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Good practices in and approaches to the practical implementation of sustainability reporting requirements

Note by the UNCTAD secretariat

Summary

The global sustainability reporting landscape is changing rapidly. The new International Sustainability Standards Board will issue global sustainability reporting standards that will soon become mandatory for listed companies in many jurisdictions worldwide. At the same time, pressure from various stakeholders, such as employees, investors, business partners and customers, compels businesses to prove their accountability and commitment to sustainable development through corporate sustainability disclosures. An effective sustainability reporting infrastructure promotes the reliability of such information and trust among stakeholders and also helps countries become more attractive for investment.

UNCTAD, through the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, supports States in efforts towards the implementation of best practices to promote the harmonization and improvement of the quality of sustainability and Sustainable Development Goals-related reporting. Given the critical role of public policies and regulations and the importance of sharing experiences and lessons learned among States in promoting private sector sustainability reporting, the Intergovernmental Working Group of Experts, at its thirty-eighth session, requested the secretariat to further identify and support domestic policies with regard to sustainability reporting and to closely follow the work of the International Sustainability Standards Board and act as a channel to convey to the Board the views and positions of the Intergovernmental Working Group of Experts on sustainability reporting issues.

UNCTAD convened a consultative group meeting in March 2022 that built on work accomplished through the development of the UNCTAD toolkit for sustainability and Goals-related reporting and activities implemented in beneficiary countries and at the regional level through the creation of regional partnerships for the promotion of sustainability reporting. Lessons learned in addressing practical implementation aspects of policymaking, regulation and institutional and human capacity-building to reinforce the national infrastructure for high-quality sustainability reporting were discussed at the meeting, along with an outline for a policy recommendations document to complement the UNCTAD toolkit.

This note aims to facilitate discussions at the thirty-ninth session of the Intergovernmental Working Group of Experts by providing an overview of recent developments in sustainability and Goals-related reporting, building on information collected through desktop research and technical assistance activities and from feedback obtained during the consultative group meeting, including examples and experiences in different regions.

I. Introduction

1. The adoption of the 2030 Agenda for Sustainable Development served to highlight the role of enterprise reporting as a primary source of information on the contribution of the private sector to the achievement of the Sustainable Development Goals. Target 12.6 of Goal 12 on sustainable consumption and production is to encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle. At the twenty-sixth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, the International Financial Reporting Standards Foundation Trustees announced the formation of the International Sustainability Standards Board, which represented a major step towards globally aligned sustainability reporting. Increasing pressure from different stakeholders, such as employees, investors, business partners and customers, compels businesses to prove their accountability and commitment to sustainable development through corporate sustainability disclosures. High-quality sustainability and Goals-related reporting is the basis for sustainable investment and an effective sustainability reporting infrastructure promotes the reliability of information and trust among stakeholders.

2. UNCTAD, through the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, supports States in efforts towards the implementation of international standards and best practices to promote the harmonization and improvement of the quality of enterprise reporting to facilitate financial stability; international and domestic investment; and social and economic progress. Since the adoption of the 2030 Agenda, the Intergovernmental Working Group of Experts has focused on the harmonization of company reporting on contributions to the achievement of the Goals. The Intergovernmental Working Group of Experts revised its Accounting Development Tool to adapt it to the requirements of the 2030 Agenda and, in 2019, UNCTAD published *Guidance on Core Indicators for Entity Reporting on Contribution towards Implementation of the Sustainable Development Goals*, to facilitate the harmonization and comparability of data on the contribution of the private sector towards the achievement of the Goals. In addition, to promote the implementation of the guidance, UNCTAD developed *Core SDG[Sustainable Development Goal] Indicators for Entity Reporting: Training Manual* and online courses together with the United Nations Institute for Training and Research. In addition, in their role as co-custodians of indicator 12.6.1 on the number of companies publishing sustainability reports, UNCTAD and the United Nations Environment Programme have developed a measurement methodology for the indicator and are overseeing the process of data collection and reporting to the global Goals database used to assess progress on this indicator.

3. At its thirty-eighth session, the Intergovernmental Working Group of Experts addressed the review of practical implementation, including measurement, of the core indicators for entity reporting on contributions towards the achievement of the Goals. Case studies provided evidence of the usefulness of the *Guidance on Core Indicators* as a means to facilitate sustainability and Goals-related reporting by companies in a consistent and comparable manner and underscored its role as a capacity-building tool for integrating sustainability information into company accounting and reporting cycles. UNCTAD convened a consultative group meeting in March 2021 to gather perspectives and discuss possible updates to the core indicators based on international developments in this area, feedback received through case studies and comments from beneficiary countries of a Development Account project titled "Enabling policy frameworks for enterprise sustainability and SDG[Sustainable Development Goal] reporting in Africa and Latin America".[1] The Intergovernmental Working Group of Experts considered the proposed refinements to some of the indicators,[2] following which the guidance was updated.

4. UNCTAD also continued to deliver technical assistance, including by implementing activities related to the Development Account project, the main objective of which was to

[1] Beneficiaries were Colombia, Guatemala, Kenya and South Africa.

