Think Ahead

ACCA

Mapping the sustainability reporting landscape

Lost in the right direction

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The Climate Disclosure Standards Board (CDSB) is an international consortium of business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital.

We do this by offering companies a framework for reporting environmental information with the same rigour as financial information. In turn this helps them to provide investors with decision-useful environmental information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials.

Recognising that it is equally essential to have information about both natural capital and financial capital for an understanding of corporate performance, our work builds trust and transparency needed to foster resilient capital markets. Collectively, we aim to contribute to more sustainable economic, social and environmental systems.

www.cdsb.net

About the author

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This report explores the changing corporate sustainability reporting landscape, outlines its components, addresses current challenges and proposes development opportunities. It provides a considered overview of the trends, levers and drivers influencing the reporting landscape. It also proposes ideas to prompt discussion among professionals involved in reporting who seek standardisation, rationalisation and order.

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Foreword

This report sets out how to take on the current challenges facing a fragmented sustainability reporting landscape.

Since the mid-1990s, ACCA has regularly published research that guide and inform both preparers and board members on how to produce reports that seek to provide greater transparency on the performance of enterprises.

An initial focus on environmental aspects was followed by the inclusion of social issues and, more recently, sustainability considerations. Navigating one's way through the increasingly complex landscape of sustainability reporting standards, regulations and voluntary initiatives often seems a daunting task.

It therefore gives me great pleasure to introduce and welcome this new guidance from the Climate Disclosure Standards Board (CDSB).

CDSB has brought together highly competent (yet potentially competing) organisations together under the same progressive banner. The CDSB's own climate change disclosure recommendations have been extremely influential at both the corporate and governmental level.

In this report CDSB sets out to demonstrate how society's changing expectations of the corporate sector have been matched by the emergence of a range of new reporting guidance, some voluntary, some mandatory. To help those in the corporate sector determine which particular piece of guidance is most applicable to their needs, the report sets out a high level (demand-driven) framework for determining which reporting path to choose and then reinforces that framework with practical application guidance.

The subtitle of the report – 'Lost in the right direction' – is an acknowledgement that, as far as reporting on sustainability is concerned, we are moving in what seems like the right direction but we are perhaps still somewhat uncertain about our final destination. Is it US GAAP supported by the new SASB standards? Is it GRI 6? Is it <IR 3> or is it some stakeholder-determined amalgam of all these (and others)? It may well be that the end result will not be the perfect 'please-everybody solution grounded in unshakeable logic' that we dream of but, rather, a pragmatically variegated solution driven equally by the shifting politics of standard setting and the tensions inherent in the 'sustainability versus shareholder wealth' debate. Whichever it is, this report provides us with a useful 'sustainability compass' to help us traverse the constantly shifting corporate sustainability landscape.

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Contents

Executive summary

Over the last few decades there have been significant changes in government and societal expectations about the goals that businesses should be setting. This affects criteria that should be applied and reported to identify good and poor corporate performance.

The purpose of corporate reports is to communicate the reporting organisation's performance over the reporting period, whether for compliance or stakeholder information purposes. There is no universally agreed definition of performance but, most simply, it can be understood as the end result of management's processes and actions in relation to corporate goals. Over the last few decades there have been significant changes in government and societal expectations about the goals that businesses should be setting and the criteria that should be applied to identify good and poor corporate performance.

This has prompted significant changes in corporate reporting requirements and practices and in the infrastructure developed to enable reporting, including the publication of new reporting frameworks, protocols and guidance, the creation of organisations to encourage and monitor new reporting practices and the emergence of multi-disciplined approaches to reporting whereby planetary limits are taken into account in determining corporate performance as well as management's targets. In short, as governments and society respond to actual or predicted factors that threaten society, the economy and the environment, such as climate change, energy and food security, poverty and the financial crisis (ie: global mega-trends), there has been an unprecedented wave of activity to recalibrate businesses' processes, behaviours and reporting towards a sustainable future.

Beneath the surface of the waves of activity on sustainability reporting, there is much unity, agreement and synergy in what different initiatives seek to achieve. This report characterises the collective activity as heading in the right direction, that is, towards a sustainable future. On the surface, however, the activity looks fragmented and confusing and therefore appears 'lost'. New initiatives come and go because it is not clear how they fit into the existing landscape (Abela 2016).

New expectations about corporate performance and the criteria used to measure it are also calling into question the role of the corporation, the definition of corporate performance and the range of stakeholders whose criteria are used to assess performance.

In response, this report proposes a list of components or 'coordinates' designed to help describe and place activity within the landscape and to facilitate discussions about how it could be made more navigable. The rationale for developing coordinates derives from the history of financial reporting where reporting standards, approaches to the preparation and placement of information, recognised standard setters, associated assurance standards and other features form an established architecture for understanding and developing financial reporting. Using similar architecture and recognised coordinates, this report contends that sustainability reporting activity will continue to head in the right direction but with visible coherence and a clear progress that will efficiently serve efforts to secure a more sustainable future.

NEW CRITERIA FOR INTERPRETING CORPORATE PERFORMANCE

Questions about whether, to what extent and how business should take responsibility for global mega-trends manifest themselves in the development of new criteria and indicators for assessing corporate performance, which increasingly associate performance with responsible business conduct and sustainable outcomes. Those criteria and indicators are developing fast and originate from a wide variety of sources, including governments, non-governmental organisations (NGOs), businesses, investors and consumers. For example, the emerging Corporate Human Rights Benchmark (Institute for Human Rights and Business n.d.) is being developed by a group of investors, an NGO, a think tank and an investor research agency. This reflects the range of stakeholders interested in new ways of interpreting and assessing corporate performance.

New expectations about corporate performance and the criteria used to measure it are also calling into question the role of the corporation (including whether it should create value only for itself and its members or for others too), the definition of corporate performance and the range of stakeholders whose criteria are used to assess performance.

CHANGING EXPECTATIONS, CHANGING CORPORATE REPORTING

The new and multi-faceted perspectives and criteria being used to judge corporate performance are having profound effects on the way in which certain companies prepare their corporate reports, particularly in relation to sustainability matters. As factors that threaten society, the economy and the environment are increasingly understood and start to dominate political, business and activist agendas, demand grows for information about how corporate activity jeopardises or contributes to long-term sustainability goals. New subject matter, for example on social impact, community involvement, supplier relationships and environmental management, is gradually being introduced into corporate reporting, to respond to, or in anticipation of, the factors that stakeholders will consider when assessing the reporting organisation's performance. Existing subject matter is being expanded, for example to explain how governance and remuneration practices are used to encourage particular behaviours, and new measures of performance are being developed, such as social impact measurement.

CHANGING CORPORATE REPORTING INFRASTRUCTURE

The developments described above have generated new types of reporting infrastructure, including the creation of specialist organisations focusing on reporting practice, such as CDP (formerly the Carbon Disclosure Project) and the International Integrated Reporting Council (IIRC), as well as new reporting requirements and verification approaches. Chapter 1, The changing corporate reporting landscape, takes a high-level look at trends that are influencing the development of corporate reporting. These trends are a welcome and appropriate response to the complex issues with which corporate reporting must now contend as societal expectations and planetary limits determine the objectives of corporate reporting schemes and the benchmarks against which achievement of those objectives are assessed. Nonetheless, some commentators characterise the multiple new activities, standards and organisations that have materialised and continue to emerge as presenting a confused and complex reporting landscape.

The absence of agreed, standard terminology for defining the components of the sustainability reporting landscape contributes to the complexity that currently characterises it.

SUSTAINABILITY REPORTING

One manifestation of change in corporate reporting is the growth of sustainability reporting. There is no standard, universally agreed definition of the term but, for the purposes of this report, sustainability reporting is defined as information that communicates how flows of material, resources and services between corporations, capital markets, society, the economy and the environment affect the ability of corporate, economic, social and environmental systems to continue and flourish.

Gradually, sustainability reporting is becoming a mainstream, annual exercise, particularly for the world's largest companies. Climate disclosure is arguably the most mature subset of sustainability reporting. The Climate Disclosure Standards Board (CDSB) was established in 2007 to harmonise corporate climate-change-related disclosure through mainstream reporting channels to form the common approach that is necessary for comparability and for the implementation of policies. Nearly a decade later, in April 2015, the G20 asked the Financial Stability Board (FSB) to convene public and private sector participants to review how the financial sector could take account of climate-related issues. This request resulted in the creation of the Task Force on Climate-related Financial Disclosures (TCFD), which has a stated objective of 'developing a principle-based Framework that promotes consistency in disclosures... ensuring that our recommendations provide a basis for consistent and comparable application across G20 countries…' (TCFD 2016). The involvement of finance ministers and central bank governors signals a new impetus towards satsifying the need for better information to inform decisions designed to support a more sustainable future.

THE COMPONENTS IN THE SUSTAINABILITY REPORTING LANDSCAPE

The absence of agreed, standard terminology for describing and defining the components of the sustainability reporting landscape contributes to the confusion and complexity that currently characterises it. This report proposes terminology, tools and approaches that might prove useful in explaining and describing the components of the landscape. In particular, in Chapter 2, 'Components of the sustainability reporting landscape', the report defines and distinguishes between the following terms, which can cause confusion when they become conflated or are insufficiently defined:

- **'Requirement developers'** are the organisations that issue or influence sustainability reporting requirements by specifying what information a reporting organisation should provide
- **'Reporting requirements'** are the provisions through which sustainability information is requested, including laws, standards, frameworks and codes
- **'Reporting content'** is the subject matter about which requirement developers demand or request sustainability information through reporting requirements
- **'Support mechanisms'** are the management and governance approaches, measurement tools, systems and procedures that help a company determine how to respond to reporting requirements and prepare and present appropriate content
- **'Reporting channels'** are the mechanisms and places through which information is conveyed to audiences
- **'Audiences'** are the intended users of reported information.

The past 20 years forms a foundation on which to develop technical reporting solutions, a common language and metrics, a system for defining resources and agreement on the criteria that corporate reports should satisfy in relation to sustainability goals.

INTERSECTIONS IN THE LANDSCAPE

Chapter 3, 'Sustainability reporting landscape challenges', explores the interactions between some of the components of the sustainability landscape and how lack of clarity about relationships between some of these components contributes to confusion and inefficiency, including:

- requests by multiple requirement developers for the same type of information
- lack of clarity about how sustainability reporting requirements relate to the existing mainstream reporting model
- reporting requirements designed to achieve diverse objectives by using the same type of information, and
- the existence of multiple support mechanisms that offer approaches for the calculation and preparation of information requested by requirement developers.

POSSIBLE ROUTES FORWARD THROUGH THE SUSTAINABILITY REPORTING LANDSCAPE

Chapter 4, 'Possible routes forward – ideas for bringing order to sustainability reporting', sets out six proposals, some of which are already being pursued, for rationalising and bringing more coherence to activities within sustainability reporting. The six proposals are designed primarily to prompt discussion about possible routes for developing greater standardisation in sustainability reporting.

1. Although their approach towards and language for achieving and describing them differ, many requirement developers share very similar objectives, driven by a desire for a sustainable environmental, social and economic future, secured in part through decisions based on useful and relevant information. Proposal 1 suggests that those shared objectives be leveraged to bring greater coherence to sustainability reporting.

2. Proposal 2 encourages comprehensive mapping and categorisation of the sustainability reporting landscape to determine what types of reporting it covers (eg accounting, financial, governance and risk) and how its components should be defined and categorised.

3. Proposal 3 recommends a thorough examination of the technical issues that present challenges for sustainability reporting, including what represents 'material' sustainability information; and how organisational responsibilities should be set, given that accountability for the impacts currently reported can extend beyond activities and entities over which the reporting organisation has control, ownership or influence.

4. Proposal 4 encourages activity that is already under way between requirement developers to show where their reporting requirements are similar to or aligned with those of other reporting schemes.

