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

30th SESSION
6 - 8 November 2013
Room XVIII, Palais des Nations, Geneva

Friday, 8 November 2013
Morning Session

***Best practice guidance for policymakers and stock exchanges
on sustainability reporting initiatives***

Presented by

Simon MacMahon
Sustainalytics

*This material has been reproduced in the language and form as it was provided.
The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.*



Best practice guidance for policymakers and stock exchanges on sustainability reporting initiatives

Simon MacMahon

Global Director, Advisory Services

Simon.macmahon@sustainalytics.com



Independent Research and Analysis



Sustainalytics helps investors turn vast quantities of environmental, social and governance (ESG) information into insightful analysis to enable more informed investment decisions.



Award-winning research house:

2012

EXTEL

IDENTIFYING EXCELLENCE

IRRI Thomson Extel Survey

- Best RI Analysis Firm
- Best Corporate Governance Analyst
- Best Environmental and Social Analyst
- Best Sales/Client Relations



Best research piece integrating financial analysis with long-term ESG factors

The Farsight Award

Introduction



1. UN member States are calling for sustainability reporting initiatives
 - a) Paragraph 47 of ‘The Future we Want’ outcome document.
 - b) ISAR noted the “influential role that stock exchanges can play in promoting...high quality sustainability reporting...”.

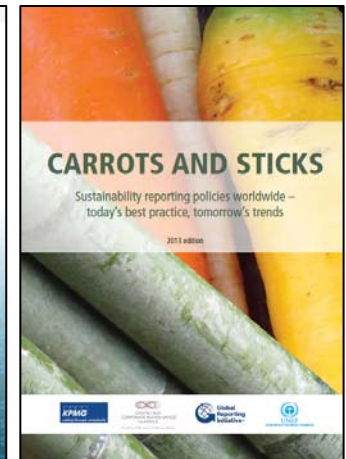
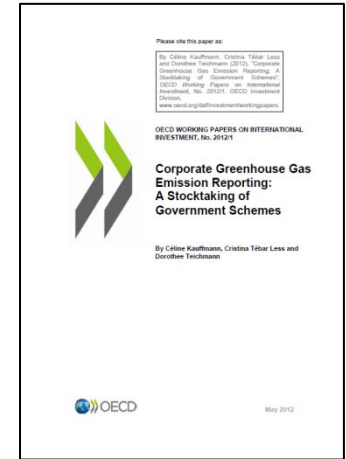
2. Stock exchanges and regulators are introducing sustainability reporting initiatives in order to:
 - a) Meet the evolving information needs of investors;
 - b) Help companies navigate increasingly complex disclosure requirements and expectations;
 - c) Help companies better understand and address social and environmental risks and opportunities.

3. However, among many stock exchanges and regulators there remains uncertainty related to the policy options available
 - a) There is no one-size-fits-all approach
 - b) Countries need to tailor their sustainability reporting policies to fit their specific circumstances

Introduction



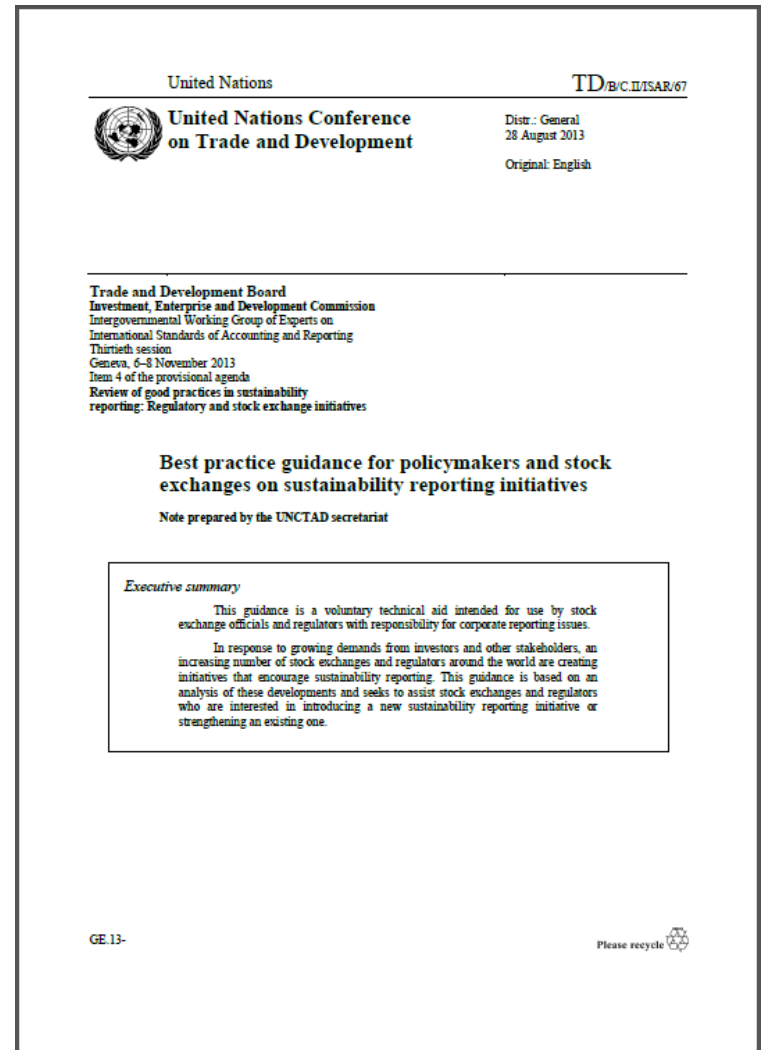
- The Guidance aims to provide stock exchanges and policymakers with all the important considerations necessary to determine the best development and implementation of sustainability reporting initiatives for listed companies.
- This guidance is based on sustainability reporting initiatives that stock exchanges and/or regulators in different member States have already implemented.
 - This guidance document benefits from the analysis provided in other publications as well as considerable additional research.
 - Identified and deconstructed every disclosure initiative in 30 countries.



