernmental Working Group of Experts called on the UNCTAD secretariat to advance its work on core indicators for Sustainable Development Goal reporting by entities, as part of a guidance document to be compiled during the intersessional period, in collaboration with leading stakeholders in the area of sustainability reporting. Experts underscored the importance of the role of UNCTAD as a custodian agency, with the United Nations Environment Programme, of Sustainable Development Goal indicator 12.6.1 (number of companies publishing sustainability reports). In this capacity, both organizations are expected to develop a methodology to help countries collect data to monitor the progress towards achieving Goal 12.6 (encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle).

3. This note was prepared by the UNCTAD secretariat to facilitate discussions at the thirty-fifth session of the Intergovernmental Working Group of Experts on agenda item 3, "Enhancing the comparability of sustainability reporting: Selection of core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals".[1] The note highlights the main issues that were raised during the intersessional period of the Intergovernmental Working Group of Experts, in particular by the Consultative Group on Enterprise Reporting and the Sustainable Development Goals, which met in Geneva, Switzerland, on 17 and 18 May 2018[2] and by other forums. These discussions were part of the process aimed at developing a guidance document on core indicators for entity reporting[3] on the contribution towards the attainment of the Sustainable Development Goals and the metadata guidance on indicator 12.6.1. The two documents are interrelated, as the metadata guidance is intended to be supported by the guidance on core indicators as a practical means to facilitate implementation of indicator 12.6.1 on reporting

[1] The term "entity reporting" reflects the conceptual framework of International Financial Reporting Standards. For further information on the conceptual framework and the relation between entities and reporting boundaries, see www.ifrs.org/issued-standards/list-of-standards/conceptual-framework. All websites cited in this document were accessed in August 2018.

[2] The UNCTAD secretariat acknowledges with appreciation the comments and inputs provided by Consultative Group members from the following entities: Academy of Financial Management (Ukraine); ADEC Innovations; Association of Chartered Certified Accountants; Blue Orchard; Brazilian Development Bank; Cabinet Pierre Wanssy et Associés; Climate Disclosure Standards Board; CDP; Department for Business, Energy and Industrial Strategy (United Kingdom of Great Britain and Northern Ireland); Global A.I.; Global Reporting Initiative; Iberdrola; Institute of Chartered Accountants of Scotland; Institute of Singapore Chartered Accountants; International Integrated Reporting Council; International Labour Organization; International Organization for Standardization; Kyiv National Economic University; Ministry of Economy and Finance of Côte d'Ivoire; Ministry of Finance of Albania; Ministry of Finance of the Russian Federation; Ministry of Finance of Belarus; National Treasury of Morocco; Novo Nordisk; Permanent Mission of Guatemala to the United Nations in Geneva; Permanent Mission of the United Kingdom to the United Nations in Geneva and the World Trade Organization; Pernod Ricard; Principles for Responsible Investment Initiative; Professional Regulatory Board of Accountancy of the Philippines; Price Waterhouse Cooper; Royal Holloway University of London; Royal Netherlands Institute of Chartered Accountants; Sustainable Development Goals Lab; United Nations Environment Programme; United Nations Department of Economic and Social Affairs; United Nations Economic Commission for Europe; and World Business Council for Sustainable Development. Comments provided by experts in a personal capacity do not necessarily imply the endorsement of suggested indicators by their organizations.

[3] The guidance takes into consideration the request of the thirty-fourth session of the Intergovernmental Working Group of Experts to use the term "entity reporting" rather than "company reporting" to reflect differences in company definitions in different jurisdictions.

by member States; at the same time the guidance on core indicators fulfils the requirements of the metadata guidance. While many comments provided by the Intergovernmental Working Group of Experts and other stakeholders have already been incorporated into revised versions of these documents, some remain under discussion and require further consensus-building.

4. The note builds on discussions of the Intergovernmental Working Group of Experts at its earlier sessions in 2016 and 2017 and should be considered in conjunction with the documentation prepared for facilitating deliberations at these sessions.[4]

Recent key developments

5. In preparing this note, the UNCTAD secretariat took into consideration the following key developments relating to sustainability reporting and the Sustainable Development Goals:

(a) Report issued in 2017 by the Task Force on Climate-related Financial Disclosure, which was established by the Financial Stability Board at the request of Group of 20 Finance Ministers and Central Bank Governors (www.fsb-tcfd.org/publications/final-recommendations-report). This report recommends forward-looking disclosures on the financial impact of climate change, as well as the transition to a global lower-carbon economy under the terms of the United Nations Framework Convention on Climate Change. In 2018, the Task Force received endorsement from stakeholders such as Governments, regulators, preparers, investors and professional accountancy organizations;[5]

(b) Final report of the High-level Expert Group on Sustainable Finance of the European Union (January 2018). The report, informed by an industry-led consultations, proposed the establishment of a sustainability taxonomy at the European Union level, integrating environmental, social and governance factors into financial decision-making, and upgrading existing disclosure rules to better reflect sustainability risks. The final report also recommended that the European Union endorse the Task Force guidelines as a way to support high-quality reporting standards globally, including through further work on sustainable finance at the United Nations;