[2] TD/B/C.II/ISAR/97.

strengthen the capacities of Governments to measure and monitor the contribution of the private sector to achieving the 2030 Agenda, including the provision of data under indicator 12.6.1. The above-mentioned tools were all used in project activities, and case studies on using the *Guidance on Core Indicators* were prepared as part of the assessment of the national infrastructure for sustainability reporting. Through the project, UNCTAD raised awareness and fostered experience-sharing among policymakers from other countries in the targeted regions, including through regional workshops that resulted in the formation of regional partnerships aimed at promoting mutual support among peers in the development of national strategies and policies to: establish and/or strengthen the national infrastructure for the preparation of high-quality sustainability reports by companies; measure the contribution of the private sector to the achievement of the Goals; promote sustainable enterprise development; and provide support in the implementation of the international sustainability reporting standards issued by the International Sustainability Standards Board.

5. Given the critical role of public policies and regulations and the importance of sharing experiences and lessons learned among States in promoting private sector sustainability reporting, the Intergovernmental Working Group of Experts, at its thirty-eighth session, called upon the secretariat to "continue to support regional efforts and partnerships, in particular among developing countries, aimed at promoting a common approach to sustainability reporting and addressing practical implementation aspects pertaining to policymaking, regulation and institutional and human capacity-building, in alignment with the Accounting Development Tool"; and requested the secretariat to, "in line with the Bridgetown Covenant, further identify, promote and support domestic policies" and "closely follow the work of the International Sustainability Standards Board and act as a channel to convey to the Board the views and positions of the Intergovernmental Working Group of Experts on sustainability reporting issues; and, in this regard, calls on the UNCTAD secretariat to establish a consultative group to support this process".[3]

6. A series of developments at the international level have changed the sustainability reporting landscape, including the creation of the International Sustainability Standards Board, which will issue sustainability reporting standards that will become mandatory for listed companies in many jurisdictions worldwide. Consequently, all countries will have to speed up national efforts to establish or strengthen regulation and institutions and build technical capacity to be able to respond to the new requirements. These developments have reinforced the need for guidelines that support policymakers in the creation of a sound national sustainability reporting infrastructure that enables high-quality reporting and supports the implementation of International Sustainability Standards Board standards.

7. Against this background, UNCTAD convened a consultative group meeting in March 2022 that built on work accomplished through the development of the UNCTAD toolkit for sustainability and Goals-related reporting and activities implemented in beneficiary countries of the Development Account project and at the regional level through the creation of partnerships. Lessons learned in addressing practical implementation aspects of policymaking, regulation and institutional and human capacity-building to establish or strengthen the national corporate reporting ecosystem were discussed at the meeting, along with an outline for a policy recommendations document to complement the UNCTAD toolkit and provide guidelines to policymakers, to foster a national sustainability reporting infrastructure. The document will comprise lessons learned, best practices and examples of different approaches used in countries, including experiences gathered through UNCTAD technical assistance activities in Africa and Latin America.

8. This note aims to facilitate discussions at the thirty-ninth session of the Intergovernmental Working Group of Experts by providing an overview of recent developments in sustainability and Goals-related reporting, building on information collected through desktop research and technical assistance activities and from feedback obtained during the consultative group meeting, and presenting examples from different regions on establishing or strengthening a national sustainability reporting infrastructure.

[3] TD/B/C.II/ISAR/99.

II. Recent developments in sustainability and Goals-related reporting

9. Developments in the European Union tend to be influential beyond the region, affecting global processes and having impacts in other jurisdictions. The European Union has been a pioneer in moving from a voluntary to a mandatory approach to sustainability reporting for large companies since the establishment of the non-financial reporting directive in 2014. This approach has evolved towards a more comprehensive reporting ecosystem and on 21 April 2021, the European Commission adopted a legislative proposal for a corporate sustainability reporting directive.[4] The aim is to have comparable sustainability-related data to support public policies related to sustainability and sustainable finance objectives. Another important element of the sustainable finance ecosystem in the European Union is the sustainable finance disclosures regulation, applicable from March 2021, which was introduced to improve transparency in the market for sustainable investment products, to prevent greenwashing, by establishing comprehensive sustainability disclosure requirements covering a broad range of environmental, social and governance-related metrics at both the entity and product levels.[5]

10. The European Union has taken steps to develop a sustainable finance ecosystem, the foundations of which are in the taxonomy regulation. With regard to sustainable activities related to the climate change mitigation and adaptation objectives under the taxonomy, the Climate Delegated Act establishes the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives.[6] The taxonomy regulation requires investors and companies to use these criteria for related disclosures, which will also serve as a reliable guide for investment decisions. Mandatory reporting under the regulation applies from January 2022 for the climate change mitigation and adaptation objectives and from January 2023 for the other four environmental objectives.