Methodology



- The different initiatives identified had various characteristics that when deconstructed allowed for the creation of a policy development framework.
- This framework can provide a roadmap for other stock exchanges and securities regulators to further promote sustainability reporting.



A Roadmap for Developing Sustainability Reporting Initiatives



Institutional Considerations

What is the local context?
Which institution (or group of institutions) is best positioned to introduce a sustainability reporting initiative?

What are the implications that arise from the roles of different institutions?

Scope of Application

Should the initiative apply to all companies, or a subset based on market cap or sector?

Should the initiative address a specific environment or social issue, such as greenhouse gas emissions?

Disclosure Model

Should disclosure be voluntary or mandatory based on a comply or explain approach?

Should disclosure transition from voluntary to mandatory over time?

Design and Implementation

Should disclosure be aligned with international standards?

What measures can ensure that initiatives are maximally effective and produce the desired policy outcomes?

A Roadmap for Developing Sustainability Reporting Initiatives



Institutional Considerations

What is the local context?

Which institution (or group of institutions) is best positioned to introduce a sustainability reporting initiative?

What are the implications that arise from the roles of different institutions?

- 1. The existing national rule landscape**
- 2. Separation of regulatory powers and the competitive position of the stock exchanges**

A Roadmap for Developing Sustainability Reporting Initiatives



Scope of Application



Should the initiative apply to all companies, or a subset based on market cap or sector?



Should the initiative address a specific environment or social issue, such as greenhouse gas emissions?

- 1. Scope of application: Number and types of companies included**
- 2. Scope of subject matter: Focus on material sustainability issues**

A Roadmap for Developing Sustainability Reporting Initiatives



Disclosure Model



Should disclosure be voluntary or mandatory based on a comply or explain approach?



Should disclosure transition from voluntary to mandatory over time?

- 1. Use a comply or explain framework when requiring sustainability disclosure**
- 2. Consider starting with a voluntary initiative**
- 3. Signal the sustainability disclosure policy direction**

A Roadmap for Developing Sustainability Reporting Initiatives



Design and Implementation

Should disclosure be aligned with international standards?

What measures can ensure that initiatives are maximally effective and produce the desired policy outcomes?

- 1. Promote responsible investment practices**
- 2. Consider making reference to international standards**
- 3. Use a multi-stakeholder consultation**
- 4. Provide sustainability guidance**
- 5. Provide incentives for disclosure**
- 6. Promote accessible and timely disclosure**
- 7. Encourage third-party assurance**

Key Findings/ Recommendations



- A single one-size-fits all approach is likely not feasible.
- Introducing voluntary sustainability reporting initiatives can be a practical first step.
- Mandatory sustainability reporting initiatives can be introduced on a prescriptive basis or a comply or explain basis.
- Sustainability reporting initiatives should be targeted to avoid creating unnecessary reporting obligations for companies that may not have the capacity to meet them.
- Stock exchanges and regulators should consider basing sustainability reporting initiatives on an international reporting framework.
- Design and implementation considerations include using a multi-stakeholder consultation approach in the development process, creating incentives for compliance, including public recognition and investor engagement.



For more information please contact:

Simon MacMahon

Global Director, Advisory Services

Phone: +1 416 861 0403

Email: simon.macmahon@sustainalytics.com

Website: www.sustainalytics.com



Discussion Items



Deliberations on this topic may include a number of questions such as the following:

- a) What are the types of stock exchange and regulatory initiatives around the world that are engaged in promoting sustainability reporting?
- a) What are the pros and cons of mandatory (either prescriptive or 'comply or explain') reporting rules versus voluntary reporting rules?
- a) How should reporting rules best take into account capacity constraints, especially on the part of SMEs?
- a) What training is available for companies, especially in developing countries, to assist them in meeting the expectations of a sustainability reporting initiative?