(c) European Commission action plan on financing sustainable growth (March 2018). The action plan, based on the recommendations of the High-level Expert Group, provides a fitness check of the Non-financial Reporting Directive of the European Union with a view to ensuring its alignment with the Task Force recommendations. The action plan states that steps will be taken to establish a sustainability taxonomy, beginning with climate change issues. Furthermore, it includes a number of actions on strengthening sustainability disclosure and accounting rule-making in this area, in particular the establishment of a European corporate-reporting laboratory to promote best practices in sustainability reporting, under the umbrella of the European Financial Reporting Advisory Group;

(d) Campaign of the International Integrated Reporting Council to promote the adoption of integrated reporting worldwide. In February 2018 the inaugural meeting of the Africa Integrated Reporting Committee took place, providing a forum to discuss the adoption of integrated reporting in the African region, with support from regional and international stakeholders. This initiative, supported by stakeholders such as the World Bank and the International Federation of Accountants, provides an example of best practice on the promotion of sustainability reporting in developing countries;[6]

---

[4] See TD/B/C.II/ISAR/75, TD/B/C.II/ISAR/78, TD/B/C.II/ISAR/81 and session non-paper of 1 November 2017 (Core indicators for company reporting on the contribution towards the attainment of the Sustainable Development Goals).

[5] A list of organizations supporting the Task Force is available at www.fsb-tcfd.org/tcfd-supporters-AUGUST-2018/.

[6] Further information is available at www.ifac.org/global-knowledge-gateway/business-reporting/discussion/it-time-africa-accelerate-implementation.

(e) Action Platform on Reporting on the Sustainable Development Goals, based on continued cooperation between the Global Reporting Initiative and the United Nations Global Compact. The Initiative aims to provide a framework and methodology for companies to report on their Sustainable Development Goal-related performance.[7] The UNCTAD secretariat, as a member of the Action Platform's multi-stakeholder advisory committee, works closely with the Initiative and the Global Compact to ensure coordination and consistency with the UNCTAD project on core indicators, which focuses on a limited number of baseline universal indicators for companies in alignment with the Sustainable Development Goals statistical indicators at a macro level;

(f) Work by the World Business Council for Sustainable Development on sustainability reporting and disclosure, which provides a forum for entities to engage on the Sustainable Development Goals. An important development that took place during the intersessional period was the launch of the Reporting Exchange, a tool for navigating existing sustainability reporting requirements from over 60 countries, encompassing both mandatory and voluntary standards, as well as stock exchange listing requirements;[8]

(g) Work of the World Benchmarking Alliance. This new alliance of reporting stakeholders seeks to identify and promote high-quality benchmarks for assessing and comparing the performance of companies on the Sustainable Development Goals, whose consultations process concluded in June 2018. The Alliance is backed by Aviva Investors, the United Nations Foundation, the Index Initiative and the Business and Sustainable Development Commission. The consultation phase covered all continents, engaging stakeholders from both developed and developing countries.[9]

6. In addition, reports such as the KPMG Survey of Corporate Responsibility Reporting 2017,[10] as well as research conducted by the World Business Council for Sustainable Development and the Climate Disclosure Standards Board, provide data insights into the current state of sustainability reporting, in particular regarding further work needed in this area. While most of the world's biggest companies integrate financial and non-financial data into their annual reports, most do not yet acknowledge climate change as a financial risk. The KPMG report also identifies the growing resonance of the Sustainable Development Goals in entity reporting.

7. The following sections outline the main issues of the 12.6.1 metadata guidance and the guidance on the core Sustainable Development Goal indicators, that would require further elaboration at the thirty-fifth session of the Intergovernmental Working Group of Experts.

II. Metadata guidance on Sustainable Development Goal indicator 12.6.1

8. As part of Sustainable Development Goal 12 to ensure sustainable consumption and production patterns, target 12.6 highlights the need for the adoption by companies of sustainable practices, including the integration of sustainability information into their reporting cycle. The suggested indicator for the measurement of progress towards this target, within the monitoring mechanism of the Sustainable Development Goals, is indicator 12.6.1: number of companies publishing sustainability reports.

9. The development of disciplines for the indicators takes place under the umbrella of the Inter-Agency and Expert Group on Sustainable Development Goal Indicators, which

[7] A recent output of the Action Platform is the report *In Focus: Addressing Investor Needs in Business Reporting on the Sustainable Development Goals,* available at www.unglobalcompact.org/library/5625.

[8] Additional information on the Reporting Exchange can be found at www.wbcsd.org/Programs/Redefining-Value/External-Disclosure/The-Reporting-Exchange.

[9] Summary documents for the World Benchmarking Alliance round tables can be accessed at www.worldbenchmarkingalliance.org/consultation.