11. The proposed corporate sustainability reporting directive aims to set rules to ensure that companies report sustainability information in a consistent and comparable manner, taking into account the following aspects: wide-ranging coverage of environmental, social and governance-related topics; quality of information (relevant, faithfully represented, comparable, understandable, reliable); concept of double materiality (impact and financial materiality); integration of sustainability information into management reports; assurance by an external third party (limited assurance); and digital format. The new reporting requirements would apply to all large and all listed companies, including listed small and medium-sized enterprises. About 50,000 companies would have to report, compared with the current 11,000. Proportionate standards for small and medium-sized enterprises will be developed. The European Financial Reporting Advisory Group is responsible for developing the draft standards under the directive.[7] Prior to the adoption of the proposal, the Group had already carried out preparatory work on key governance and standard-setting matters related to sustainability reporting. In April 2022, the Group released for public comments the first draft of European sustainability reporting standards based on the proposal, which refer to 13 environmental, social and governance-related issues divided as follows: cross-cutting (general principles; general, strategy, governance and materiality assessment); topical standards, environment (climate change; pollution; water and marine resources; biodiversity; resource use and circular economy); topical standards, social (own workforce; workers in the value chain; affected communities; consumers and end users); and topical standards, governance (governance, risk management and internal control;

[4] See https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en.
Note: All websites referred to in footnotes were accessed in August 2022.

[5] See https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/sustainability-related-disclosure-financial-services-sector_en.

[6] See https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts_en.

[7] See https://www.efrag.org/Activities/2010051123028442/Sustainability-reporting-standards-roadmap.

business conduct).[8] A second set of standards that will identify complementary sustainability-related and sector-specific information to be disclosed, together with standards for small and medium-sized enterprises, is expected by mid-2023. The European Commission, prior to the adoption of standards, will consult the member States expert group on sustainable finance and the European Securities and Markets Authority, as well as the following: Committee of European Auditing Oversight Bodies; European Banking Authority; European Central Bank; European Commission Platform on Sustainable Finance; European Environment Agency; European Insurance and Occupational Pensions Authority; and European Union Agency for Fundamental Rights.

12. The Group of 20 Sustainable Finance Working Group developed a sustainable finance road map, endorsed by the Group of 20 in October 2021, to establish the priorities of the sustainable finance agenda and suggest actions for the Group of 20, to promote their achievement. One of the focus areas includes the improvement of sustainability disclosures and reporting. The Group of 20, in coordination with the Financial Stability Board, the International Financial Reporting Standards Foundation and the International Organization of Securities Commissions, as well as other international organizations and initiatives, is promoting dedicated actions, including working on enhancing coordination at the regional and international levels to enable the comparability, interoperability and consistency of different sustainability reporting approaches. The road map encourages the work of the Foundation, including through the International Sustainability Standards Board, to develop baseline global sustainability reporting standards, with flexibility for interoperability with national and regional standards and considering the particular needs of small and medium-sized enterprises. The road map recommends that the Board extend coverage under climate-related disclosures to include nature-related, biodiversity and social issues. Moreover, the road map notes that the International Organization of Securities Commissions will review for endorsement the standards of the Board, which could then be considered on a voluntary basis in individual jurisdictions. In addition, the road map advocates that the improvement of data quality and accessibility in the financial system should be supported by proper sustainability data strategies, governance and frameworks to promote access to public sustainability data, including by developing a shared digital platform.

13. In November 2021, the International Financial Reporting Standards Foundation Trustees announced three significant developments, namely, the formation of the International Sustainability Standards Board, to define a global baseline of sustainability disclosure standards to meet the information needs of investors; a commitment by leading investor-focused sustainability disclosure organizations to consolidate into the new board, including completion of the consolidation of the Climate Disclosure Standards Board and the Value Reporting Foundation; and the publication of prototype climate-related and general disclosure requirements by the Technical Readiness Working Group, which had undertaken preparatory work for the International Sustainability Standards Board.[9] The International Sustainability Standards Board is collaborating with the International Accounting Standards Board, to guarantee integration and compatibility between the standards of the former and the international financial reporting standards, as the Board aims to build on existing frameworks and standards. The other participating organizations will contribute content to support the establishment of standards by the Board.

[8] See https://www.efrag.org/lab3.

[9] See https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/.
Note: The working group included representatives of the following: Climate Disclosure Standards Board; Financial Stability Board Task Force on Climate-related Financial Disclosures; International Accounting Standards Board; Value Reporting Foundation; World Economic Forum. It was supported by the International Organization of Securities Commissions and its technical expert group of securities regulators.

14. On 31 March 2022, the International Sustainability Standards Board published exposure drafts on general requirements for the disclosure of sustainability-related financial information and on climate-related disclosures.[10]

15. The first exposure draft establishes general requirements for sustainability reporting and that the objective of sustainability-related financial disclosures is to deliver information on material sustainability-related risks and opportunities helpful to primary users of financial reporting in determining whether to provide resources to the reporting entity.