5. Proposal 5 encourages clarification of the extent to which requirement developers, audiences and others have responsibility for, or stewardship of, the sustainability reporting landscape and how they interact as a single system that supports sustainable development objectives.

6. Finally, the report proposes development of a 'model sustainability reporting convention'. In the same way that financial reporting approaches have been standardised as International Financial Reporting Standards (IFRS) through the work of the International Accounting Standards Board (IASB), an equivalent approach to the development of sustainability reporting standards might promote reporting coherence through convergence on shared reporting requirements, measurement approaches and policy objectives.

Significant groundwork on sustainability reporting has been done over the last 20 years. It forms a stable foundation on which to develop technical reporting solutions, a common language and metrics, a system for characterising resources and agreement on the criteria that corporate reports should satisfy in relation to sustainability goals. Questions remain about how this experience should be leveraged to support more rationalisation of sustainability reporting requirements and practices, and which organisations would be the most appropriate to advance the standardisation agenda.

Introduction

This report proposes an independent, standardised set of components, terms, definitions and characteristics that will form the architecture for describing the sustainability reporting landscape and replace those discussions and activities within a known, transparent framework.

Claims that the sustainability reporting landscape is a patchwork or labyrinth of fragmented requirements and practices have been made consistently over the last decade. Some organisations that develop sustainability reporting requirements are responding to those claims by actively taking steps to show how their initiatives are linked. Such steps are welcome responses to calls for simpler, more consistent and standardised approaches to sustainability reporting. Nonetheless, they take place on bilateral or multilateral bases and the organisations involved set the terms of the collaborative activity. This report proposes an independent, standardised set of components, terms, definitions and characteristics that will form the architecture for understanding and describing the sustainability reporting landscape and replace those discussions and activities within a known, transparent framework.

This report seeks to answer four sets of questions.

1. Chapter 1 considers why the sustainability reporting landscape is changing. What are the influences on its development? From where and from whom do those influences come and what is their overall effect on the development of corporate sustainability reporting?

2. Chapter 2 considers the components of the sustainability reporting landscape. From where do they originate and how could they be defined, described and categorised? Established forms of corporate reporting, such as financial statements, are based on a standard language, structure and components. For example, 'standard setters' for financial statements are generally identified as the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB). 'Standards' used to prepare and present information are enshrined in the body of International Financial Reporting Standards (IFRS), national Generally Accepted Accounting

This report focuses on the components of the sustainability reporting landscape itself rather than how reporting companies could or should navigate it, the quality of reporting practice or the audiences for information generated from the landscape.

Practices (GAAP) and associated materials. There is no equivalent structure, categorisation, language or architecture for sustainability reporting.

3. Chapter 3 asks how the different components of the sustainability reporting landscape interact with each other and with the existing mainstream reporting model and what is the effect of those interactions? Is there duplication among sustainability reporting requirement developers in their requests for information? Is there duplication between sustainability reporting requirements and mainstream reporting requirements? Do the objectives of sustainability and mainstream reporting requirements overlap and what effect does this have?

4. Chapter 4 queries what measures might bring more order, simplicity, comparability, consistency and standardisation to the sustainability reporting landscape. It makes six proposals and refers to current activities that seem to support the rationale for those proposals and the possibility that they could be used to bring more order to sustainability reporting.

REPORT SCOPE

This report focuses on the components of the sustainability reporting landscape itself rather than on how reporting companies could or should approach it, the quality of reporting practice or the audiences for information derived from the landscape.

Reporting companies seeking help to understand and navigate the sustainability reporting landscape may wish to refer to the World Business Council for Sustainable Development-led (WBCSD) 'Reporting Exchange' project. The Reporting Exchange uses a crowdsourcing model to identify the reporting regulations, rules, policies, practices, initiatives, standards, codes, frameworks and guidance that make up the reporting landscape as it evolves over time. The platform is designed to provide a useful tool for reporting companies seeking to understand and navigate the landscape and make decisions about which one or more provisions are most useful given the geographic and sector profile of each company and its reporting objectives. The Reporting Exchange is also intended for use by regulators, investors, academics, NGOs and civil society as well as by organisations developing reporting initiatives to help them identify trends, synergies and gaps in reporting requirements. The platform provides evidence about the different provisions that directly or indirectly affect sustainability reporting at a national and international level and covers both mandatory and voluntary provisions. The categorisation set out in Chapter 2 of this report relies in part on the approach of the Reporting Exchange.

For the purposes of identifying and seeking to describe and define the components of the sustainability reporting landscape, the authors have researched developments in Europe, North America, Australia, Brazil, China, India, Japan, Malaysia, Mexico, South Africa, South Korea, Singapore and Thailand. For the purposes of illustrating the components of the landscape, however, examples are taken primarily from sustainability reporting approaches that originate in Europe, North America or UN agencies.

CORPORATE SUSTAINABILITY REPORTING

Corporate sustainability reporting is an emerging discipline for which there is currently no universally agreed definition. For the purposes of this report, the term is defined as follows.

Corporate sustainability reporting communicates information that is relevant for understanding a company's long-term economic value and contribution towards a sustainable global economy, taking account of the company's economic, environmental, social and governance performance and impacts. Although expressed in many different ways, the objective of sustainability reporting may be summarised as communicating an understanding of how the flows of material, resources and services between corporations, capital markets, society, the economy and the environment affect the mutual ability of those systems to continue and flourish.

This report is for organisations that develop or influence reporting requirements and guidance, and all those interested in greater standardisation and rationalisation in sustainability reporting.

Sustainability reporting can cover a very wide range of subject matter, but some of the main categories of information relate to environmental, social and governance (ESG) matters. Sustainability reporting is therefore often described as 'ESG reporting' and is sometimes regarded as synonymous with Corporate Social Responsibility (CSR) reporting whereby companies communicate their interactions with local human and natural communities. Non-financial reporting is another widely used term for describing sustainability reporting, which recognises it as the counterpart of financial reporting. As decisions about sustainability may be affected by the financial performance and practices of an enterprise, sustainability reporting does not exclude financial reporting.

AUDIENCES FOR THIS REPORT

This report is aimed at two main audiences. The first is the organisations that develop or influence reporting requirements and associated guidance, referred to in this report as 'requirement developers'. Collectively they have the opportunity to regularise disparity in corporate sustainability reporting by agreeing and articulating the objectives of reporting, focusing on the development of technical practices, shared definitions and language and common metrics, and by characterising resources other than financial capital.

The second audience is all those interested in greater standardisation, rationalisation or order in sustainability reporting, who are invited to consider and comment on the proposals in Chapters 2 and 4 of this report. By definition, the report will be of more interest to reporting companies that are already advanced in their sustainability reporting practices and that have therefore experienced some of the challenges to which Chapter 3 of this report refers.

1. The changing corporate reporting landscape

Evolution of the corporate reporting landscape is being driven by a range of factors, from a reassessment of what constitutes value creation to a greater recognition of the interdependence of economic, environmental and social systems.

1.1 WHY IS THE LANDSCAPE CHANGING?

Trends that influence the development of corporate reporting

A profusion of theories and trends are emerging fast to challenge established views of the relationships between business, the economy and society. These factors, which include those below, are having a profound effect on corporate reporting generally as well as corporate sustainability reporting more specifically.

- There is a growing realisation that the assessment of corporate performance relies on information about financial, social, environmental and governance strategies, results and outcomes.
- There is a burgeoning demand for corporations to consider the broad range of resources or 'capitals' that they use and affect in order to create value, and for them to manage their dependencies and impacts on the environment.
- New thinking about the role of the corporation is being informed by forums such as Corporation 2020 and its New Principles for Corporate Design (Corporation 2020 2008), which describe the purpose of the company as being to harness private interests to serve the public interest, and the rise of the so-called 'B Corporation' (B Corporation 2015), which aims to benefit society as well as its shareholders.
- Supranational bodies have made commitments to aligning business practices with the Sustainable Development Goals (SDGs), including through the adoption of corporate reporting frameworks that require sustainability-related information from business.
- There is a widely recognised premise that economic, social and environmental systems are interdependent and that their continuance relies on limiting the use, trading and exchange of environmental assets, goods and services in line with planetary boundaries.

A corporation's sustainability performance, as communicated in reports and through other channels, is therefore now inescapably linked to its contribution to sustainability goals.

1.2 LANDSCAPE CONTEXT

The effect of trends on corporate reporting practice

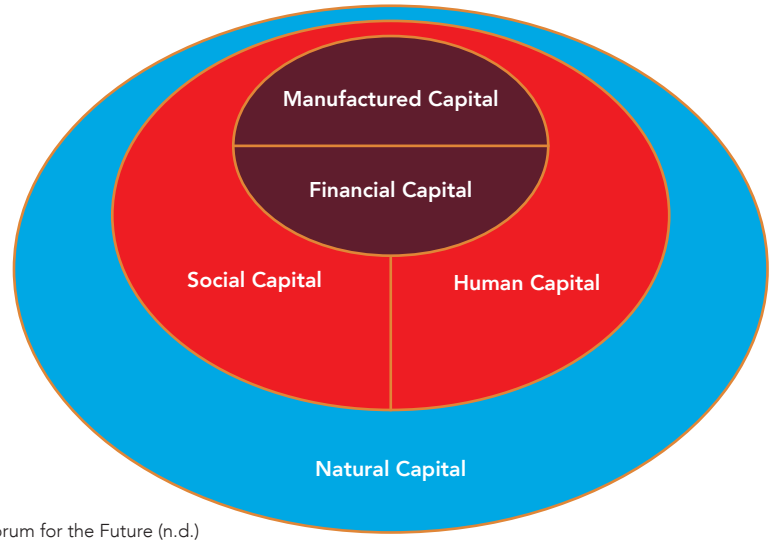
The trends, theories and realisations referred to above are leading to radical developments in corporate reporting requirements and practice. Organisations have become subject to 10 'global sustainability megaforces' (KPMG 2012), including climate change, energy security, resource scarcity, disparate levels of prosperity, population growth, food security, deforestation and ecological decline. These 'megaforces' are changing organisations' notions of business viability and success beyond enhanced profit and reputation to the recognition that what benefits people and the planet also benefits enterprises. Enterprises are being called on to create shared value and inclusive growth, which works on the basis that the inclusion of stakeholder interests in corporate planning and activity can lead to competitive advantage, a stronger licence to operate, enhanced reputation and more sustainable practices. Moreover, enterprises are increasingly being asked to use corporate sustainability reporting to account for and report on their contribution towards sustainability goals.

A corporation's sustainability performance, as communicated in reports and through other channels, is therefore now inescapably linked to its contribution to sustainability goals. The economy, society and the natural environment are often described as the 'three pillars' of sustainability. Sustainability is generally associated with actions and decisions that support the continuation of all systems within those pillars, including human communities, and economic and environmental systems. The continuation of systems – their sustainability – is affected by interconnections between them; for example, the success of economic systems depends on the availability of natural resources from the environment on which these systems depend individually and collectively, and is constrained by the limits to such resources.

New approaches to identifying, describing and communicating how organisations support the continuation of economic, human and environmental systems are emerging. For example, the Sigma Project, Forum for the Future and, latterly, the International Integrated Reporting Council (IIRC) have suggested that a sustainable company will enhance, rather than deplete or degrade, the stocks and flows of 'capitals' (see Figure 1.1) on which those systems depend.

Sustainable practices are generally assumed to lead to outcomes for systems and communities that preserve the stocks of value, wealth and resources on which their long-term continuance depends. Therefore the effect of these trends has also been to change the timescales over which companies are expected to assess their performance. Short-termism in corporate and financial decision-making has been blamed for many failings in financial management and for causing imbalance between acknowledging the importance of sustainability and acting on it.

Figure 1.1: The five types of sustainable capital from which are derived the goods and services needed to improve the quality of human lives



Source: Forum for the Future (n.d.)