[10] Survey available at https://home.kpmg.com/xx/en/home/campaigns/2017/10/survey-of-corporate-responsibility-reporting-2017.html.

currently classifies indicator 12.6.1 as a tier three indicator, requiring the development of authoritative metadata guidance.[11] In this context, the Inter-Agency and Expert Group designated UNCTAD and the United Nations Environment Programme co-custodians of indicator 12.6.1, to develop metadata guidance on this indicator. Since 2016, the two agencies have jointly conducted research and built consensus to enable a reclassification of indicator 12.6.1 to a higher tier and facilitate its practical application by member States.

10. The draft metadata guidance was discussed at the thirty-fourth session of the Intergovernmental Working Group of Experts (see TD/B/C.II/ISAR/81) and by the Consultative Group on Enterprise Reporting and the Sustainable Development Goals. Subsequently, a dedicated task force was created by the two agencies with a view to gathering inputs from a wide range of stakeholders elaborating further on Consultative Group discussions, which held its first webinar on 31 July 2018.[12] Through further discussions, some issues were raised that should be addressed to complete the metadata guidance and launch pilot testing. These include the issues described below.

A. Sustainability reporting: Definition and minimum requirements

11. With regard to the definition of sustainability reporting, the following issues were raised:

(a) Should the term "sustainability information" replace reference to stand-alone sustainability reports?

(b) Should minimum requirements be established for sustainability information or sustainability reports?

(c) How detailed these requirements should be?

12. Several experts stressed that while relevant in its current language, indicator 12.6.1 should not focus solely on the quantitative number of stand-alone sustainability reports. Rather, the indicator should take into account target 12.6 on the integration of sustainability information into reporting cycles, in line with the outcome document of the United Nations Conference on Sustainable Development, resolution 66/288 of the General Assembly (2012), paragraph 47. In this regard, some experts wondered whether the wording of the indicator could be modified to "number of companies publishing sustainability information", rather than "number of companies publishing sustainability reports". Subsequently, it was suggested that the wording of the indicator could be revisited to better reflect the objectives of target 12.6 on encouraging companies to integrate sustainability information into their reporting cycle.

13 Other discussion focused on the definition of sustainability reporting. The definition should be flexible enough to accommodate different types of reports currently issued by companies under the heading "sustainability reporting". Further, the definition should cover the type of information included in reports, rather than specific reporting formats, while highlighting the importance of consistency, comparability and coherence of data provided by companies on financial and non-financial issues.

14. As the quality of sustainability reports varies greatly, the importance of minimum requirements for the content of reports was emphasized to ensure that indicator 12.6.1

[11] See https://unstats.un.org/sdgs/iaeg-sdgs/tier-classification. The tier three category applies to indicators for which no international established methodology or standards are yet available; related work is therefore in progress.

[12] Members of the task force represent key players in the area of sustainability reporting, such as the International Integrated Reporting Council, World Business Council for Sustainable Development, Aviva/World Benchmarking Alliance, Global A.I., British Standards Institution/International Organization for Standardization, Novo Nordisk, Corporate Register, Royal Netherlands Institute of Chartered Accountants, Bocconi University Department of Accounting, Brazilian Institute of Geography and Statistics, Department of Environmental Affairs of South Africa, Ministry of Industry and Tourism of Colombia, Global Reporting Initiative, ADEC Innovations, The Green House Consultancy, Philippine Statistics Authority and National Cleaner Production Centre of Colombia.

provides meaningful information. The purpose of the metadata guidance was not to create a new reporting standard, but rather to ensure that the indicator was aligned with existing frameworks, encompassing disclosures in the economic, environmental, social and institutional areas as a key criterion to qualify the report as an input towards the indicator.

15. In this context, potential synergies between indicator 12.6.1 and the proposed core Sustainable Development Goal indicators were explored. However, UNCTAD core indicators are not intended to be the minimum requirements for a report to be considered as fulfilling the criteria for indicator 12.6.1. Rather, the core indicators provide a tool for Governments to facilitate the harmonization and comparability of the Sustainable Development Goal baseline data at a company level and to enhance their ability to report on the private sector contribution to the implementation of the Goals. It also could be used by companies to produce minimum data on their Sustainable Development Goal-related performance in alignment with Sustainable Development Goal monitoring requirements at the national level.

16. With regard to minimum sustainability reporting requirements, the following issues were raised:

(a) Should the methodology include other reporting levels, going beyond the minimum requirement, or merely encourage companies to go beyond the minimum?

(b) If so, is it feasible to introduce a measure of sustainability practices through an analysis of whether the company merely produces sustainability information, or actually demonstrates progress towards sustainability targets linked to its key materiality issues?

(c) How can this information be verified?

17. Additional levels of reporting beyond the minimum requirements of indicator 12.6.1 were also considered. The objective of this multi-level approach would be to encourage entities, especially multinational enterprises and listed entities, to engage with high-quality disclosures that are relevant to their operational context and reporting capacity. Such additional levels of reporting would require further disclosures across the economic, environmental, social and institutional areas, as well as the integration of such factors into an entity’s operations, including in target-setting and strategic planning. They would also require building adequate institutional settings for quality control and data analysis.

