Intergovernmental Working Group of Experts on International
Standards of Accounting and Reporting
(ISAR)
High-level Policy Dialogue on Sustainability Reporting

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Statement

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The 2030 Agenda for Sustainable Development speaks to universality, integration, and leaving no one behind. This calls for collective action from a multi-level, multi-actor and multi-sectoral perspective. Businesses are key to this agenda as they create jobs, employment, output and incomes. They also have environmental and social impacts.

The level of ambition of the 2030 Agenda cannot be achieved by continuing with current practices or through siloed approaches. Rather, such level of ambition requires true innovation changes in the way business operate. It requires:

- A systemic transformation that enables business to address the complexity reflected in the 2030 Agenda;
- A deeply transformed business strategy, managerial mind-set and organizational culture oriented towards sustainable consumption and production patterns;
- A deep rethinking and redesigning of current, as well as future products and services, taking into consideration their entire life cycle;
- Responsible action, to engage the entire value chain in significantly different ways and to create much more inclusive and low impact business models.

The SDGs constitute a comprehensive and holistic approach to sustainability**.** The SDGs framework ultimately provides a clear indication of what a specific stakeholder group considers material and what other groups are measuring and monitoring. All Goals affect business at various levels, while all issues addressed in all Goals and targets may be material for specific companies to reflect them in their sustainability reporting. Reporting in a way that is meaningful to the SDGs would enhance the usefulness of sustainability reports for governments.

Sustainability reporting, for example, is embedded in SDG 12 on Sustainable Consumption and Production, which establishes a clear connection between operational implementation of sustainable practices and corporate reporting. SDG target 12.6 calls governments to "Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle". The aim of increased transparency and accountability through sustainability reporting is to drive a change in behaviour. Such reference provide continuity to text included in the Rio+20 Outcome Document (Paragraph 47).

Sustainability reporting can thus help to develop a narrative and roadmap for behavioural change at the level of individual companies to achieve the global ambitions of the 2030 Agenda. Sustainability reporting can help business constantly review and improve its actions in response to its own corporate commitments, changing global challenges, and stakeholder expectations. It can also prompt investments in eco-innovations.

There has been a considerable growth in the number of reporting organisations at global level. From an estimated 100 companies worldwide publishing sustainability reports in the early 1990s, their number had grown to approximately 6,000 by 2013. Research indicates that between 2001 and 2013, the share of the world's 250 largest companies publishing sustainability reports rose from 35% to 95%. Despite these significant growth trends, research estimates that out of the approximately 45,000 publicly traded companies worldwide in 2013, less than 10% disclosed their sustainability performance. The Global Reporting Initiative database, constituting one the most exhaustive repositories of sustainability reports, counted over 9,200 different reporting organisations from public and private sector as of July 2016. These figures demonstrate that the number of reporting organisations remains small when compared to the overall number of private and public companies at global level. The numbers also suggest that a significant part of the business community does not seem to perceive sustainability reporting as a useful tool for their strategies and operations.

I. Challenges of sustainability reporting

The main challenges in the domain of sustainability reporting are, however, not just in terms of quantity and the WHO is reporting, but also in terms of the quality (the HOW, the WHAT, for WHOM) of the actual reporting: context, materiality and comparability. The information in sustainability reporting needs to link to companies' strategies, risk management and financial reporting to gain a clearer picture of the impact on companies' operations and to be of value for governments, investors, local community and other stakeholders. For example, the financial impacts (in terms of return on capital) of sustainability strategies (such those emerging from growth related to sustainability products, enhanced resource productivity and improved risk management as examples) need to be highlighted[1]

For this reporting and information to be of value in the context of the global and the national aspirations of the 2030 ASD, there is a need to increase efforts to place reported information into scientific context, taking into account the availability of natural resources used in production processes, the broader demand on these resources (for example, water) and the ability of the Earth to reabsorb the outputs of resource transformation (for example, emissions, effluents and waste). Guidance already exists in given areas (e.g. on GHG emissions or Water), however, there is room to extend this work to other areas of sustainability:

[1] Carrots and sticks. SSE-Model-Guidance-on-Reporting-ESG.pdf, p. 25 http://www.sseinitiative.org/wp-content/uploads/2015/10/SSE-Model-Guidance-on-Reporting-ESG.pdf

- Multilateral organizations should collaborate to create a global governance body of scientists, academics, business practitioners, NGOs and other stakeholders to provide guidance on methodologies for determining ecological (and social) thresholds, as well as guidance on approaches to allocations of resources, all of which are broadly applicable to the business level.
- Raters should develop frameworks and mechanisms to apply Context-based assessments of corporate sustainability performance based on publicly available data routinely disclosed in sustainability reports.
- Reporting standards/guidance bodies such as GRI, IIRC, SASB, CDP, etc. should integrate Sustainability Context more explicitly into their frameworks, for example by applying the concept of carrying capacities to multiple capitals-based frameworks.

II. Comparability and harmonization of sustainability reporting for better corporate governance, decision making and monitoring of the SDG implementation process

The majority of sustainability reports do not allow readers to gain a comprehensive and useful understanding of the sustainability performance of the reporting organisation. Therefore they do not allow these readers (potential users) to make decisions on the basis of their content. There is clearly room for improvement in terms of quality, consistency and comparability, which depend, among others, on stronger connections with corporate strategies, risk management and financial reporting as well as the Sustainability Context Principle. There is a demand from companies and other reporting organisations for more guidance and clarity on stakeholder expectations for disclosure of sustainability information, both in terms of content and presentation.