16. The second exposure draft is based on the recommendations of the Task Force on Climate-related Financial Disclosures; companies would need to report information on governance processes for monitoring and managing climate-related issues; how their business model, strategy and cash flow could be affected by climate-related risks; plans and targets for climate-related issues; and the use of climate-related scenario analysis to evaluate risks and opportunities. Companies would also be required to disclose their scope 1, 2 and 3 greenhouse gas emissions in absolute terms and per unit of economic or physical output, consistent with the greenhouse gas protocol corporate accounting and reporting standard. In addition, climate-related disclosure requirements by industry are included, in line with the Sustainability Accounting Standards Board approach.[11] Materiality is considered in the context of the information that users of general purpose financial reporting need to evaluate enterprise value. The reporting entity's boundary for financial reporting and for sustainability-related financial disclosures remains the same. Information required as part of the latter would be disclosed in general purpose financial reporting. The International Sustainability Standards Board has created a working group of jurisdictional representatives to ensure that the exposure drafts are compatible with jurisdictional initiatives in progress on sustainability reporting.[12]

17. The Global Reporting Initiative has issued revised universal standards, aligned with a number of instruments.[13] The revised standards were developed based on the concepts of impact, material topics, due diligence and stakeholder engagement, to respond to information demands from different stakeholders, including Governments, investors and civil society. The Initiative has also published a new sector standard for oil and gas and is working on sector standards for coal, mining, agriculture, aquaculture and fishing, as well as on updating the biodiversity standard. On 24 March 2022, the International Financial Reporting Standards Foundation and the Global Reporting Initiative signed a memorandum of understanding on coordinating standard-setting activities.[14]

18. On 15 March 2022, the Task Force on Nature-related Financial Disclosures released a beta version of a disclosure framework through which companies can report on impacts on nature and on their nature-related risk managements. The framework, for which there will be an 18-month consultation process, notes the link between climate change and nature loss in line with the work of the Task Force on Climate-related Financial Disclosures and proposes four general requirements, namely, identification of material nature-related risks and opportunities to be based on an assessment of nature-related dependencies and impacts; assessment to be based on the activities of an organization at specified locations, since nature-related dependencies and impacts occur in particular ecosystems; organizations to ensure that appropriate competencies are available to assess and respond to nature-related risks and opportunities; and a statement to be made available on the scope of current and

[10] See https://www.ifrs.org/news-and-events/news/2022/03/issb-delivers-proposals-that-create-comprehensive-global-baseline-of-sustainability-disclosures/.

[11] The standards of the Board will become materials of the International Financial Reporting Standards Foundation; see https://www.ifrs.org/news-and-events/news/2022/03/issb-communicates-plans-to-build-on-sasbs-industry-based-standards/.

[12] See https://www.ifrs.org/news-and-events/news/2022/04/issb-establishes-working-group-to-enhance-compatibility-between-global-baseline-and-jurisdictional-initiatives/.

[13] Office of the United Nations High Commissioner for Human Rights guiding principles on business and human rights; Organisation for Economic Co-operation and Development guidelines for multinational enterprises; Organisation for Economic Co-operation and Development due diligence guidance for responsible business conduct; International Labour Organization standards; International Corporate Governance Network global governance principles.

[14] See https://www.ifrs.org/news-and-events/news/2022/03/ifrs-foundation-signs-agreement-with-gri/.

planned disclosures. The framework has been conceived for future alignment with the standards being developed by the International Sustainability Standards Board.

19. On 21 March 2022, the Securities and Exchange Commission of the United States of America proposed rule changes and stated that public companies must communicate to the federal Government and shareholders their impacts on the climate.[15] This implies that companies will be held accountable for their role in climate change, and will provide investors with more influence on changes to business practices that trigger rising global temperatures. The rules would require disclosure of a company's governance, risk management and strategy with regard to climate-related risks and of targets or commitments and related plans, as well as of disaggregated climate-related financial statement metrics mainly derived from existing financial statement line items in a note to financial statements, including the impact of climate-related events and activities in consolidated financial statements. The proposal also addresses greenhouse gas emissions, whereby some companies would be required to disclose scope 3 emissions when material to investors.[16]

20. The recent developments in sustainability reporting signal significant global changes under way in sustainability standard setting and in the sustainability reporting infrastructure. Within the next 12–18 months, a strong push is expected in the direction of the harmonization of reporting standards for corporate sustainability disclosures. The goal is to achieve greater consistency amid multiple pre-existing reporting frameworks and it is clear that, to do so, coordination between regulators and standard setters worldwide is required, along with private initiatives.

III. Strengthening national sustainability reporting infrastructure: Lessons learned

21. The meeting of the consultative group in March 2022 allowed for the collection of lessons learned on practical implementation aspects of policymaking and the strengthening of the regulatory, institutional and human capacity components of a national infrastructure for high-quality sustainability reporting. Participants from Africa, Asia, Eastern Europe, Latin America and the Middle East and North Africa shared views and experiences with regard to efforts to implement a sustainability reporting mechanism at the national level.

22. Lessons learned are detailed in this chapter, based on key points from discussions, together with lessons learned collected through technical assistance activities and evidence gathered through research on best practices for establishing and/or strengthening a sustainability reporting infrastructure (table 1). In general, a national sustainability reporting infrastructure should ensure consistency between sustainability and financial reporting, to overcome information and decision-making silos within companies and to support an interconnected approach to both reporting and assurance. Such an infrastructure includes regulatory, institutional and human capacity components (as reflected in the Accounting Development Tool);[17] and should have a dynamic national process that makes it quickly adaptable to international and national needs and developments. A key challenge faced in some countries concerns the lack of awareness of the importance of sustainability reporting and the Sustainable Development Goals, as well as of international developments and upcoming demands concerning sustainability disclosures.

[15] See https://www.sec.gov/news/press-release/2022-46 and https://www.nytimes.com/2022/03/21/business/sec-climate-disclosure-rule.html.