18. An important issue for further consideration is related to whether the audit and/or assurance should be required by the metadata guidance on the accounting data used for entity reporting towards indicator 12.6.1. While assurance would be a way to ensure the quality of sustainability reports, and therefore the meaningfulness of the indicator, cost implications and issues of technical and institutional capacity would require careful thought. Guidance on the core indicators contains further details on this matter.

B. Applicability for small and medium-sized enterprises

19. Under this topic, the following issues were raised:

(a) Should there be a differentiated requirement for small and medium-sized enterprises (SMEs)?

(b) If so, how flexible should the minimum requirement for SMEs be?

(c) Would it be feasible to have a minimum requirement, and other levels of reporting for SMEs?

20. In many countries, SMEs represent a large proportion of economic activity. Therefore, it is critical to enable member States to collect Sustainable Development Goal-related data from the SME sector. In this regard, experts suggested that SMEs could be encouraged to provide data on the four key areas of sustainability reporting, particularly in the environmental and social areas, but with consideration of fewer disclosure elements. However, to do this, it would be necessary to address specific challenges.

21. From the perspective of aggregating data on indicator 12.6.1, the establishment of differentiated sustainability reporting requirements for SMEs would make it necessary to define a consistent threshold for company size. While many jurisdictions consider definitions related to the number of employees, there is no international consensus on the definition of SMEs. One possibility would be to define them as entities with fewer than 250 employees, a figure that is employed by the Action Platform on Reporting on the Sustainable Development Goals of the United Nations Global Compact and Global Reporting Initiative. The definition of company size used in the metadata guidance could differ from the definitions of company size used by Governments when carrying out their own analysis; therefore, the issue of inconsistency of the definitions and resulted data should be addressed.

22. Furthermore, SME capacity-building needs with regard to Sustainable Development Goal reporting and resource constraints should be taken into account.

C. Disaggregation and data collection issues

23. With regard to disaggregation and data collection, the following issues were raised:

(a) Should the data be disaggregated by company size, and if so, what definitions of company size should be used?

(b) How should a company be defined for the purposes of reporting under indicator 12.6.1?

(c) Should “company” be replaced by “entity”?

(d) What should be the rule for including a company under a specific country?

(e) Should the data be collected nationally, or should the custodian agencies further explore the possibility of establishing a global database for collation and analysis of reports and data generation?

(f) What kind of further disaggregation would be useful?

(g) If data per sector is an option, which classification should be used?

24. One of the key challenges in sustainability and Sustainable Development Goal reporting is that of reporting boundaries, related legal entity reporting issues compared with consolidated reporting, and data disaggregation. Establishing a methodology can be complex in case of entities with complex structures across different national jurisdictions. For example, under which jurisdiction should the Sustainable Development Goal report be counted towards indicator 12.6.1 if an entity is located in more than one jurisdiction? How to avoid duplicate counting if it is a part of a group report? Experts noted that further research and pilot testing was needed to establish a sound framework for determining the reporting boundary and the disaggregation methodology for indicator 12.6.1 that would be consistent with both the accounting frameworks and statistical requirements on data disaggregation. In particular, it was a challenge to maintain consistency with the methodology of International Financial Reporting Standard 10 on consolidated financial statements.

25. Consolidated reports often provide sustainability information at the global level. However, since most impacts are local, this task is generally performed by a legal entity in the jurisdiction where it is registered and pays taxes. In addition, the Sustainable Development Goals are meant to be monitored at the national level, which suggests that legal entity reporting should be a key basis for such data collection. In this regard, relevant data are available in cost and management accounting records of entities. In many jurisdictions, they are required to prepare legal entity reports for companies’ supervisory authorities, even when they represent affiliate or subsidiaries of multinational enterprises. They are also required to provide statistical data on environmental and social issues to national environment or labour offices. Data on the use of natural resources, such as water and energy, are available in entities’ cost and management accounting systems. All these sources of information could be used by legal entities towards reporting on indicator 12.6.1.

26. Issues such as whether sustainability reports should be prepared in the jurisdiction where entities are registered or where most of their operations take place were discussed. Experts also proposed a modular approach, whereby entities would record data at the lowest organizational unit possible and then aggregate, on a modular basis to the level required for reporting purposes, country-by-country reporting on sustainability information. They expressed concern that such kinds of reporting should not represent a burden for reporting entities and that consideration should be given to existing legal frameworks for sustainability reporting at the national level.

27. It is essential to build or strengthen adequate mechanisms on collecting and dissemination data on sustainability reporting to enable member States to fulfil reporting requirements relating to indicator 12.6.1. While some databases already exist, they often relate to different reporting frameworks with limited data comparability and reliability. Examples of such reporting frameworks are the Global Reporting Initiative database, the Global Compact database on communications on progress, CDP and the Corporate Register. Efforts to establish efficient national institutional mechanisms on data collection, including quality control of data inputs, will play an important role in achieving the objectives of sustainability reporting by entities and facilitate the usefulness of reported data for key stakeholders, including government agencies responsible for monitoring of the implementation of the Goals at the national level.