The new order of corporate reporting demands both past results relating to an organisation's use and consumption of and effect on various 'capitals' as well as evidence of how its strategy and long-term goals are designed to contribute to sustainable outcomes.

1.3 WHAT IS SUSTAINABILITY REPORTING?

As noted in the introduction to this report, corporate sustainability reporting communicates information that is relevant for understanding a company's long-term economic value and contribution towards a sustainable global economy, taking account of the company's economic, environmental, social and governance performance and impacts. Although expressed in many different ways, the objective of sustainability reporting may be summarised as communicating an understanding of how the flows of material, resources and services between corporations, capital markets, society, the economy and the environment affect their mutual ability to continue and flourish.

1.4 THE 'NEW ORDER' OF CORPORATE REPORTING

The trends described in sections 1.1 and 1.2 in the previous pages herald a new order in corporate reporting, which distinguishes itself from previous reporting practice. Presentation of past financial results is no longer an adequate measure of performance. The new order of corporate reporting demands both past results relating to an organisation's use and consumption of and effect on various 'capitals' as well as evidence of how its strategy and long-term goals are designed to contribute to sustainable outcomes. Table 1.1 below summarises and simplifies some of the differences between the old and new orders of corporate reporting.

Table 1.1: The old and new orders of corporate reporting

The old order of corporate reporting	The new order of corporate reporting
Long and cluttered	Concise and material
Boilerplate language	Effective communication
Backward looking and short-term	Forward looking and longer term
Complex	Simple and easily navigable
General purpose	Sensitive to audience needs
Focused on financial results for shareholders	Focused on value creation for the organisation and its stakeholders
Rule bound, narrow disclosures	Transparent and responsive to individual circumstances
Reflects stewardship of financial capital	Reflects stewardship of all forms of capital on which the organisation is dependent and that it affects
Locked in, static	Technology enabled

The new order of corporate reporting presents radical changes from the old order, which has been entrenched for more than five decades.

1.5 INDICATORS OF THE NEW ORDER OF CORPORATE REPORTING

The new order of corporate reporting presents radical changes from the old order, which has been entrenched for more than five decades. Although the new order has its roots in ideas that have emerged over the past 50 years, most of the practical effects of those ideas on corporate reporting requirements and practices have appeared since 2000. For example, the new century has seen:

- the rise and success of organisations such as the Global Reporting Initiative (GRI) and CDP, which focus on eliciting disclosures from organisations that provide information in support of a more sustainable future
- global research and business organisations, such as the World Resources Institute (WRI) and WBCSD, offering tools, resources and solutions for use by organisations in developing more sustainable practices, including reporting practices
- regulatory developments that require greater transparency from corporations as well as disclosure of new types of information about the impacts of business on society and the environment
- demand from investors, particularly those with a longer time horizon, for environmental, social and governance information from their investees
- the development of the International Integrated Reporting Framework <IR> and associated reporting practice
- the development of metrics and valuation approaches by organisations such as TEEB (The Economics of Ecosystems and Biodiversity) and the Natural Capital Coalition for accounting and valuing 'non-financial' resources, such as natural and social capital, on which companies depend and which they affect through their activities, and
- the development of context-based accounting approaches and metrics that enable performance to be measured and reported against social, environmental and economic thresholds, and
- expectations that companies will contribute to the SDGs.

The effect of these new features and indicators on corporate reporting is examined in the next chapter.

2. Components of the sustainability reporting landscape

The relative immaturity of sustainability reporting, together with the speed at which it has developed and the many factors that influence it, means that a recognised way of describing and defining its components has not yet been agreed.

The sustainability reporting landscape is relatively new compared with its financial reporting counterpart, which has developed over more than 100 years. The relative immaturity of sustainability reporting, together with the speed at which it has developed and the many factors that influence it, means that a recognised way of describing and defining its components has not yet been agreed. Figure 2.1 below proposes terms for describing the main components or coordinates of the landscape. Each term is explained further in the cross-referenced paragraphs in the rest of this chapter.

The term 'requirement[s]' in this report means the obligation for or invitation to organisations to report sustainability information. Requirements typically set out the type of information that organisations must report if they are obliged to do so under mandatory rules or that they are invited to report in the case of voluntary requirements. Requirements can (but do not always) also prescribe where and to whom sustainability information should be reported.

2.1 REQUIREMENT DEVELOPERS

Requirement developers are organisations that issue or influence sustainability reporting requirements. There are hundreds of national and international requirement developers that have a direct or indirect influence on the development of sustainability reporting requirements. Rather than listing the individual organisations in this report, the main categories of requirement developer are summarised below:

- **Government/Regulators**
  There is a wide range of activities conducted by governments and regulators in relation to sustainability reporting. Typical approaches include:
  - the development of mandatory or voluntary reporting requirements specifically designed to elicit sustainability information from organisations
  - endorsement of sustainability activity conducted by non-governmental organisations, and
  - authoritative statements confirming that existing requirements (such as risk reporting) should be interpreted to apply to sustainability reporting.

Figure 2.1: Principal components of the reporting landscape

Requirement developers (2.1) Organisations, eg governments, NGOs, stock exchanges and others, that issue reporting requirements specifying what information a reporting organisation should provide: ie who sets the reporting requirement.	**Reporting requirements (2.2)** The provisions through which information is requested. Reporting requirements can be in rules, standards, frameworks, codes, etc. and are often complemented by enabling guidance: ie where the requirement is set.
Reporting content (2.3) The subject matter about which requirement developers demand or request information through reporting requirements: ie what should be reported.	**Reporting support mechanisms (2.4)** These are management approaches and measurement tools that form part of the enabling environment by helping organisations to determine how to respond to reporting requirements and to prepare reporting content: ie how organisations should report.
Reporting channels (2.5) The mechanisms through which information is delivered to audiences: ie where information should be reported.	**Audiences (2.6)** Investors, society, policymakers, employees, value chain participants, special interest groups: ie who uses the information.

In many cases, governments and regulators develop sustainability reporting requirements in order to support national or regional policy objectives, such as reductions in pollution and waste so that they can track progress towards those objectives.

Sustainability reporting requirements may be introduced into existing bodies of law or through new statutes or through authoritative guidance. Governments and regulators might also provide associated guidance on how to comply with legal requirements.

In many cases, governments and regulators develop sustainability reporting requirements in order to support national or regional policy objectives, such as reductions in pollution and waste so that they can track progress towards those objectives. Sustainability reporting requirements therefore often appear within wider packages of policy measures rather than in bespoke bodies of law devoted to sustainability reporting.

The type of regulator that develops sustainability reporting requirements varies, including, but not limited to:

- securities, finance or business regulators that require disclosure of sustainability-related risks that might affect the economic decisions made by existing and prospective investors, and

- environment regulators requiring details of emissions and waste produced by organisations as well as energy and environmental resources used and consumed.

Although governments and regulators tend to operate at national, ministerial or departmental level, there are some initiatives to coordinate the activities of international governments in relation to sustainability reporting, such as the Group of Friends of Paragraph 47 launched by the governments of Brazil, Denmark, France and South Africa. Within nations, there is also some evidence of rationalisation activity, such as the UK Department for Business Innovation and Skills' consultation on Business Energy Efficiency Reform, the purpose of which was to seek views on rationalising the seven different policy or regulatory regimes that had been introduced in the UK to deal with climate change and energy efficiency. As a result of the consultation, simplifications have been made to the UK regulatory landscape and UK government has committed to consulting on a simplified energy and carbon reporting framework in 2016 for introduction in 2019.

In April 2015, G20 finance ministers and central bank governors asked the FSB to review how the financial sector could take account of climate-related issues. This culminated in the formation of the TCFD under the leadership of the FSB and illustrates the range of regulators that develop or influence reporting requirements related to sustainability or sub-sets thereof.

- **Stock Exchanges**
  Some stock exchanges develop sustainability reporting requirements and guidance for their registrants as well as specialist indices on these registrants' sustainability performance. The 2014 Report on Progress prepared by the United Nations Sustainable Stock Exchanges Initiative (SSE 2014) examined activity across 55 exchanges. It found that over 40% of the exchanges offer at least one index integrating either, or both, social and environmental issues. A third of the exchanges provide either sustainability reporting guidance or training to the companies listed on their exchange. Of the 55 exchanges, 12 require aspects of environmental and social reporting for at least some of their companies, with only seven of those exchanges requiring such reporting for all listed companies.

- **Intergovernmental organisations**
  Intergovernmental organisations include UN agencies and programmes, energy, environmental, trade, customs and maritime organisations. Specific examples include the International Energy Agency (IEA), the World Trade Organization (WTO) and the Organisation for Economic Co-operation and Development (OECD). The UN system, is made up of the UN itself and many affiliated programmes, funds, and specialised agencies. Autonomous organisations linked to the UN through special agreements include the Food and Agricultural Organization (FAO), International Labour Organization (ILO) and World Health Organization (WHO). Intergovernmental organisations issue a range of products including conventions, guidelines, principles and platforms for recording business commitments to sustainability goals. These products inform and influence sustainability reporting requirements.

Activities by intergovernmental organisations, investors, business associations and non-governmental organisations have direct and indirect effects on how corporations report on sustainability.

- **Investor or investor coalitions**
  Shareholders, investors, investor coalitions and multilateral investment agencies seeking to understand how enterprises are dealing with environmental, social and governance matters issue guidance on their expectations of sustainability information, which then in turn influence reporting requirements. Institutional investors and others may approach organisations directly for this information through engagement channels, or they may act in coalition, for example, through the UN Principles for Responsible Investment (PRI).

- **Business groups and associations**
  Business groups and associations take action through thought leadership and effective advocacy to generate constructive solutions and take shared action to drive business action on sustainability, including the WBCSD, the World Economic Forum and the Natural Capital Coalition.

- **Non-governmental organisations, think tanks and accountability groups**
  Non-governmental organisations, think tanks and accountability groups, acting on behalf of the public interest, such as Transparency International, Forum for the Future and Client Earth, to understand and hold companies accountable for the consequences of their actions. Civil society's advocating of greater corporate responsibility and accountability has resulted in the establishment of initiatives such as the Human Rights Due Diligence Project, Publish What You Pay and the Dialogue on a Convention for Corporate Social Responsibility and Accountability.

- **Ratings agencies**
  Ratings agencies request information from reporting organisations in order to prepare benchmarking indices, such as the Dow Jones Sustainability Index.

- **Consultancies**
  Consultancies offer various services to support sustainability reporting, such as PwC's Total Impact Measurement and Management tool and KPMG's annual sustainability reporting survey.

- **Organisations that specialise in sustainability reporting or subsets of sustainability reporting**
  Standard setters and specialist reporting organisations at national and international level set the structure, content, reporting principles and standards for sustainability reporting.

  Examples of some of the most influential requirement developers include:

  - International Integrated Reporting Council (IIRC)
  - Sustainability Accounting Standards Board (SASB)
  - Global Reporting Initiative (GRI)
  - CDP.