[16] See https://www.sec.gov/news/statement/gensler-climate-disclosure-20220321.

[17] The Tool, using international standards and best practices in the areas of accounting and auditing, serves as a quantitative tool for measuring the level of development of a country's accountancy environment and provides a quantitative benchmark of a country's position at a point in time and its progress toward further implementation of these standards and practices; see https://unctad.org/topic/enterprise-development/ISAR-international-standards-of-accounting-and-reporting.

Table 1
Lessons learned in the development and implementation of national action plans for sustainability reporting

Stage of development and implementation	*Recommendation and/or policy option*
Create fertile ground	Promote the benefits and importance of sustainability reporting and disseminate information on current international developments
	Increase awareness of the impacts and contribution of the private sector to achieving the Sustainable Development Goals
	Promote double materiality
	Prepare the ground not only among listed entities but also non-listed firms and the public sector
	Stimulate collaboration and communications with peers in the region to exchange experiences and lessons learned
Build the organization	Identify key entities from the Government, the private sector and civil society
	Establish a multisectoral, multi-institutional, multidisciplinary and gender-balanced task force and ensure its buy-in
	Create a steering committee and ensure leadership from the Government
Formulate the plan	Assess the current corporate reporting infrastructure and identify gaps
	Develop a list of recommended actions with targets, timelines and leading and supporting institutions
	Validate the action plan with international experts and the task force
Implement it effectively	Formalize institutional commitments through memorandums of understanding or similar instruments, to secure resources and ensure collaboration
	Ensure professional project management
	Capture benefits from international experiences and effective practices
	Consider introducing a national repository of sustainability reports

Source: UNCTAD.

23. Several approaches can be taken to create fertile ground before embarking on the development of a national action plan to establish and/or strengthen the sustainability reporting infrastructure, including the following:

(a) Promote the benefits and importance of sustainability reporting for both companies and government entities and increase awareness of the impacts and contribution of the private sector to the achievement of the Goals. It is important to disseminate information on current international developments in sustainability reporting, such as the creation of the International Sustainability Standards Board and the publication of exposure drafts, as well as to clarify and communicate the connections between the 2030 Agenda and national action plans for establishing or strengthening sustainability reporting.

(b) Promote the double materiality principle, whereby disclosure is considered from the point of view of both financial impacts on a company and the impacts of the company on the economy, society and the environment. This principle goes beyond the approach as currently required in the exposure drafts, but is important because it can facilitate sustainable finance and responsible investment, as well as decisions aimed at continuously progressing in the achievement of the Goals.

(c) Prepare the ground not only among public interest entities (listed companies, financial sector entities and others) but also among large non-listed companies, small and medium-sized enterprises and public sector entities. Defining beforehand the type of entity to be addressed in the national action plan will allow for engaging all relevant stakeholders from the beginning and providing support to all entities included in the scope of the plan.

(d) Stimulate collaboration and communications with peers in the region to exchange experiences and lessons learned, such as through the recently created regional partnerships for the promotion of sustainability reporting in Africa and Latin America. These partnerships have provided a communications channel among peers for experience-sharing, mutual support and reciprocal learning.[18]

24. There are various good practices that can be considered in the development of an organization to implement the national action plan, as follows:

(a) Identify key entities from the Government, the private sector and civil society, establish a task force and/or working group, engage the group and keep it informed and ensure buy-in. This will allow the duplication of efforts with other national stakeholders to be avoided through policy coordination. The task force should be multisectoral, multidisciplinary, multi-competent and multi-institutional (including regulators, national financial standard setters, accountant associations, academic associations, accounting firms, chambers of commerce, industry and/or sectorial organizations, stock exchanges and United Nations entities) and have a balanced gender representation. For example, in India, the committee in charge of sustainability reporting includes the standard setter, capital market regulators and other institutions helping to monitor a scorecard on the Goals, as well as a professional accountancy organization included among committee invitees. In Singapore, the Sustainability and Climate Change Committee of the Institute of Chartered Accountants includes experts in sustainability-related matters and is aimed at promoting the relevance of sustainability in company business strategies and operations; advocating the role of professional accountants in sustainability reporting; and endorsing high-quality sustainability reporting and keeping pace with related advances (three subcommittees on quality, sustainability excellence and education provide support). In Uruguay, a sustainability working group from the Association of Accountants, Economists and Administrators is launching an alliance for sustainability in collaboration with the Ministry of Environment, the Central Bank, the Montevideo Stock Exchange and Deres, aimed at advancing corporate sustainability reporting at the national level.