28. Nonetheless, setting up high-quality databases that have adequate quality control systems would require significant resources, which can be a burden for Governments and national statistical offices, especially in developing countries.

29. Experts discussed another option with a view to enabling data collection of entity reporting at the global level to be then further shared with member States as relevant. In addition, the establishment of a global database would require further consensus-building on the relevant methodology. It would also be necessary to develop institutional capacity to analyze a large number of reports to ensure quality and comparability requirements for reported data.

III. Guidance on core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals

30. During the intersessional period, further research and consultations were undertaken by the UNCTAD secretariat to advance its work on developing the guidance on core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals. Core indicators were selected through a series of consultations and discussions of the Intergovernmental Working Group of Experts between 2016 and 2018, based on key reporting principles, selection criteria, main reporting frameworks and companies' reporting practices.

31. The objective of the guidance on core indicators is to provide practical information on how these indicators could be measured in a consistent manner and in alignment with countries' needs with regard to monitoring the achievement of the Sustainable Development Goals. The guidance is intended to serve as a tool to assist Governments in assessing the private sector contribution to the implementation of the Goals and to enable them to report on Sustainable Development Goal indicator 12.6.1. The guidance is also designed to help entities provide baseline data on sustainability issues in a consistent and comparable manner that would meet the common needs of many different stakeholders of the Sustainable Development Goal agenda. It also envisaged that the guidance will facilitate capacity-building in the area of the Sustainable Development Goal reporting in member States at the country and company levels as part of the ongoing UNCTAD project in this area.

32. As mentioned previously, UNCTAD work on the guidance on core indicators is closely coordinated with other sustainability reporting initiatives, including the Action Platform on Reporting on the Sustainable Development Goals. The UNCTAD secretariat

has taken further steps towards strengthening partnerships with other key stakeholders, including through the organization of a round-table discussion on measuring the private sector's contribution to the attainment of the Goals. This event took place on 23 April 2018 at United Nations Headquarters in New York, United States of America, and was jointly organized with the International Integrated Reporting Council, the World Business Council for Sustainable Development and the Royal Netherlands Professional Association of Accountants. In particular, the attendance of financial services stakeholders at the event indicated their endorsement of the core indicators as a valuable tool to help translate the information needs of sustainable finance into actionable reporting frameworks that can inform private sector practices and Government policymaking.

33. The core indicators provide a baseline benchmark and are not intended to cover all areas of the Sustainable Development Goals. The indicators are meant to be universal, focusing primarily on a rational use of resources at a reporting-entity level. In this regard, they also present a business case for entities as means to monitor the costs and improve productivity. The core indicators are intended to be applicable for both consolidated and legal entity reporting; they are selected in alignment with the Sustainable Development Goal indicators at the national level and are based on what companies are already reporting with regard to the achievement of the Sustainable Development Goals.

34. The core indicators (see annex) contained in the current version of the guidance are follows:[13]

(a) Economic area: revenue, value added, net value added, taxes and other payments to the Government, green investment, community investment, total expenditure on research and development, and percentage of local procurement;

(b) Environmental area: water recycling and reuse; water use efficiency; water stress; reduction of waste generation; waste reused, re-manufactured and recycled; hazardous waste; greenhouse gas emissions (scopes 1 and 2); ozone-depleting substances and chemicals; renewable energy; and energy efficiency;

(c) Social area: proportion of women in managerial positions, average hours of training, expenditure on employee training, employee wages and benefits, expenditure on employee health and safety, frequency and incidence rates of occupational injuries and percentage of employees covered by collective agreements;

(d) Institutional area: corporate governance disclosures (including information on the number of board meetings and attendance rate, number and percentage of women board members, board members by age range, number of meetings of audit committee meetings and attendance rate, and total compensation of board members and executives), as well as anti-corruption practices (including the amount of fines paid or payable due to settlements, and average number of training hours on anti-corruption issues).

35. The following sections provide an overview of the main issues raised during the intersessional period with regard to the guidance on core indicators.

A. Balancing universality and materiality

36. The guidance on core indicators reflects the emerging consensus surrounding the materiality of sustainability information in the context of climate-related risks and, more broadly, the Sustainable Development Goals.[14]

37. The Task Force on Climate-related Financial Disclosure provides a framework on how entities can conduct materiality assessments for the disclosure of sustainability

[13] For additional information on these indicators, their measurement and relevance to the Sustainable Development Goal macro indicators, see session non-paper of 15 August 2018 entitled "Guidance on core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals".

[14] For additional information on how the UNCTAD secretariat has considered materiality as part of the conceptual framework of the core indicators, see TD/B/C.II/ISAR/81.

information. In particular, the Task Force report states that it "recognizes that most information included in financial filings is subject to materiality assessment. However, because climate related risk is a non-diversifiable risk that affects nearly all industries, many investors believe it requires special attention". Certain organizations with an annual revenue of more than $1 billion should consider disclosing such information in other reports (that is to say, not in the annual financial filings) when the information is not deemed material and not included in financial filings, as recommended by the Task Force in their final report (June 2017). The report also states that "organizations should consider including metrics on climate-related risks associated with water, energy, land use, and waste management where relevant and applicable", allowing for trend analysis.