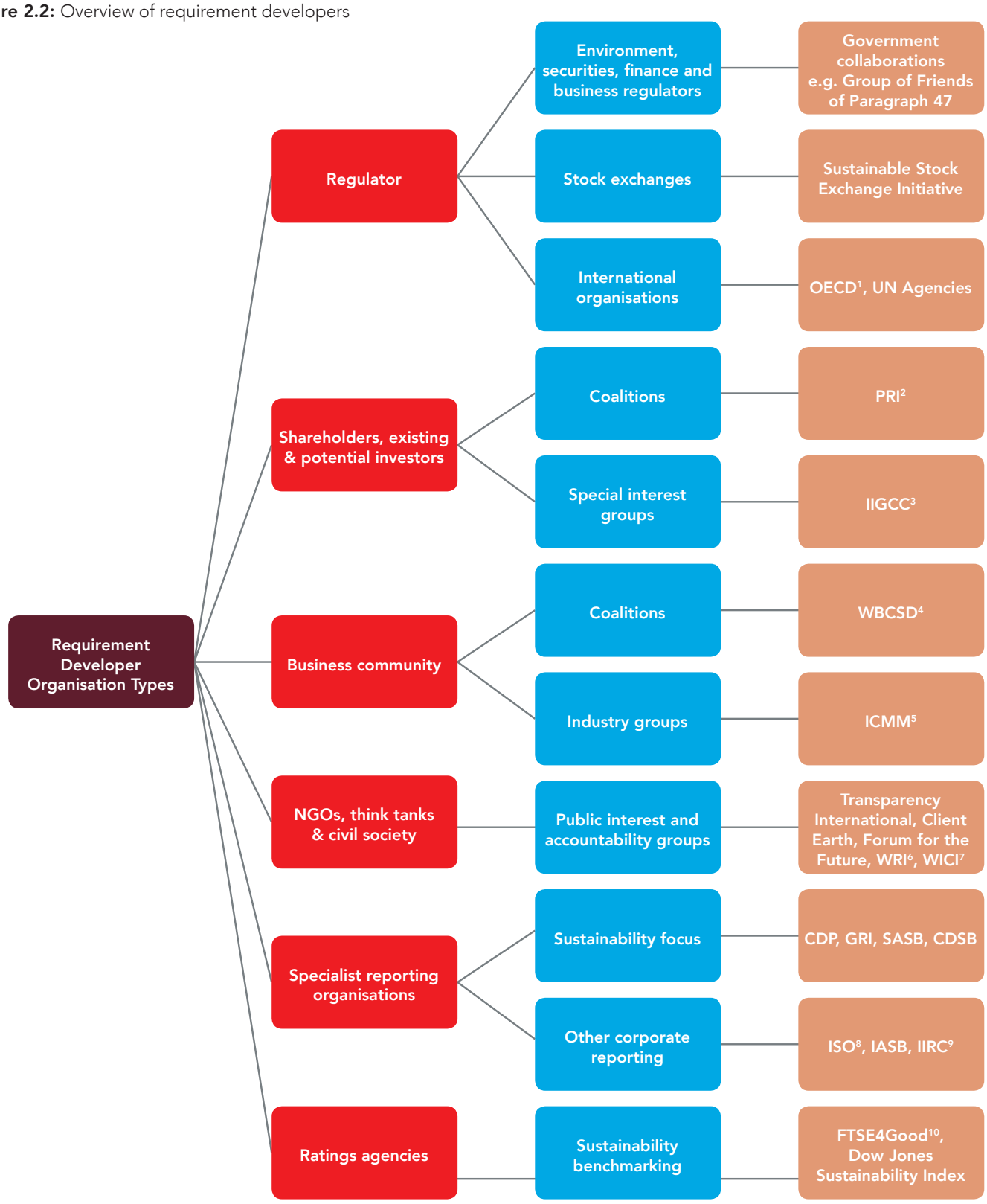
Table 2.1 on the next page, summarises what each of these organisations offers, the purpose of its offering and the destination for reported information. Although the IIRC focuses on value creation, all these organisations share a degree of interest in encouraging businesses (and others) to take action and report on sustainability-related principles and practices. The organisations listed in the table have the common characteristic of being independent, non-governmental organisations or coalitions. The IIRC, SASB and GRI focus on reporting through public channels, which are widely defined by IIRC and GRI, but the SASB's output is aimed at US mandatory filing requirements. CDP requires reporting to its own specified system, which focuses on recording actions by business as much as on reporting. Other provisions, such as ISO 26000, focus primarily on action and corporate behaviour rather than reporting, although transparency is encouraged.

Figure 2.2 on page 21, aims to provide a high-level overview of the types of requirement developer commonly involved in developing sustainability reporting requirements, together with their sub-categories and examples of the types of organisation within those subcategories.

Table 2.1: Summary of the offerings, purpose and reporting channels relating to four specialist sustainability reporting requirement developers

Organisation	Offering	Purpose	Where information is to be reported?
IIRC	The International Integrated Reporting <IR> Framework.	The primary purpose of the <IR> Framework is to enable organisations to produce 'integrated reports' and explain to providers of financial capital how an organisation creates value over time; it may also benefit other stakeholders.	An integrated report may be prepared in response to existing compliance requirements, and may be either a standalone report or included as a distinguishable, prominent and accessible part of another report or communication.
SASB	Sector-specific Sustainability Accounting Standards.	The Standards are aimed at facilitating disclosure of material sustainability information for the benefit of investors and the public.	The US Securities and Exchange Commission (SEC) has mandatory filing requirements, such as forms 10-K and 20-F. The SASB Standards are designed to support compliance with these requirements.
GRI	Sustainability Reporting Framework (including Guidelines and sector guidance).	The Guidelines facilitate organisations' reporting on their economic, environmental and social performance and impacts.	Any type of document that requires such disclosure.
CDP	Reporting programmes on climate change, forests and water, including general and sector-specific guidance.	The guidance helps organisations to measure and manage environmental risk and provides decision makers with information about obtaining evidence and insight to drive change.	CDP's online reporting system.

Figure 2.2: Overview of requirement developers



1 **OECD** Organisation for Economic Co-operation and Development
2 **PRI** Principles for Responsible Investment
3 **IIGCC** International Investors Group on Climate Change
4 **WBCSD** World Business Council for Sustainable Development
5 **ICMM** International Council on Mining and Metals
6 **WRI** World Resources Institute
7 **WICI** World Intellectual Capital Initiative
8 **ISO** International Standards Organization
9 **IIRC** International Integrated Reporting Council
10 **FTSE4Good** indexes measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices.

Reporting requirements may include regulation and legislation; standards, protocols, frameworks, codes, principles and guidance; listing rules; rating and indices.

2.2 REPORTING REQUIREMENTS

Reporting requirements are the provisions, including legislation, standards, protocols, frameworks, codes, principles and guidance that set out what subject matter an organisation should report and how it should determine, prepare and present information in sustainability reports and through other reporting channels. Reporting requirements may include the following:

- **Regulation and legislation** also referred to as 'mandatory' or 'statutory' provisions for reporting on sustainability generally or on particular aspects of sustainability. Provisions may apply at state, federal, regional or national level and may be found in securities, financial, governance, environmental and other bodies of law. Some provisions focus on particular industrial activities and facilities. Others are designed to apply to particular sectors or specific schemes.
- **Standards, protocols, frameworks, codes, principles and guidance**
  These have some or all of the following characteristics:
  - are developed through due process and stakeholder engagement
  - are referenced in legislation as representing the approach that should be taken to comply with legal requirements
  - have become so widely adopted as to constitute de-facto standards.
- **Listing rules**
  Listing rules are established by stock exchanges (such as the New York Stock Exchange) to control membership of exchange. Companies wishing to issue their stock on a given exchange must meet its listing requirements and continue to do so for as long as they are on the exchange.
- **Rating and indices**
  Certain corporate information on sustainability is required for inclusion in and ranking under indices on sustainability.

Audiences for sustainability information include regulators and investors and a wide range of other stakeholders including civil society, NGOs and consumers.

2.3 REPORTING CONTENT

The term 'reporting content' refers to the type or substance of information requested in reporting requirements. Generally it falls into the following categories:

- **business context**, including the reporting organisation's business model or profile, strategy and management approach
- **risks**, including physical and regulatory risks as well as those associated with changing societal expectations, management and governance approaches
- **opportunities** afforded by changing consumption patterns, new expectations of enterprises, and the development of new products and services with reduced environmental impacts
- **management and governance** associated with sustainability risks and opportunities
- **dependencies** on services provided by natural and social capital, including consumption and use of resources such as energy, fossil fuels, water, forestry products, community relationships etc.
- **impacts and outcomes** of the organisation's activities, including pollution, waste, human rights and corruption consequences
- **policy, strategy and targets**
- **performance** that supports the core business strategy and sustainability outcomes, and
- **future outlook**.

2.4 SUPPORT MECHANISMS

Support mechanisms help reporting companies put in place the infrastructure for managing and preparing for sustainability reporting, including:

- management approaches designed to help companies embed sustainability into their strategies
- methodologies for measuring environmental and social impacts of business activity, and
- assurance and verification services for sustainability information.

2.5 REPORTING CHANNELS

The term 'reporting channels' refers to the way in which the reporting organisation publishes information, ie the channels through which corporations and others make reported information available to readers and users. Reporting channels may include one or more of the following:

- a mainstream report (the annual package of information containing financial statements, corporate governance disclosures and management commentary)
- integrated reports
- sustainability (or corporate social responsibility, corporate citizenship etc.) reports
- internet or website pages, and
- specialist systems such as CDP's reporting system.

2.6 AUDIENCES FOR REPORTED INFORMATION

The audience or audiences for reported information may be prescribed by the requirement developer or by the reporting organisation or both. Audiences for sustainability information include regulators and investors and a wide range of other stakeholders including civil society, NGOs and consumers. The intended audience for reported information is linked to the objective of the requirement generator and this is discussed in more detail in Chapter 3. Typically, reported information is designed to inform the audiences' decisions and, in the case of sustainability information, the general intention is that it will lead to decisions that support a more sustainable future.

In order for reporting to be successful there must be a dynamic process that engages with 'reporting fundamentals'.

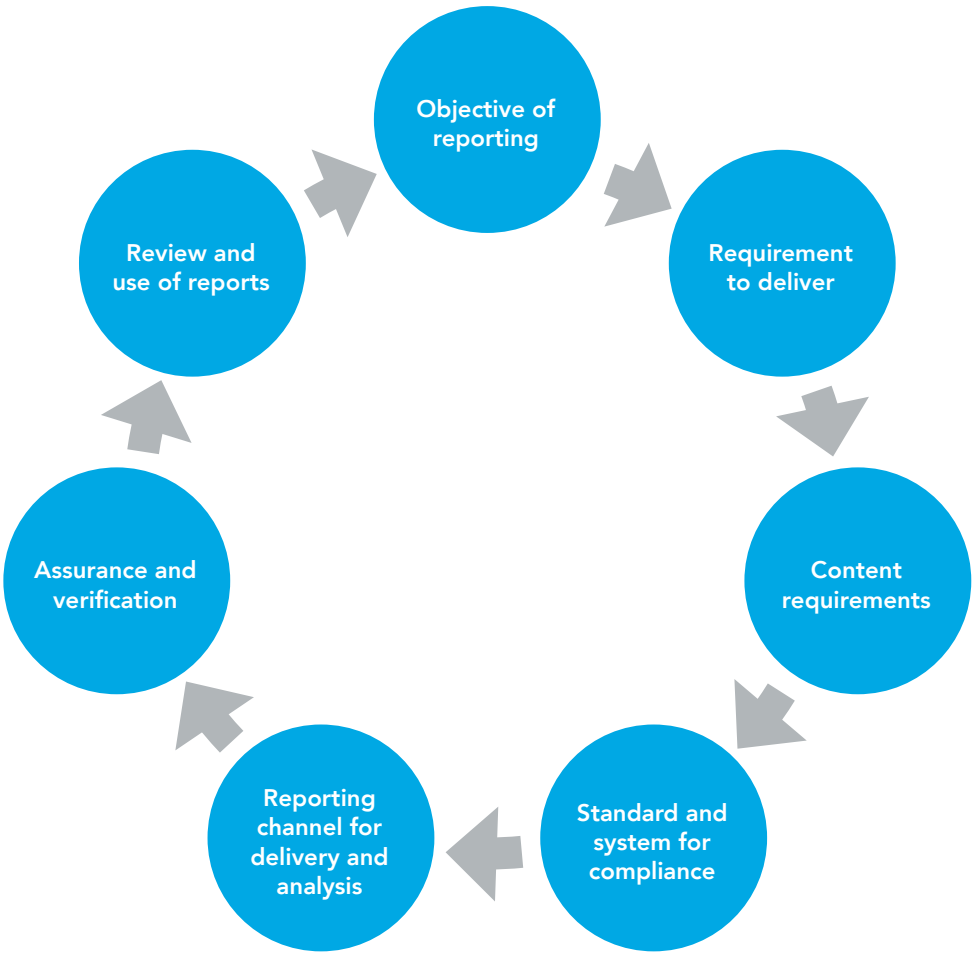
2.7 CONCLUSIONS ON THE SUSTAINABILITY REPORTING LANDSCAPE

Requirement developers, the requirements they set, including the content of reporting, the channels through which information is reported and the intended audiences, form the principal components of the corporate sustainability reporting landscape.