(b) Create a steering committee with leading entities and ensure government leadership. The committee may be led by 2–3 leading entities in charge of developing the action plan and responsible for implementing recommendations and activities, as well as coordinating with other leading and supporting institutions from the public and private sectors. Government leadership can facilitate engagement by key counterparts in the public and private sectors. For example, in Guatemala, the steering committee is led by the Ministry of Economy and the Business Council for Sustainable Development (Centrarse), in collaboration with the Secretariat for Planning and Programming of the Presidency, and, with a view to promoting engagement, the committee opted to host bilateral meetings before a briefing on the action plan for key counterparts, clarifying questions regarding actions and gathering feedback, thereby mitigating potential risks by addressing any misunderstandings or a lack of participation beforehand and gaining support from identified key entities. In Kenya, the steering committee, chaired by the National Treasury and vice-chaired by the Nairobi Securities Exchange and the Capital Markets Authority, oversees implementation of the national action plan, and the Institute of Certified Public Accountants is in charge of tracking overall progress. In South Africa, the steering committee meets three times per year on a schedule agreed on by the operational working groups, to be able

[18] The partnership in Africa is led as follows: Chair, Cameroon (Ministry of Finance); Vice-Chairs, Kenya (Institute of Certified Public Accountants) and South Africa (Department of Trade, Industry and Competition). In Latin America, the Chair is Mexico (Council for Financial Reporting Standards, supported by National Banking and Securities Commission and Institute of Public Accountants).

to monitor the success of implementation of the action plan, ensuring commitment from the working groups and adjusting the plan of activities promptly when necessary.

25. The following process may be considered in the formulation of a national action plan:

(a) Assess the current corporate reporting infrastructure through a diagnostic of the regulatory, institutional and human capacity elements; and the capacity-building and coordination process to change and/or adapt elements at the national level to determine a baseline for improvement opportunities, to provide a benchmark against international corporate reporting standards and best practices, as well as to identify gaps to be prioritized, key strategic allies to close gaps and other capacity-building opportunities for enhancing corporate reporting, particularly sustainability and Goals-related reporting (use of the Accounting Development Tool can facilitate this process). Problems can be analysed by breaking down gaps and/or identifying the root causes to be addressed;

(b) Develop a list of recommended activities and/or actions that address the identified root causes, which can be further broken down into manageable subactivities and linked to targets, required resources, a timeline (five years is suggested) and leading and supporting implementing institutions. The list of activities can be developed by the steering committee in coordination and through discussions with the task force, based on the results of the national infrastructure assessment and the problem analysis. Actions that could potentially be addressed together should be identified, as they will be under the responsibility of the same leading and/or supporting institutions and have similar timelines for delivery;

(c) Involve international experts to obtain reviews and comments that can help improve the recommended actions and ensure consistency. For example, in Colombia, participation by external experts enhanced the assessment documents and the national action plan. Along with international experts, experts with local knowledge of the region and country should also be involved. In addition, the presentation and discussion of the action plan with the task force allows for feedback to be gathered and for promoting buy-in and synergies among key entities that can support the planning of next steps and the further coordination of possible resource engagement. Bilateral meetings with strategic partners conducted before the main presentation of the action plan can facilitate support.

26. Some recommendations can also be identified with regard to the three main components of a national action plan for sustainability reporting, namely, the regulatory, institutional and human capacity components. As a basis for developing these elements, a taxonomy of sustainable activities may be established. For example, the European Commission has developed the taxonomy regulation, a classification system to ascertain whether economic activities are environmentally sustainable, which identifies six environmental objectives to which activities should contribute;[19] and a social taxonomy to define "social investment" is under way.[20] In addition, as discussed during the consultative group meeting, some countries, such as India and Mexico, are developing national taxonomies.[21] A taxonomy can be instrumental in avoiding greenwashing and "Goals-washing" and in increasing reporting comparability and transparency. Reporting standards and assurance processes should be designed in a way that facilitates structured digitalization, in order for sustainability information to become more widely accessible and readable by both humans and machines. For example, the International Sustainability Standards Board is working on proposals enabling the electronic tagging of sustainability

[19] See https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en.

[20] See https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/280222-sustainable-finance-platform-finance-report-social-taxonomy.pdf.

[21] See https://carboncopy.info/indias-proposed-sustainable-taxonomy-lessons-to-remember-worries-to-address/ and https://financiamientoverdeincluyente.com/pdf/festival/2022/dia3/3.2/Taxonomia-Sostenible-Arturo-Sosa.pdf.

disclosures.[22] In this regard, convergence with other international taxonomies should be promoted to the extent possible.

27. With regard to the regulatory component of sustainability reporting infrastructure, countries may consider some or all of the following aspects:

(a) Start with listed companies and the financial sector, in line with international practice, and consider a voluntary or comply-or-explain approach for other types of entities.

(b) Adopt a transitional or phased approach for a sustainability reporting regulation to become mandatory, to allow companies to smoothly adapt to new reporting requirements.

(c) Use a building blocks approach, to allow for the layering of additional reporting requirements onto a baseline. For example, the International Sustainability Standards Board is using such an approach to define the new sustainability reporting standards, to be able to deliver a global, consistent and comparable sustainability reporting baseline, while at the same time leaving flexibility and room for jurisdictional reporting needs and for reporting requirements aimed at a broader group of stakeholders.

(d) Develop a sustainability reporting framework in accordance with the International Sustainability Standards Board.

(e) Go beyond the preparation of sustainability information for investor needs and promote responsible investment by asking companies to disclose impacts related to the Goals. The *Guidance on Core Indicators* would be a useful tool in this regard.