38. The Task Force cautions organizations against making the premature conclusion that climate-related risks and opportunities are not material based on perceptions of the longer-term nature of some climate-related risks.

39. The notion that some baseline aspects of sustainability information have an intrinsic impact on material risks is also echoed by the European Commission action plan on financing sustainable growth. Among other proposals, the European Commission has announced the establishment of a taxonomy for sustainable investment and production, with explicit requirements for activities to be considered sustainable. The taxonomy is forthcoming and will be taken into consideration in further updates of the guidance on core indicators.

40. Further, the core indicators for entities draw on relevant Sustainable Development Goal macro indicators, which emerged through a process of intergovernmental and inclusive stakeholder consensus-building. As a result, the core indicators present direct material relevance to Governments, investors, civil society and other stakeholders. The private sector is increasingly called upon to prepare management reports with future-oriented scenario analyses, driven by the transition towards carbon-neutral economies.

41. Narrative or qualitative information that is specific to an entity's operational context remains useful in contextualizing the quantitative figures reported through core indicators. Such narrative information allows entities to apply a lens of materiality that also enables them to engage with additional disclosures, drawing on sustainability reporting guidelines, industry standards, national regulations or other available mechanisms.

B. Relationship between consolidated and legal entity reporting

42. As discussed above, the guidance on core indicators is intended for both consolidated and legal entity reporting. However, further research is needed to determine how to reconcile value chain reporting and financial reporting boundaries. Furthermore, the guidance states that when information attributable to entities, facilities or activities outside an organization's mainstream reporting boundary is also reported, it should be clearly distinguished from information about entities and activities within financial boundaries.[15]

43. With regard to legal entity reporting, the Organization for Economic Cooperation and Development recommended that certain multinational enterprises report on every entity and every branch, in every country of operation (see www.oecd.org/tax/automatic-exchange/about-automatic-exchange/country-by-country-reporting.htm). Such enterprises are encouraged to file a country-by-country report to provide the following information for each jurisdiction in which they do business: annual revenue, profit before income tax and income tax paid and accrued. Multinational enterprises are also expected to report the number of employees, stated capital, accumulated earnings and tangible assets in each jurisdiction.

[15] See CDP Worldwide, 2018, *Climate Disclosure Standards Board Framework for Reporting Environmental Information, Natural Capital and Associated Business Impacts: Advancing and Aligning Disclosure of Environmental Information in Mainstream Reports*. See chapter 3, REQ-07 (Organizational boundary), p. 27.

44. Even when country-specific information is not disclosed publicly, the majority of companies operating in different jurisdictions already collect and use such information through internal management reports.

C. External verification and assurance

45. The guidance on core indicators states that independent assurance is encouraged as a means to increase the quality of information reported through the core indicators, hence their usefulness for investors and regulators. However, in contrast to the practice of financial accounting, sustainability reporting assurance by a third party is still voluntary in most countries. Even companies that may have significant experience with the disclosure of sustainability information typically provide assurance for a limited segment of the data, such as greenhouse gas emissions.

46. In this regard, the guidance refers to two commonly used international standards: International Standard on Assurance Engagements 3000 and Account Ability AA1000 Assurance Standard. Both are considered to be consistent with different frameworks used by companies, such as the Global Reporting Initiative or the International Integrated Reporting Council.[16] Companies can choose between reasonable and limited assurance. In a reasonable assurance engagement, the practitioner gathers sufficient appropriate evidence to conclude that the subject matter conforms in all material respects with suitable criteria and gives a report in the form of a positive assurance, such as "the financial statements have been prepared in accordance with applicable legislation and/or accounting standards". In a limited assurance engagement, the practitioner gathers sufficient appropriate evidence to conclude that the subject matter is plausible in the circumstances and gives a report in the form of a negative assurance, such as "nothing has come to our attention that causes us to believe that the financial statements are not prepared in accordance with applicable legislation and/or accounting standards". For a limited assurance engagement, the practitioner typically collects less evidence than for a reasonable assurance engagement, performs different or fewer tests than those required for reasonable assurance and uses smaller sample sizes for the tests performed.[17]

47. There exists the possibility of having hybrid or mixed assurance levels, meaning that levels of assurance could vary on a disclosure-by-disclosure basis (reasonable on some disclosures and limited on others). This could be especially relevant for types of information where there are technical challenges in providing audit and assurance services, such as in the area of human rights.

D. Indicators on corporate governance

48. As indicated earlier, the core indicators are intended to be relevant to all entities, across sectors and geographies. This has led to discussion on the relevance of corporate governance disclosures, reported under the institutional area, which may not be necessarily applicable for certain entities, such as SMEs or non-listed entities.

49. However, there was overall agreement of the Consultative Group on maintaining indicators on corporate governance, given the important role that good governance plays within the framework of the Sustainable Development Goals, as well as existing regulatory requirements in different jurisdictions. This is, however, based on the understanding that some of the indicators in this category will not be relevant to all companies, for example such as SMEs.