It is difficult to make sense of the overall landscape owing to the variety within each component. For the purposes of introducing some order, this report suggests that each requirement developer has to engage to a greater or lesser degree with one or more of the 'reporting fundamentals' shown in Figure 2.3. In order for reporting to be successful there must be a dynamic process that includes:

- a clear **objective** for the reporting activity so that reporting organisations know why they are reporting
- a **requirement** to provide it set by an appropriate authority
- clear **content** elements so that the reporting organisation knows what to report
- a **standard** for complying with the requirement and for setting suitable criteria for assurance activities so that the reporting organisation knows how to report
- a **reporting channel or system** for supplying, storing and analysing information so that reporting organisations know where to report information and users know where to find it
- an **assurance** process for ensuring that assertions comply with the standard used to prepare them and that they do not include any material misstatements, and
- a **review** process so that users can feed back views to preparers and standard setters about whether they are getting what they need.

Figure 2.3: Reporting fundamentals



Why, what, how, where and to whom should I report? And how do my readers know my report is reliable?

The interaction of requirement developers with each of the reporting fundamentals helps to explain their 'place' in the reporting landscape. For example, the <IR> framework sets clear content requirements and recommends different possibilities but does not prescribe the format of the integrated report as the system for provision of information. The IIRC does not set standards for compliance with the content requirements of the <IR> framework. By comparison, SASB's focus is on setting standards and systems for compliance with content requirements specified by the SEC. CDP's content requirements are set out in its annual information request, but it relies largely on the standards for compliance set by others, such as the WRI/WBCSD Greenhouse Gas (GHG) Protocol. CDP provides its own reporting channel for both provision and analysis of information through its online reporting system.

Where all the reporting fundamentals are present, it is possible to answer the questions commonly asked by report preparers, as outlined in Table 2.2.

Chapter 2 of this report has looked at the components of the current sustainability reporting landscape and how they may be understood, organised and categorised. Chapter 3 of this report goes on to examine what the reporting landscape looks like in practice.

Table 2.2: Interaction between reporting components and questions from corporate reporting organisations about reporting

Question	Answer
Why should I report?	Because there is a **requirement** to do so (set by a regulator, stock exchange or other organisation with authority to do so, such as CDP (on behalf of investors), by reference to a clear objective.
What should I report?	The **content** elements specified by the regulator, stock exchange or other authority, or their delegate.
How should I report?	Using the **standards** and support mechanisms prescribed for compliance with the requirement to provide information.
Where should I report?	Through the **reporting channel** prescribed by the authority, eg electronic or paper publication and through any other channels that will ensure that stakeholders can find the information they need.
To whom should I address the report?	To the prescribed audience.
How do readers know my report is reliable?	There are various options, but commonly, a third party will be engaged to provide an **assurance** or opinion that the report and any associated content comply with the regulatory or other requirements and standards as aforementioned.

3. Sustainability reporting landscape challenges

Organisations find it hard to see the relationships between requirement developers or to understand what the multiplicity of reporting requirements is designed to achieve. Users of information complain that corporate reports contain 'immaterial clutter' that obscures important information about the organisation's performance.

3.1. INTRODUCTION

Chapters 1 and 2 seek to explain, categorise and order the components of and influences on the sustainability reporting landscape. In practice, however, and in the absence of a universally accepted approach to categorising all the components of the landscape, reporting organisations do not necessarily see order. They see confusion that results in the receipt of multiple requests for information about the same subject matter from multiple sources. This leads to duplication of effort, increased administrative burdens and uncertainty about what should be reported, how and to whom. Organisations find it hard to map the relationships between requirement developers or to understand what the multiplicity of reporting requirements is designed to achieve. Users of information complain that corporate reports containing 'immaterial clutter' that obscures important information about the organisation's performance.

The causes of this confusion and clutter are complex. This chapter focuses on four possible contributing factors and, in doing so, prepares for proposals in Chapter 4 about how the reporting landscape could be regularised. In particular, Chapter 3 considers whether confusion and clutter are exacerbated by:

- requests by multiple requirement developers for the same type of information
- lack of clarity about how sustainability reporting requirements relate to the existing mainstream reporting model
- reporting requirements that seek to achieve many diverse objectives, and
- the existence of multiple reporting support-mechanisms (see section 2.4), that offer different approaches to the calculation and preparation of information requested by requirement developers.

3.2. REQUESTS BY MULTIPLE REQUIREMENT DEVELOPERS FOR THE SAME TYPE OF INFORMATION

A wide range of subject matter is taken into account in sustainability reporting. The GRI's G4 Guidelines distinguish between sustainability-related 'topics' which refer to any possible sustainability subject and 'aspects' which are those sustainability subjects covered by the GRI G4 Guidelines.

Multiple requirement developers can ask for the same information from a single reporting organisation.

The G4 Guidelines lists 46 'aspects', representing the subjects covered by the Guidelines. Those aspects are organised into economic, environmental and social categories and four sub-categories under the title 'social', being labour practices and decent work, human rights, society and product responsibility. Other requirement developers seek to elicit information from reporting organisations about some of the 46 'aspects' listed in the G4 Guidelines. This means that multiple requirement developers can ask for the same information from a single reporting organisation. This section illustrates how multiple requests for information manifest in the materials of requirement developers that:

1. request specific information on the use of and impact on water resources
2. request general information about environmental performance and impacts or natural capital that could be interpreted to apply to the use of and impact on water resources
3. seek commitments from businesses about their use of and impact on water resources, and
4. provide support mechanisms for measuring, managing and reporting businesses' use of and impact on water resources.

3.2.1 Specific requests

Table 3.1 below illustrates four examples of specific requests from requirement developers for information about businesses' use of and impact on water.

These requirements evidence agreement among requirement developers about the type of information that should be requested from companies about their use of and impact on water. The GRI and CDP produce annual linking documents to show how their requests for information are aligned (CDP and GRI 2016a). The 2016 document on requests for water information provides summary tables showing exactly how the requests align and how reporting organisations can use them in conjunction (CDP and GRI 2016b).

For example, the Australian Water Accounting Standards Board's (WASB)[11] arguably requires the provision of the same information shown in Table 3.1 in order to report on changes in those assets and liabilities. The WASB standard requires broadly the same information but expressed and characterised in different ways to the requests in Table 3.1.

Table 3.1: Sample reporting requirements for businesses' use of and impact on water

Reporting requirement/content	Requirement generator/reporting requirement
• Water withdrawals by source type and in water-stressed or water-scarce areas • Water intensity and average water intensity in water-stressed or water-scarce areas • Water consumption • Water discharge by destination type	CEO Water Mandate page 40 (performance) profile metrics and advanced reporting
• Total water withdrawal by source	GRI G4 EN8
• Water withdrawals by source across the operation • Water discharge data by destination across the operations • Water consumption across the operations	• CDP Water Information Request 2016 W1.2a • CDP Water Information Request 2016 W1.2b • CDP Water Information Request 2016 W1.2c
Please provide your company's total water use for the part of your company's operations for which you have a reliable and auditable data acquisition and aggregation system	DJSI sample questionnaire 2.3.5

11 Although WASB has been disbanded, the Australian Bureau of Meteorology encourages adoption of WASB's standards – see http://www.charteredaccountants.com.au/Industry-Topics/Sustainability/Water/Water/Water-Accounting-Standards-Board-disbanded.aspx

Sustainability reporting has developed against the backdrop of the existing, well-established mainstream reporting model that generally comprises financial statements, management commentary and governance information.

3.2.2 General requests

Other requirement developers issue guidance on natural capital or environmental reporting that, while not specifically requesting information about water use and impacts, could be interpreted as applying to businesses' use of and impact on water.

For example, neither the OECD Guidelines for Multinational Enterprises nor the IIRC's <IR> framework contains specific provisions requiring disclosure of the specific content reflected in Table 3.1. However, the OECD Guidelines encourage enterprises to set targets for improved environmental performance and resource use and the <IR> framework requires reporting on natural capital (where material). Therefore, while not specifically requesting the information listed in Table 3.1, IIRC and OECD requirements could be interpreted as requiring them.

3.2.3 Commitments

Principles 7 and 8 of the United Nations Global Compact (UNGC), committing to a precautionary approach to environmental challenges and promotion of greater environmental responsibility, could be interpreted as requiring the disclosures listed in Table 3.1.

3.2.4 Support mechanisms

The WBCSD's Global Water Tool, the Water Sustainability Tool produced by the Global environmental Management Initiative (GEMI) and the ISO 14046 Water Footprint standard offer practical tools and guidance on how organisations can take action to manage water use and impacts. These reporting support mechanisms are distinct from reporting requirements. They are designed to focus on measurement and behavioural change, but are sometimes interpreted as adding to the profusion of reporting requirements.

Although the example in Table 3.1 focuses on actual or perceived duplication of requests for information about businesses' use of and impact on water, the principles that emerge from the example apply more widely to other types of sustainability information and content. Those principles are as follows:

- in some cases, specific content requirements are duplicated in whole or in part by requirement developers and even where specific content requirements do not appear to be the same because different language is used, they can in practice duplicate other requirements (see 3.2.1)
- general requests for information can be interpreted as meaning that reporting requirements are being duplicated (see 3.2.2), and
- the impression of duplication is exacerbated by the lack of distinction between reporting requirements (ie what a company must report) and tools that assist companies with the measurement and management of particular resources, assets and impacts (ie how to collect and prepare information) (see 3.2) and approaches to encouraging behavioural change (see 3.2.4).

The duplication of requests is not confined to developers of requirements on sustainability-related information. As section 3.3 shows, there is also duplication of requests between requirement developers seeking sustainability information and reporting requirements that form part of the mainstream reporting model.

3.3 SUSTAINABILITY REPORTING REQUIREMENTS – RELATIONSHIP WITH THE EXISTING MAINSTREAM REPORTING MODEL

Sustainability reporting has developed against the backdrop of the existing, well-established mainstream reporting model that generally comprises financial statements, management commentary and governance information. Information reported through the existing mainstream reporting model is often required by legislation or, by extension, reporting standards that are endorsed or referenced in legislation. For example, the requirement for organisations to publish annual financial statements is mandatory in many jurisdictions.

Regulators specifying mandatory mainstream reporting requirements appoint or work with other agencies to enable compliance. For example, many regulators require that financial statements must be prepared by reference to financial reporting standards issued by a national or international standard setter, such as the IAASB. Similarly, the requirement to provide corporate governance disclosures is enabled through the development of national and regional corporate governance codes. A compendium of international codes is available from the European Corporate Governance Institute (ECGI n.d.).

One of the reasons for the duplication of information requests seems to be that each requirement developer seeks information for a different purpose.

Some of the well-established requirements of the existing mainstream reporting model are being replicated by sustainability reporting requirements, thus adding to the impression of duplication and confusion in the reporting landscape. Table 3.3 uses a simple example to illustrate the range of requirements that reporting organisations subject to the UK Companies Act must or could respond to in order to report the nature of the reporting organisation's business and activities. The table shows that information being requested by developers of sustainability-related reporting requirements is already embedded in mainstream reporting requirements or practice. Table 3.3 also shows that the same information is ostensibly to be reported through five different reporting channels.