(f) Define requirements that consider the needs of different categories or segments of entities, such as a simplified requirement or voluntary guidance for non-listed companies and small and medium-sized enterprises (e.g. following *Guidance on Core Indicators*). In particular, small and medium-sized enterprises need to be carefully reflected in the framework, as they represent the majority of companies worldwide. For example, the European Financial Reporting Advisory Group has established a cluster organization working on sustainability standards that take into consideration the needs and reporting capabilities and resources of small and medium-sized enterprises.[23]

(g) Promote the evolution of public sector reporting, to include sustainability information. For example, in Brazil, State-owned enterprises are required to report sustainability information using a single reporting framework.

(h) Emphasize corporate governance as a key element of the sustainability reporting framework. Particular attention should be paid to diversity and inclusion-related issues when dealing with corporate governance aspects.

(i) Map pre-existing regulations and initiatives, to take them into consideration in the development of sustainability reporting requirements, for example on environmental or health-related topics. This needs to be done on a country-by-country basis.

(j) Publish the framework or requirements for public comments in order that feedback can be incorporated during the development process.

(k) Require external assurance to ensure the quality, reliability and comparability of sustainability reporting. A proportional and phased approach to assurance requirements for small and medium-sized enterprises would allow appropriate time for implementation.

(l) Stimulate the adoption of sustainability reporting by companies through various promotional activities, such as awards, grants and access to low-cost financing.

28. With regard to the institutional component of sustainability reporting infrastructure, countries may consider some or all of the following aspects:

[22] See https://www.xbrl.org/news/issb-publishes-draft-sustainability-reporting-standards-sets-course-for-alignment/.

[23] See https://www.efrag.org/News/Project-548/PTF-ESRS-On-track-to-meet-ambitious-timeline-five-months-into-the-drafting-of-European-sustainability-reporting-standards-ESRS.

(a) Identify or establish an entity at the national level and/or a local standard setter to be in charge of sustainability reporting and of integration with the financial standard setter. In India, for example, in February 2020, the Institute of Chartered Accountants established the Sustainability Reporting Standards Board, aimed at formulating comprehensive, globally comparable and understandable standards for measuring and disclosing non-financial information about an entity's progress towards the Goals. Standards should enable the provision of reliable and useful information to various stakeholders on a timely basis. In Mexico, for example, the Financial Reporting Standards Board has updated its statutes to widen the scope of its mandate to issue and disseminate sustainability disclosure standards for non-listed companies and small and medium-sized enterprises. With regard to integration, the European Financial Reporting Advisory Group, for example, ensures the coordination of financial and sustainability reporting through different means, including observership of the chairs of the two reporting boards, joint regular meetings between the reporting boards, consideration of the connectivity aspect in the development of technical positions and technical advice in the form of draft European Union sustainability reporting standards.[24]

(b) Designate a body in charge of monitoring compliance with and the enforcement of sustainability reporting requirements.

(c) Promote coordination among all key entities at the national level, comprising regulators, standard setters, accounting firms, associations of companies by industry, professional accountancy organizations and universities.

(d) Support these institutions, to ensure that they are adequately staffed, diverse and inclusive and have sufficient financial resources to operate.

29. With regard to the human capacity component of sustainability reporting infrastructure, a key challenge is related to limitations in the sustainability talent pool. To overcome this challenge, countries may consider some or all of the following aspects:

(a) Ensure the availability of capacity-building for professionals (accountants, auditors, regulators) and students as a fundamental prerequisite for the implementation and strengthening of a high-quality sustainability reporting infrastructure.

(b) Partner with key institutions such as professional accountancy organizations and universities to conduct training workshops. Partnering with such organizations in capacity-building activities can help enable broader participation from their members, who play a key role in entity reporting. This can result in a larger number of participants and improved awareness of sustainability reporting. For example, in Kenya and South Africa, working groups have been established to facilitate coordination between professional accountancy organizations and academia and to ensure that curricula and professional education programmes are aligned and updated with relevant modules on sustainability and Goals-related reporting.

(c) Build capacity in the public sector for the monitoring of environmental, social and governance and Goals-related reporting by companies.

(d) Provide dedicated technical support to small and medium-sized enterprises for financial and sustainability reporting and develop a set of tailored methodological and training materials.

(e) Ensure that university curricula and continuous professional development programmes are up to date with sustainability reporting developments. For example, the Institute of Chartered Accountants in England and Wales, United Kingdom of Great Britain and Northern Ireland, offers technical resources to members on such topics as audits and assurance, sustainability and climate change, non-financial reporting and corporate governance.

30. Finally, some practical lessons learned that may be useful in the implementation of a national action plan or strategy are as follows:

[24] See https://www.efrag.org/News/Project-581/EFRAG-issues-its-Due-Process-Procedures-for-Sustainability-Reporting-Standard-Setting-.

(a) Formalize institutional commitments through memorandums of understanding or similar instruments, to secure resources and ensure collaboration among key entities and allow for continuity through the five-year timeline, even in the event of organizational changes in entities or among government representatives. Memorandums could cover entities that are members of the steering committee or could be extended to entities in the task force; however, a larger number of entities will entail a longer period for the agreement and issuance of a memorandum.