Enhanced consistency, comparability and quality are needed in order to:

1. Strengthen the usefulness of sustainability reporting by reporting organisations themselves for strategic and operational decisions, and
2. Respond to the stakeholder demand for sustainability reporting for other decision-making purposes (e.g. as a support to investors in investment decisions, to bankers in lending decisions, to insurers in providing cover).

Governments would benefit from high-quality, consistent and comparable information that can be consolidated at national level in order to:

1. Better assess the private sector’s contribution to specific domains of sustainability (with a possible breakdown according to economic sectors, geographic areas, company size, and other parameters as deemed relevant);
2. Include private sector data in their national reporting on progress towards the SDGs on the number of companies publishing sustainability reports (SDG indicator 12.6.1) as well as on national progress on other Goals and targets which can be further informed through private sector data;
3. Use private sector data for national policy making.

III. But there are challenges in achieving such harmonization.

While additional harmonization and comparability of reporting would be desirable, there still are a number of intrinsic aspects of corporate reporting practices which make it complicated to attain (as described in the following points). The SDGs framework can however provide a coherent context of harmonization. Therefore it should be possible to identify a sub-set of indicators that apply to the majority of companies. Beyond that limited set of indicators, companies in different sectors/regions are likely to apply more tailored approaches to reporting.

- Diversity of companies and sectors: The diversity of the private sector and of economic realities in different countries/regions pose a challenge in enhancing comparability of sustainability reporting. The aim of sustainability reporting may differ between companies and may strongly influence the reporting process and content. It is important to understand the aim of reporting for both reporters and readers of reports so that harmonization efforts are meaningful to all users.

- Target audience: Companies generally do not clarify what drives them to report and therefore who is the target audience of the report. Common drivers include: pressure from specific stakeholders, compliance with regulation, management of operational risks, because it is common industry practice.

- Materiality assessment: Companies and their stakeholders would gain from more disclosure of the materiality assessment process followed and the results from stakeholder discussions for a better understanding of what issues are more relevant in given sectors or regions. The more stakeholder inclusive this process is, the more relevant becomes the sustainability reporting.

- Quality Assurance: Harmonization also is impeded when companies speak to themselves and report without a wider peer to peer or quality assurance. The practise of having quality assurers for sustainability reports helps bring a broad based understanding of other sectors and contexts and societal expectations to understanding the value of a sustainability report, and thus brings a harmonization in terms of quality.

Relevant stakeholders (governments, business, investors, reporting framework organisations, international organisations, academia and civil society organisations) should collaborate to enhance quality, consistency, and comparability of sustainability reporting. The SSE initiative to have a model guidance for ESG reporting by listed companies, but which allows adaptability for local markets is a good example of possible harmonisation and comparability in similar markets

IV. Five key sustainability aspects/indicators that companies should report towards the SDG agenda

UNEP has assessed environmental reporting practices and provided recommendations to improve the quality of the environmental dimension of sustainability reporting (Report: ‘Raising the Bar – Advancing Environmental Disclosure in Sustainability Reporting’, UNEP, 2015). We recognize the interconnections between the different dimensions which are covered in sustainability reporting (environmental, social, economic and governance) and are in the process of developing multipurpose indicators

According to UNEP research, the five environmental areas that most companies report on as issues that are material to them, and which most readers would expect to find in a report are: (i) GHG emissions, (ii) Energy use , (iii) Water use and (iv) the flow of Materials used and (v) Waste produced. These key areas are reflected across several SDGs and targets. There is a growing interest and demand for assessment and guidance in the areas of Biodiversity and Chemicals. UNEP is now working with businesses where these are material to help develop indicators for reporting and also to align with SDG reporting.

UNEP has developed a sequence of key steps for comprehensive reporting on each of the above key environmental areas by building on existing guidance and indicators from different reporting guidance/framework organisations in order to provide sustainability reporters with useful guidance. UNEP's analysis concluded that reporting on GHG emissions and Energy is largely standardised. On the other hand, further efforts are needed to improve the quality of reporting on Water and Materials/Waste.

In alignment with the indicators proposed in the context of the SDGs, it is recommended that indicators link to performance outputs (e.g. Energy intensity, Water intensity) to connect sustainability with corporate strategies and risk management and allow for meaningful comparisons between companies. It is important that endeavours to enhance sustainability reporting build on existing practices developed by several of the organizations some of whom are represented on this panel to accelerate the achievement of efficient and practical results.

V. The main challenges in aligning a selected limited number of core enterprise reporting indicators with the SDG monitoring framework.

- Nature of indicators: Many indicators of the SDGs' global framework of indicators have been / are being developed from a national policy-making perspective. Data required for such indicators may not always match with data provided at corporate level.
- Need of clarity in concepts. Very often terms are not clear to different stakeholders and so thresholds and targets become more difficult to operationalize. This common understanding is key to the universalization of such goals.
- Boundaries / level of consolidation: Determining the boundaries of corporate reporting is also a challenge for governments using corporate reporting to complete their national follow-up and review on progress towards the SDGs. Multinational corporations typically report at a consolidated level. The question for a government using sustainability reporting data is how to identify which companies reported contributions and impacts that apply to its national boundaries, and which are provided only at a consolidated, multinational basis.
- Data quality: Data developed by corporates for the purpose of reporting is frequently of higher quality compared to the one available in national statistical offices. Collaboration between private sector and policy maker would be beneficial for the purpose of review and follow-up of the SDGs indicators.

- Data Access: for a good alignment of core enterprise indicators with SDG monitoring framework, there is need for good repositories of such data that accessible to all stakeholders.

Finally and to conclude, sustainability reporting can help to integrate global goals into business strategies and drive the changes in behaviour the world urgently needs. UNEP is proud to work with UNCTAD and other partners to explore the best approach to support companies to achieve this ambition.