Although the examples in Table 3.3 focus on requests for information about the nature and activities of the business, principles emerge that can be applied to reporting more generally. In particular, some of the sustainability information requested by requirement developers duplicates the type of information already requested through the mainstream reporting models of many jurisdictions, including:

- the external context or environment in which the company operates
- the company's objectives, strategies and policies
- the company's business model
- risks and opportunities, and
- the resources needed to pursue the company's strategy.

One of the reasons for the duplication of information requests seems to be that each requirement developer seeks information for a different purpose. For example, a regulator may ask for a description of the nature and activities of the business to ensure that a basic level of information about the business is available to shareholders, whereas a requirement developer with sustainability-related objectives is more likely to ask the question for the purposes of determining how business activities create sustainability-related impacts. The tentative conclusion that multiple objectives drive multiple requests for the same type of information is explored in section 3.4 on the next page.

Table 3.3: Examples of duplicated requests for information about the nature of the business and its activities

High-level disclosure subject	Specific disclosure requests	Requirement	Expected reporting channel
The nature and activities of the business	The principal activities of the business during the course of the year	UK Companies Act section 416(1)(b)	The UK Strategic Report
	The nature of the business, including its structure and how it creates value	IASB Management Commentary Practice Note para 24a and 26	Management Commentary
	The organisation's brand, products, services, locations, ownership, legal form, markets served, number of employees and operations, etc.	GRI G4 3-10	Sustainability Report
	What does the company do and what are the circumstances under which it operates?	<IR> Framework para 4.4	Integrated Report
	Please give a general description and introduction to your organisation	CDP CCO.1	CDP online system

The quality, quantity and presentation of information may differ depending on whether it is reported to satisfy compliance requirements or to inform a stakeholder group seeking information on corporate accountability.

3.4 MULTIPLE OBJECTIVES – MULTIPLE INFORMATION REQUESTS

Sustainability reporting requirements may be developed to achieve one or more of the following objectives:

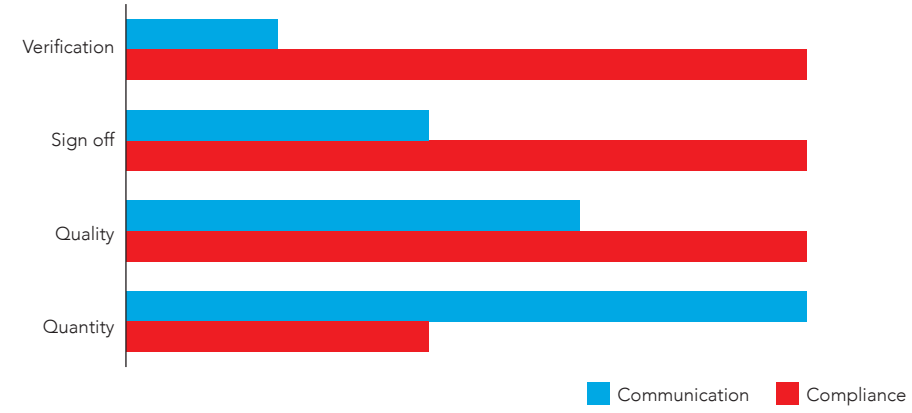
- to comply with reporting requirements set by regulators, who use information to assess the extent to which organisations are contributing to government targets on sustainability, and to identify which regulatory interventions might make the greatest contribution to supporting sustainable practices
- to aggregate information on sustainability impacts and disseminate it among the public or a particular stakeholder group, so that reporting organisations may be held accountable for their actions
- to assess progress against the SDGs
- to inform and support decision making by, and to protect, existing and prospective investors
- to build capacity by getting enterprises used to reporting on ESG matters and help embed sustainability reporting practices in the organisation
- to widen the scope of risk management and/or governance to incorporate risks related to sustainability
- to address market inefficiency through the provision of information to support decision-making by capital markets, and
- to participate in benchmarking and rating schemes.

The quality, quantity and presentation of information about an organisation's human rights policy, for example, may differ depending on whether it is reported to satisfy compliance requirements or to inform a stakeholder group seeking information on corporate accountability. Within the organisation, the sign-off or authorisation procedure for the publication and the associated assurance or verification procedure may be different for each audience. Figure 3.1 illustrates in high-level terms the way in which different 'reporting variables' (verification, sign-off, quality and quantity) can apply depending on whether information is reported to achieve compliance or for more general communication objectives.

Where the same type of information is requested by multiple requirement developers with multiple objectives, an organisation might elect to satisfy all requirements and all audiences in a single report that:

a. satisfies compliance obligations
b. responds to particular stakeholder groups
c. reflects the benefits of reporting to the organisation such as cost savings
d. communicates the reporting organisation's commitments and behavioural changes in order to increase trust and confidence in the company, and
e. aims to strengthen the company's licence to operate.

Figure 3.1: Application of reporting variables to communication and compliance



The disparate reporting practices that have arisen from a multiplicity of reporting requirements dilute or impair the usefulness of information for readers. This may lead to distorted views of corporate performance, inaccurate valuation and difficult decision-making.

Inevitably, a reader from a particular stakeholder group interested only in compliance, ie (a) above, will regard information provided in categories (c) – (e) as immaterial clutter.

3.5 SUPPORT MECHANISMS

The fourth contributor to confusion is the existence of multiple support mechanisms (see section 2.4). There are many instances of support mechanisms for guiding behavioural, strategic and methodological aspects of sustainability information. For example, there are multiple approaches to the calculation of sources of impact on different types of capital, including the amount of each capital used, consumed, destroyed or degraded. Unless a requirement developer prescribes a particular measurement approach, companies may choose how to measure the information used for reporting. It is therefore often not clear why a particular approach has been selected or how results have been calculated. Although there is evidence of widespread convergence on certain measurement approaches – for example the WBCSD/WRI GHG Protocol and ISO 14064 for greenhouse gas emissions – questions remain about:

- the best and most appropriate measurement methodology for particular sources of impact
- the trade-off between accurate measurement and effective communication; an accurate measurement may not convey to the audience the relative magnitude of results
- how reporting requirements should encourage companies to disclose the basis, policy or methodology used to collect, measure and prepare disclosures in their reports
- how input, activity and output data should be collated – estimation, formulae, modelling; what limits and control requirements should be applied
- how to report on uncertainty in measurement (for example, through 'confidence accounting'[12]), and
- the units that should be used for measurements of non-financial inputs, activities and outputs.

3.6. CHAPTER 3 CONCLUSIONS

The disparate reporting practices that have arisen from a multiplicity of reporting requirements dilute or impair the usefulness of information for readers, and may lead to distorted views of corporate performance, inaccurate valuation and difficult decision-making.

Some organisations complain that the many and various actions that are being taken to move corporate reporting into a new era have resulted in a patchwork, labyrinth or jigsaw of reports, frameworks, protocols, codes and standards that impose sometimes conflicting and sometimes duplicative requirements on organisations but do not result in information that is any more useful for users. Companies argue that this presents them with undue reporting burdens and multiple dilemmas. They must decide which reporting requirements to answer, which audience to address and which reporting channel to use. Some other organisations are happy to live with the dilemmas and to accept them as a natural stage in the development of reporting: they do not favour intervention or rules, and believe that the diversity of practice will be solved over time by experimentation and eventual convergence on good practice. Nonetheless, at the moment, all parties seem to find the landscape difficult and there is uncertainty about how greater clarity can be achieved and lead to better information, decisions and actions to support a sustainable future.

12 "Confidence Accounting' is a term for a proposal to use distributions rather than discrete values in accounting and auditing.' Taken from *Confidence Accounting: A Proposal* (Harris, Mainelli and Onstwedder 2012).

4. Possible routes forward – ideas for bringing order to sustainability reporting

The proposals in this report are not exhaustive and are designed simply to prompt discussion about possible avenues for developing sustainability reporting.

4.1 INTRODUCTION

A great deal has been achieved since 2000 to advance sustainability reporting. The fact that there are deficiencies or frustrations by no means detracts from the significant achievements of requirement developers and others working to improve the overall quality of corporate reporting and to integrate sustainability reporting and actions into standard business practice. Nonetheless, as Chapter 3 has demonstrated, the current landscape is confusing for both preparers and users of sustainability information. This chapter proposes six ideas, some of which are already being pursued, designed to bring more order and coherence to the reporting landscape.

The proposals in this report are not exhaustive and are designed simply to prompt discussion about possible avenues for developing sustainability reporting. Readers of this report are invited to comment on, critique or develop these proposals, which may be summarised as follows:

1. Leveraging shared objectives
2. Mapping the landscape and agreeing its components
3. Addressing technical challenges and supporting relevant current activity
4. Linking, aligning and reciprocating
5. Agreeing stewardship of the landscape territory
6. Developing a model convention.

4.2 PROPOSAL 1 – LEVERAGING SHARED OBJECTIVES

As section 3.4 highlighted, the multiple objectives of various requirement developers can lead to multiple requests being made to companies for the same information, thus adding to confusion for reporting organisations and clutter in corporate reports. As tangled and diverse as this appears, however, shared objectives arguably lie at the heart of most requirement developers' work. Although approaches to achieving them and terms

Central to agreements on the SDGs and on climate change was consideration of the role of the private sector and its reporting practices in helping to achieve the desired outcomes of negotiations.

for describing them vary, many requirement developers share the following objectives:

- to secure a sustainable future in environmental, social and economic terms, and
- to inform decision-makers in making decisions that will support a sustainable future through access to more useful and relevant information.

Table 4.1 outlines the shared aims of four requirement developers to change business and investor practices through reporting requirements designed to support sustainability objectives and decisions. Although the four requirement developers used as examples here (IIRC, SASB, GRI and CDP) use different frameworks, guidelines and reporting channels, their high-level aims are very similar.

The recognition and articulation of shared objectives is not just important for bringing some order to the diverse activities of requirement developers. In 2015, heads of state and their representatives reached agreements on the SDGs, financing for development and climate change. Central to these agreements was consideration of the role of the private sector and its reporting practices in helping to achieve the desired outcomes from those negotiations. For example, the 'zero draft' of the Addis Ababa Accord identifies the business sector as being 'a critical driver in achieving sustainable development' and acknowledges the responsibility of governments for developing regulatory systems to align business incentives with sustainable development. The draft refers to the need for initiatives that encourage socially and environmentally responsible business activity to be complemented by strong regulatory frameworks on ESG practices, including sustainability reporting.