(b) Ensure professional project management through the steering committee in coordination with the task force. In defining the implementation process for the action plan, countries should aim to develop a realistic timeline by taking into consideration the internal planning and budget approval procedures of the leading implementers, particularly with regard to government entities. A simplified list of activities to initiate implementation may be developed, to avoid resistance and provide an overview of the required actions. It is important for the committee to select the actions that can be implemented or started in the short term, based on importance, urgency and ease of implementation. The committee could clarify the responsibilities of key entities in each phase and for each action. To expedite implementation, actions may be grouped based on those that can be delivered together, depending on responsible implementers and delivery dates. For example, capacity-building activities may be combined to include different target groups or two guidance documents may be discussed by the same key entities at one session. In addition, promoting effective communications throughout the different phases of the implementation process is essential, and the creation of a one-stop website could be instrumental in this regard. Finally, the employment of a continuous monitoring process is critical, and could result in adjustments to the action plan. Constant updates to the sustainability reporting framework, guidelines, training materials and curricula may be needed, according to developments at the international level, such as changes due to standards issued by the International Sustainability Standards Board. Countries might also need to monitor changes with regard to key relevant topics for inclusion in any of the reporting areas, whether economic, environmental, social or institutional.

(c) Capture benefits from international experiences and effective practices, by sharing best practices with other countries on implementing and/or enhancing a sustainability reporting infrastructure. Regular touchpoints may be an option for sharing best practices, providing regional updates and exploring synergies across regions. For example, the regional partnerships in Africa and Latin America for the promotion of sustainability reporting are facilitating such processes.

(d) Consider introducing a national repository of sustainability reports similar to those in various jurisdictions for the financial statements of listed companies, to make the information available to different types of users and avoid companies having to produce or submit information to different entities or users.

31. A summary of lessons learned is provided in table 2.

Table 2
Lessons learned on the main elements of national action plans for sustainability reporting

Component	*Recommendation and/or policy option*
Regulatory	Start with listed companies and the financial sector
	Adopt a transitional approach
	Use a building blocks approach
	Develop a sustainability reporting framework in accordance with the International Sustainability Standards Board
	Promote responsible investment by asking companies to disclose impacts related to the Goals

Component	*Recommendation and/or policy option*
	Define particular requirements for small and medium-sized enterprises and non-listed companies
	Promote sustainability reporting among public sector entities
	Emphasize corporate governance as a key element
	Map pre-existing regulations and initiatives, to consider them in developing the sustainability reporting framework
	Publish the framework or requirements for public comments
	Require external assurance
	Stimulate the adoption of sustainability reporting by companies through various promotional activities, such as awards, grants and access to low-cost financing
Institutional	Identify or establish a national entity in charge of sustainability reporting and of integration with the financial standard setter
	Designate a body in charge of monitoring compliance with and the enforcement of sustainability reporting requirements
	Promote coordination among all key entities (regulator, standard setter, accounting firms, private sector associations, professional accountancy organizations, universities)
	Support these institutions, to ensure they are adequately staffed, diverse and inclusive and have sufficient financial resources to operate
Human capacity	Ensure the availability of capacity-building for professionals and students
	Partner with key institutions such as professional accountancy organizations and universities to conduct training workshops
	Build capacity in the public sector
	Provide dedicated technical support to small and medium-sized enterprises
	Ensure that university curricula and continuous professional development programmes are up to date

Source: UNCTAD.

32. The consultative group also drew attention to some areas in which UNCTAD could provide technical assistance, such as ensuring that the needs of developing countries are conveyed to the International Sustainability Standards Board and supporting countries in implementing the standards of the Board and in establishing a national repository of sustainability reports. Finally, UNCTAD could support Governments in conducting assessments with the Accounting Development Tool and in strengthening human capacity through the facilitation of discussion forums and training workshops and materials.

IV. Conclusion and issues for further discussion

33. Recent key developments in the field of sustainability reporting, including the creation of the International Sustainability Standards Board and the publication of its first exposure drafts, have served to emphasize the need for countries to strengthen corporate reporting ecosystems to be able to implement the standards of the Board and ensure consistency and connectivity across financial and sustainability reporting. For this purpose,

countries need a dynamic system that enables continuous updates and capacity-building. In this regard, the sharing of experiences and lessons learned across regions can support national efforts and foster a common approach to sustainability reporting. This can be facilitated through regional partnerships that allow for consultations among peers and the identification of good practices in the implementation of new global sustainability reporting standards. UNCTAD will continue to support States in their efforts to promote the preparation of reliable and comparable corporate sustainability reports that provide stakeholders with the means to assess the economic, environmental and social performance and impacts of the private sector on the achievement of the Goals and enable responsible investment.

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

(a) How can UNCTAD better support States in implementing the standards of the International Sustainability Standards Board?

(b) What is the best way to support national efforts to establish or strengthen the national infrastructure for sustainability reporting in developing countries?

(c) How can countries keep up with developments in capacity-building?

(d) What elements are critical in ensuring that sustainability reports provide information on the impacts of the activities of companies, support responsible investment and help avoid “Goals-washing”?

(e) What characteristics should the sustainability reporting infrastructure have in order to support small and medium-sized enterprises?

(f) What elements are necessary to enable progress in public sector reporting practices towards sustainability reporting?

(g) What do countries need to facilitate the evolution towards the digitalization of sustainability reporting information?

(h) What is the best way to capitalize on the experiences of existing regional partnerships in the launch of new partnerships, for example in Asia, Latin America and in the Middle East and North Africa?