50. In order to align proposed corporate governance indicators more closely with broader sustainability issues, the revised version of the guidance on core indicators includes a reference to the number of times the Goals are discussed as part of the agenda of a

[16] See http://integratedreporting.org/wp-content/uploads/2014/07/Assurance-on-IR-an-exploration-of-issues.pdf.

[17] See www.icaew.com/en/technical/audit-and-assurance/assurance/process/scoping/assurance-decision/limited-assurance-vs-reasonable-assurance.

company's board of directors. The revised guidance also reflects the fact that existing legislation on personal data may limit companies' ability to gather data on the diversity of governance mechanisms of members (for example, age discrimination legislation).

E. Alignment of accounting data and statistical indicators

51. An important element of the guidance on core indicators is the alignment of the suggested core indicators with the Sustainable Development Goal macro indicators and related metadata methodologies. Building on close cooperation with the Department of Economic and Social Affairs, the measurement methods outlined in the guidance make references, when possible, to international statistical standards, including the System of National Accounts and the System of Environmental–Economic Accounting.

52. An example of such synergies is represented by the long-existing measurement methodology of the computation of gross domestic product, which is based on revenue data provided in annual legal entity reports. Similarly, in the revised version of the guidance, terms such as water recycling or use were clarified in the context of the System of Environmental–Economic Accounting.

53. Indicators on value added are frequently used within the monitoring mechanism of the Goals to inform the calculation of other indicators, such as the denominator of several Sustainable Development Goal indicators. However, the use of indicators related to value added, including how they may distort the valuation of entities where intellectual property plays an important role, continues to pose technical challenges. This issue arises from the accounting treatment of intangible assets and requires further discussion.

IV. Conclusion and the way forward

54. This note provides an overview of the main issues discussed during the intersessional period of the Intergovernmental Working Group of Experts during the development of guidance on core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals, and on the metadata guidance on indicator 12.6.1. The note highlights issues that would require further discussion so that they may be taken into account in the updated versions of these documents.

55. It is expected that the inputs prepared by the UNCTAD secretariat, in cooperation with other partners and experts convened as part of the Consultative Group, will enhance the comparability and quality of sustainability reporting, while also addressing emerging data monitoring needs in relation to the contribution of the private sector to the implementation of the Goals at the national level.

56 In addition to the issues presented in this note, delegates at the thirty-fifth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting may wish to consider the following questions:

(a) Would the proposed indicators enable enterprises to provide comparable data on their performance towards the achievement of the Sustainable Development Goals, in alignment with the Sustainable Development Goal monitoring framework?

(b) Would the suggested Sustainable Development Goal indicators for entities be useful in enabling countries to collect data on the private sector contribution to the implementation of the Goals and to report on indicator 12.6.1?

(c) Is further research and consensus-building work required towards better alignment of indicator 12.6.1 and the target 12.6 of the Sustainable Development Goals?

(d) What are the most pressing needs with regard to capacity-building for sustainability reporting that would enable countries to collect useful and comparable data on companies' contribution towards the implementation of the Goals at the national level?

(e) What measures should policymakers take to promote the alignment of national accounts and statistics methodologies with Sustainable Development Goal reporting by entities?

(f) How can global forums such as the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting further contribute to enhancing the role of entity reporting to achieve the Sustainable Development Goals?

Annex

Selected core Sustainable Development Goal indicators

	Areas	*Indicators*	*Measurement*[a]	*Relevant Sustainable Development Goal indicator*
A	**Economic area**			
A.1	Revenue and/or (net) value added	A.1.1: revenue	International Financial Reporting Standard 15	8.2.1
		A.1.2: value added	Revenue minus costs of bought-in materials, goods and services	8.2.1; 9.b. 9.4.1
		A.1.3: net value added	Revenue minus costs of bought-in materials, goods and services and minus depreciation of tangible assets	8.2.1; 9.b
A.2	Payments to government	A.2.1: taxes and other payments to government	Total taxes paid and payable (encompassing not only income taxes, but also other levies and taxes, such as property taxes or value added taxes) plus related penalties paid, plus all royalties, licence fees and other payments to government for a given period	17.1.2
A.3	New investment/expenditures	A.3.1: green investment	Total amount of expenditures for investments whose primary purpose is the prevention, reduction and elimination of pollution and other forms of degradation to the environment in absolute amounts and relative terms	7.b.1
		A.3.2: community investment	Total charitable or voluntary donations and investments of funds (both capital expenditure and operating ones) in the broader community where target beneficiaries are external to the enterprise incurred in the reporting period in absolute amounts and relative terms	17.17.1
		A.3.3: total expenditures on research and development	Total amount of expenditures on research and development by reporting entity during reporting period in absolute amounts and relative terms	9.5.1
A.4	Total local supplier/purchasing programmes	A.4.1: percentage of local procurement	Proportion of procurement spending of reporting entity at local suppliers (based on invoices or commitments made during reporting period) in absolute amounts and relative terms	9.3.1
B	**Environmental area**	I.		
B.1	Sustainable use of water	B.1.1: water recycling and reuse	Total volume of water recycled and/or reused by reporting entity during reporting period in absolute amounts and relative terms	6.3.1
		B.1.2: water use efficiency	Water use per net value added in the reporting period as well as change of water use per net value added between two reporting periods (where water use is defined as water withdrawal plus total water received from third party) in relative terms, terms of change and absolute amounts	6.4.1
		B.1.3: water stress	Water withdrawn with a breakdown by sources (surface, ground, rainwater, waste water) and with reference to water-stressed or water-scarce areas (expressed as a percentage of total withdrawals) in absolute amounts and relative terms	6.4.2
B.2	Waste management	B.2.1: reduction of waste generation	Change in entity's waste generation per net value added in relative terms, terms of change and absolute amounts	12.5