Table 4.1: Selected requirement developers and the changes they seek

Requirement developers	Change in business practices?	What type of change?	Change in investor practices?	What type of change?	Route	Desired outcome
IIRC	✓	Integrated thinking is embedded in business practice	✓	Efficient and productive capital allocation	Through the cycle of integrated thinking and reporting, and communication of value creation	Financial stability and sustainability
SASB	✓	Decisions that increase long-term value and improve sustainability outcomes	✓	Decisions that increase long-term value and improve sustainability outcomes	Through sustainability accounting standards and associated education and outreach	More useful information for investors and improved corporate performance on those environmental, social and governance issues most likely to affect value.
GRI	✓	Responsible management of economic, environmental, social and governance performance and impacts	✓	A sustainable global economy	By making sustainability reporting standard practice, providing guidance and support to organisations	A sustainable global economy that combines long-term profitability with ethical behaviour, social justice and environmental care
CDP	✓	To transform the way the world does business so as to prevent dangerous climate change and protect natural resources	✓	Capital is efficiently allocated to create long-term prosperity rather than short-term gain at the expense of the environment	By using the power of measurement, standards and information, and by leveraging market forces, to improve the management of environmental risk	Dangerous climate change is prevented and natural resources are protected

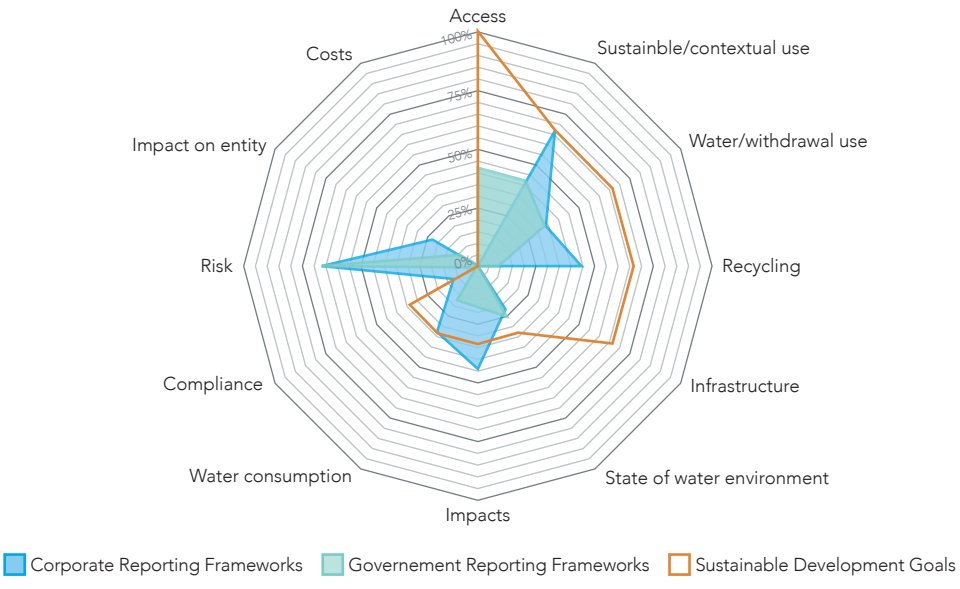
The purpose of corporate reports could, in future, extend to enabling policymakers to assess aggregate business impacts against agreed international targets.

Therefore, as well as agreeing, articulating and acting on their shared objectives, requirement developers might also need to consider how the reporting requirements and other reporting components they put in place will contribute to the aims of multilateral agreements on sustainable development and any associated regulatory activity.

Assuming that corporations will increasingly be called upon to contribute to (and report on their contribution to) wider sustainable development objectives, various tensions will need to be reconciled between the private interests of business and the public interest objectives for sustainable development. For example, there is a tension between corporate objectives designed to ensure the continuance of the business in the business' interest and sustainable development objectives designed to ensure the continuance of the public interest. This tension will have inevitable consequences for corporate reporting. Whereas corporate reports are currently designed to communicate the company's performance to its stakeholders, the purpose of corporate reports could, in future, extend to enabling policymakers to assess aggregate business impacts against agreed international targets.

A report by the Stockholm Environment Institute, The State of Corporate & Government Water Reporting in India, considers the alignment between corporate reporting frameworks, government reporting frameworks and the SDGs (Taherzadeh and West 2016). In particular, it examined the state of corporate and government water reporting in India in order to infer its readiness for enacting the water-related SDGs. The report finds 'acute misalignments and asymmetries within and between corporate and government frameworks used to monitor and report on several aspects of water sustainability' and concludes 'that existing mechanisms for water reporting in India are potentially ill-equipped for enacting and monitoring India's progress against the water-related SDGs.' The corporate reporting frameworks examined for the purposes of the report include GRI, CPD's Water Disclosure Framework and the CEO Water Mandate. One of the challenges identified by the report is improving the coverage within and alignment between the corporate frameworks used to monitor and report water sustainability within national measurement frameworks. Figure 1 from the report, replicated here as Figure 4.1, shows the divergence between corporate reporting frameworks, government reporting frameworks and the SDGs.

Figure 4.1: Levels of coverage of water sustainability dimensions within corporate and government reporting frameworks and within the water-related SDGs



Percentile levels of coverage derived from converting coverage scoring (0-3) for each framework within a reporting scale (corporate, government, SDGs) to fractions and corresponding percentages (0=0%, 1/3 = 33.3%, 2/3 = 66.6%, 3/3 = 100%), then averaging these across the number of frameworks analysed within a reporting scale to obtain an overall level of coverage at different levels across all water sustainability dimensions.

Source: The State of Corporate & Government Water Reporting in India (Taherzadeh and West 2016)

In the absence of a comprehensive map, the landscape is difficult to understand and navigate, particularly as discussions about it are multidisciplinary and contributors come from multiple perspectives.

In summary, Proposal 1: leveraging shared objectives makes the following suggestions:

1. Requirement developers should work together and with others to identify and articulate shared sustainability reporting objectives and how those shared objectives can translate into harmonised reporting requirements that support corporate and national and international governmental aims (including the SDGs)

2. Requirement developers should work towards alignment of reporting requirements that take account of the information that will be required from reporting organisations to support an assessment of their contribution towards sustainable development objectives

3. The individual and collective contribution that each requirement developer's work makes to shared sustainability objectives should be agreed and communicated (see Proposal 6, page 39)

4. The complementary activity that might be required to support reporting and sustainable development objectives should be identified – for example, activity to define the purpose of the corporation in a finite world and the relevance of context-based accounting.

Some supporting work is already in progress for Proposal 1. For example, the Corporate Reporting Dialogue (CRD) hosted by the IIRC potentially offers a platform for Proposal 1 to be explored and actioned.

4.3 PROPOSAL 2 – MAPPING THE LANDSCAPE AND AGREEING ITS COMPONENTS

To date the sustainability reporting landscape has not been comprehensively mapped and categorised. Exercises in mapping subject-matter specific parts of the landscape have been conducted. For example, Appendix 2 of the TCFD Phase 1 report lists selected reporting approaches that apply (directly or indirectly) to climate change. In the absence of a comprehensive map, however, the landscape is difficult to understand and navigate, particularly as discussions about it are multidisciplinary and contributors come from multiple perspectives. A business perspective identifies reputational and competitive advantage, an accountability perspective identifies the duty to account for privileged access to society's commons and a systems perspective identifies the link between indicators and the limits of the system as a whole.

Proposal 2 suggests that requirement developers and others should agree the scope of the sustainability reporting landscape, identifying what types of reporting it covers (eg accounting, financial, governance and risk), and whether – and if so to what extent – sustainability reporting needs to be mapped against the mainstream reporting model. New, agreed language is also required for describing the landscape and its components, accounting for the

THE CORPORATE REPORTING DIALOGUE (CRD)

The Corporate Reporting Dialogue (CRD) represents a meaningful response to market calls for alignment of corporate reporting frameworks, standards and related requirements and reduction in the reporting burden, by promoting proactive engagement between the key organisations. The principal aims of the CRD include:

- communicating the direction, content and future development of reporting frameworks, standards and related requirements
- identifying practical ways and means by which respective frameworks, standards and related requirements can be aligned and rationalised
- sharing information, and expressing a common voice on areas of mutual interest, where possible, to engage key regulators.

Participants: CDP, CDSB, FASB, GRI, IASB, IIRC, International Public Sector Accounting Standards Board (IPSASB), ISO, SASB.

Source: CDP et al. (2016). The above is taken from http://corporatereportingdialogue.com/

Although challenging, the identification of material information is crucial to successful and useful sustainability reporting.

perspectives of all stakeholders. Chapter 2 has proposed a system and language for understanding the components of the sustainability reporting landscape.

Supporting work is already in progress for Proposal 2: the WBCSD and CDSB are developing the Reporting Exchange, a pioneering collaborative knowledge platform which will help reporting organisations prepare sustainability information for voluntary and mainstream reporting purposes, and help business, investors, academics and other interested stakeholders navigate and understand the reporting landscape. The periodic *Carrots and Sticks* report published by GRI, KPMG and others also provides a good overview of the sustainability reporting landscape (GRI, KPMG et al. 2013).

4.4 PROPOSAL 3 – ADDRESSING TECHNICAL CHALLENGES AND SUPPORTING RELEVANT CURRENT ACTIVITY

While significant progress has been made in developing many aspects of sustainability reporting, there are certain technical issues that continue to present challenges. A comprehensive examination of the technical challenges is beyond the scope of this report, but some of the more widely recognised and generally applicable issues are considered here to illustrate the types of technical issue that need to be resolved to advance and bring order to sustainability reporting.

Materiality

An internet search using the term 'sustainability reporting materiality' will reveal hundreds of articles, reports and commentaries confirming that materiality is a complex topic for sustainability reporting. The UK FRC has publicly complained that corporate reports are full of 'immaterial clutter' that obscures important information and dilutes the usefulness of reports and this can be attributed in part to confusion about what should be regarded as material for sustainability reporting purposes (FRC 2014). In its Phase 1 report, the TCFD also concludes that the divergent range of approaches to climate and sustainability reporting reflects the lack of consensus around what constitutes a material climate risk, which has led to a corresponding lack of consistency, comparability, reliability, and clarity of the information provided (TCFD 2016).

The report *Identifying Natural Capital Risk and Materiality* (ACCA et al. 2013) examines many of the issues that make materiality a challenging issue for sustainability reporting. For example, multiple interpretations of the term are expounded by requirement developers, there is therefore no universally accepted meaning of the term 'material' and no standard approach to the identification of material information for sustainability reporting purposes. In March 2016, the CRD as part of its work to collborate on clarifying reporting concepts issued a statement that outlines the common principles in the CRD organisations' definitions of materiality (CRD 2016). Furthermore, the relationship between sustainability time horizons and materiality is difficult to determine. Given the time frames and institutional and economic systems within which businesses and investors operate and the absence of agreed planetary boundaries for reporting context, there is tension between an argument that environmental matters are not 'material' on any current financial measure of materiality and requests that companies report 'material' sustainability information.

The identification of material matters is increasingly determined through stakeholder engagement. In practice, where sustainability matters are concerned, everything is material to someone, which begs the question: from whose perspective should materiality be identified?

Although challenging, the identification of material information is crucial to successful and useful sustainability reporting. While the multiplicity of approaches to determining materiality prevails, it will remain difficult for preparers and users of sustainability reports to agree on the perfect balance of information – not too much and not too little. In response, SASB has put the pursuit of material sustainability indicators at the heart of its work, GRI has updated its approach to materiality in the G4 guidelines and WBCSD has a work stream dedicated to convening requirement developers for the purpose of agreeing joint positions and unified approaches to materiality.

Organisational boundaries

The particular way in which businesses and corporate structures are owned and organised means that groups of companies can take different approaches to the way in which they define the boundaries of their organisation. CDSB's proposals on organisational boundary setting provide a

The variety of approaches that can be taken to organisational boundary setting means that investors and other stakeholders have difficulty comparing information across companies and sectors.

detailed examination of the challenges involved and possible solutions for regularising the way in which the boundaries of organisational responsibility are determined (CDSB 2014). Briefly, in the absence of a single prescribed approach, it is possible for a group to provide sustainability information for entities over which it has financial control, or to provide information based on its equity share of the controlled entity, or to provide information only for operationally controlled companies, or to use a hybrid approach.

Multiple interpretations apply for the purposes of determining whether and to what extent reporting should include information about the activities of the parent company, its subsidiaries, joint ventures, associates, investees, suppliers and upstream and downstream activities. Those multiple interpretations reflect the way in which the 'boundary' of responsibility or accountability for sustainability impacts extends beyond reporting organisations themselves and activities over which they have control or ownership. As Figure 4.2 highlights, sustainability reporting potentially extends to impacts from the reporting organisation's activities that affect future generations over long time horizons, thus making it difficult to determine where the reporting boundary should be drawn.