	Areas	*Indicators*	*Measurement*[a]	*Relevant Sustainable Development Goal indicator*
		B.2.2: re-use, re-manufacturing and recycling of waste	Total amount of waste reused, re-manufactured and recycled in relative terms, terms of change and absolute amounts	12.5.1
		B.2.3: hazardous waste	Total amount of hazardous waste, in absolute terms, as well as proportion of hazardous waste treated, given total waste reported by reporting entity in relative terms, terms of change and absolute amounts	12.4.2
B.3	Greenhouse gas emissions	B.3.1: greenhouse gas emissions (scope 1)	Scope 1 contribution in relative terms, terms of change and absolute amounts	9.4.1
		B.3.2: greenhouse gas emissions (scope 2)	Scope 2 contribution in relative terms, terms of change and absolute amounts	9.4.1
B.4	Ozone-depleting substances and chemicals	B.4.1: ozone-depleting substances and chemicals	Total amount of ozone-depleting substances (bulk chemicals/substances existing either as pure substance or as mixture) per net value added	12.4.2
B.5	Energy consumption	B.5.1: renewable energy	Renewable energy consumption as percentage of total energy consumption during reporting period	7.2.1
		B.5.2: energy efficiency	Energy consumption per net value added	7.3.1
C	**Social area**			
C.1	Gender equality	C.1.1: proportion of women in managerial positions	Number of women in managerial positions to total number of employees (in terms of headcount or full-time equivalent)	5.5.2
C.2	Human capital	C.2.1: average hours of training per year per employee	Average number of hours of training per employee per year (as total hours of training per year divided by total employees) possibly broken down by employee category	4.3.1
		C.2.2: expenditure on employee training per year per employee	Direct and indirect costs of training, including costs such as trainers' fees, training facilities, training equipment and related travel costs, per employee per year possibly broken down by employee category	4.3.1
		C.2.3: employee wages and benefits with breakdown by employment type and gender	Total costs of employee workforce (wages and benefits)	8.5.1; 10.4.1
C.3	Employee health and safety	C.3.1: expenditures on employee health and safety	Total expenses for occupational safety and health-related insurance programmes, for health-care activities financed directly by entity, and all expenses sustained for working environment issues related to occupational safety and health incurred during reporting period	3.8
		C.3.2: frequency rates/incident rates of occupational injuries	Frequency rates: number of new injury cases divided by total number of hours worked by workers during reporting period; incident rates: total number of lost days expressed in terms of number of hours divided by total number of hours worked by workers during reporting period	8.8.1
C.4	Collective agreements	C.4.1: percentage of employees covered by collective agreements	Number of employees covered by collective agreements to total employees (in terms of headcount or full-time equivalent)	8.8.2
D	**Institutional area**			
D.1	Corporate governance disclosures	D.1.1: number of board meetings and attendance rate	Number of board meetings during reporting period and number of board members participating in each board meeting during reporting period divided by total number of directors sitting on board multiplied by number of board	16.6

	Areas	*Indicators*	*Measurement*[a]	*Relevant Sustainable Development Goal indicator*
			meetings during reporting period	
		D.1.2: number of women board members	Proportion of female board members to total board members	5.5.2
		D.1.3: board members by age range	Number of board members by age range (e.g. under 30 years of age, between 30 and 50, over 50)	16.7.1
		D.1.4: number of meetings of audit committee and attendance rate	Number of board meetings during reporting period and number of audit committee members participating in each Audit committee meeting during reporting period, divided by total number of members sitting on audit committee, multiplied by number of audit committee meetings during reporting period	16.6
		D.1.5: compensation: total compensation and compensation per board member and executive	Total annual compensation (including base salary and variable compensation) for each executive and non-executive director	16.6
D.2	Anti-corruption practices	D.2.1: amount of fines paid or payable due to convictions	Total monetary value of paid and payable corruption-related fines imposed by regulators and courts during reporting period	16.5.2
		D.2.2: average number of hours of training on anti-corruption issues, per year per employee	Total number of hours of training in anti-corruption issues per year, divided by total number of employees	16.5.2

[a] Due to space constraints, this note provides a summary of the core Sustainable Development Goal indicators. A more detailed methodology is presented in the session non-paper of 15 August 2018 entitled “Guidance on core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals”.