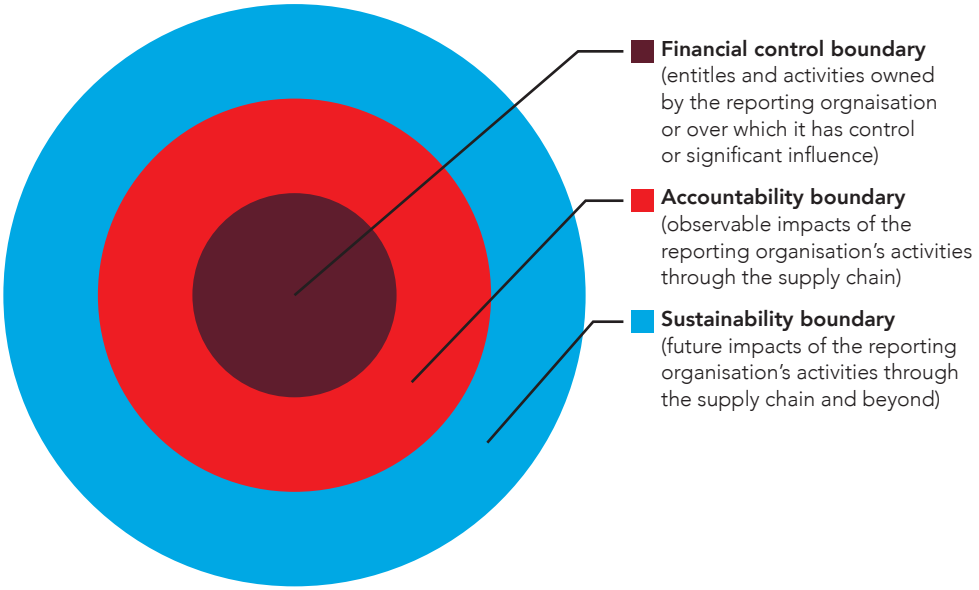
The variety of approaches that can be taken to organisational boundary setting means that investors and other stakeholders have difficulty comparing information across companies and sectors.

Language and characterisation

As some of the examples in Chapter 3 illustrate, although there is broad consensus about what companies should report in relation to sustainability, different requirement developers sometimes ask for that information using different language, thereby adding to the impression of duplication and confusion. Unlike financial reporting, the language of sustainability reporting has not been consolidated into a recognised lexicon. Multiple terms may therefore be used to describe the same phenomenon or output, but each term remains subject to interpretation in the absence of agreed definitions. The meaning of sustainability is itself the subject of debate. The use of words and terms with no clear meaning undermines the credibility of sustainability reporting.

The measurement and reporting of the so-called 'capitals' (see Figure 1.1, page 16) are new disciplines. Practices, theories, rules and methodologies for measuring and communicating the effects of business activity on the five 'capitals' are developing rapidly. During the development phase, new language is emerging to describe certain measures, outcomes and impacts related to the 'capitals'. The language is often neither standardised nor defined, and where definitions are provided they may be at variance with definitions of the same terms given by different organisations. As well as the absence of agreed language for describing aspects of natural capital, for example, there is no agreed approach to characterising the measures, outcomes and impacts that

Figure 4.2: Financial, accountability and sustainability boundaries



Explaining the alignment between requirements set by requirement developers could reduce confusion and clutter in the sustainability reporting landscape.

reporting seeks to communicate. In particular, it is not clear whether results, outcomes and impacts represent assets or liabilities or whether they equate more closely to their profit and loss financial equivalents. Furthermore, it is not clear whether the language and structure of financial reporting should be used as a precedent for characterising sustainability results and outcomes at all, or whether proposed new characterisations for capital assets and liabilities would be more appropriate and meaningful.

Proposal 3 encourages discussion and research designed specifically to address technical reporting challenges and to produce a common language, common definitions and common concepts for characterising sustainability results, outcomes and impacts. In addition to the technical challenges outlined above, research and action are needed to develop agreed approaches for creating forward-looking statements. These should be made for sustainability reporting purposes, deciding how the valuation implications of reported information should be interpreted, how sustainability information should be collected, measured, recorded, and verified or assured. Work is already in progress to examine some of these issues and there is an opportunity for others to engage in and support those activities.

4.5 PROPOSAL 4 – LINKING, ALIGNING AND RECIPROCATING

As noted in chapter 3, some requirement developers identify where the reporting requirements they set are similar to or aligned with those of other reporting schemes. For example, GRI and CDP identify the alignment and differences between GRI's indicators and CDP's climate change (CDP and GRI 2015a) and water (CDP and GRI 2015b) annual information requests. GRI also identifies where its guidelines are aligned with ISO standards (GRI and ISO 2014) and the UNGC's principles (GRI and UNGC 2013). CDSB (2015) has developed a table cross-referencing the principals and requirements of the CDSB Framework for reporting natural capital and environmental information with commonly used reporting provisions such as CDP, SASB, GRI, <IR> and the UNGC, and with regulatory requirements such as those outlined in the new EU Non-Financial Reporting Directive, the UK Companies Act (Strategic and Directors Report) Regulations 2013 and the French Grenelle II Act.

The CEO Water Mandate, Corporate Water Disclosure Guidelines (Pacific Institute et al. 2014) identifies that compliance with water regulations may be used as a proxy for understanding a company's approach to managing water resources. This approach, whereby activity undertaken or information reported to one party for a particular purpose may be treated as satisfying the requirements of another party, is an example of reciprocity.

Proposal 4 suggests that efforts to signal alignment between requirements set by requirement developers and their reciprocity of approach could significantly reduce confusion and clutter in the sustainability reporting landscape. As noted above, some organisations already adopt this approach and offer a precedent for more widespread linking and reciprocal reporting provisions.

4.6 PROPOSAL 5 – AGREEING STEWARDSHIP OF THE LANDSCAPE TERRITORY

Arguably, the development of corporate reporting is driven by the interaction between four interacting spheres of influence:

1. policy and governance
2. business (and public sector) activity
3. innovation and investment
4. society, consumers and environment.

Policy actors, governance activity, corporate activity, capital markets and consumers operate together to reinforce behaviours that support and advance the public interest and/or avert or respond to crises. This is illustrated in Figure 4.3 where the **red loop** illustrates the reporting requirements (in the form of standards, codes, etc.) that emerge from activity in the **black loop** supporting and replacing the objectives and implementation of governance, policy and other prescriptions.

As a 'by product' of their activities, corporations and others create positive and negative externalities. This is illustrated in the **blue loop**, which shows that the context in which companies operate and the externalities they produce force them to innovate if they are to continue to create value in the long term. Negative externalities affect consumer buying patterns or prompt regulators to legislate against certain effects (such as pollution). Innovation balances the effects of externalities, enhancing those that are

In the absence of an approach that communicates both unity and diversity, the actors in the landscape will continue to be seen as a collection of organisations apparently attempting to occupy and crowd the same space.

positive and minimising the negative. Innovation in turn demands investment and the support of capital markets as illustrated by the **pink loop**.

These loops or spheres of influence, all of which are interdependent, help to illustrate how the activities of requirement developers in developing reporting requirements and associated practices are distinct but also work together. TEEB, for example, seeks to identify, measure and value externalities. GRI seeks to encourage disclosures about the impacts of corporate activity on the environment and society. UNGC seeks to prompt responsible corporate behaviour that minimises negative externalities. PRI, CDP and Ceres seek to influence investment behaviour.

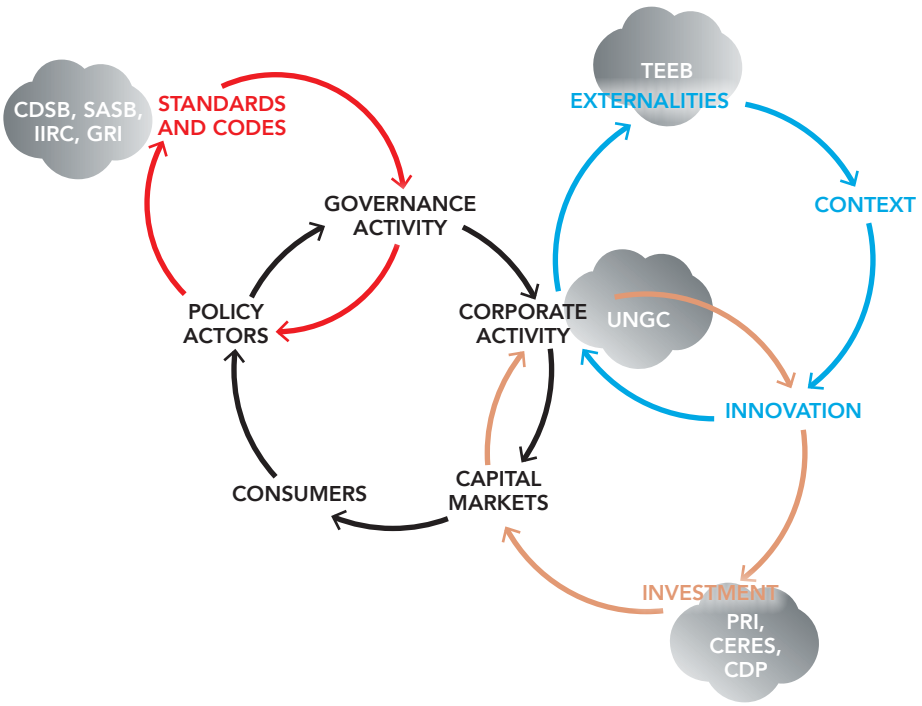
Proposal 5 suggests that bilateral and collective public agreements would reduce confusion in the sustainability reporting landscape. The proposal is designed not only to help delineate and distinguish the activities of the various actors here but also to articulate and illustrate how their particular focus contributes to the overall landscape. In the absence of an approach that communicates both unity and diversity, the actors in the landscape will continue to be seen as a collection of organisations apparently attempting to occupy and crowd the same space.

4.7 PROPOSAL 6 – PRODUCING A MODEL CONVENTION

As this report has shown, organisations differ in their motives for introducing reporting requirements, and have different perspectives, as well as differences in the format, content and origins of their requirements and the channels through which information is reported in response to these requirements. This results in considerable variation in the type of information reported by businesses as well as variation in the quality, quantity and placement of that information. Arguably, there is a lack of coherence in the implementation of transparency, which impedes the use of information by investors and others.

Nonetheless, this report has also shown that the general outcomes most requirement developers aim for when introducing reporting requirements are similar. Generally, corporate reporting schemes are linked to sustainable development outcomes and the desire for social, environmental and economic stability. The demand for information beyond that given in financial statements recognises that the assessment of corporate performance depends on access to details of how corporate activity affects the resources and relationships on which businesses, the economy, the environment and society depend for their continuance.

Figure 4.3: Spheres of influence on the reporting landscape



As sustainability reporting progresses, the landscape will flourish through the provision of vital, usable, actionable information that can be used by capital markets, governments and others to realise their sustainable development vision and goals.

In the same way that financial reporting approaches have been standardised as IFRS through the work of the IASB, we believe that an equivalent mechanism should be identified for the development of international sustainability reporting standards that are designed to support sustainability reporting through mainstream channels. The standards would explain what and how information should be reported to complement financial statements, in order to inform a more complete assessment of corporate performance. Complementary information could include, for example, details of a company's environmental risks (including GHG emissions, waste production, and water abstraction and use), its social performance and impact (including human rights and local communities, conditions of work and social protections). The absence of an institutional mechanism for the development of complementary reporting standards encourages fragmented approaches and impedes efforts to promote reporting coherence through convergence on shared reporting requirements, measurement approaches and policy objectives.

Proposal 6 therefore recommends development of an international 'model sustainability reporting convention' covering subject matter outside the scope of IFRS. The Corporate Sustainability Reporting Coalition has already called upon UN member states to commit to developing a convention on corporate sustainability reporting (CSRC 2012). The call to action was prompted in part by the Sustainable Stock Exchange (SSE) Initiative, which indicated that stock exchanges would welcome a global approach to consistent sustainability reporting. The model convention could enshrine agreed standard reporting requirements, measurement methodologies and terminology that reflect the highest common denominator of existing practice in order to promote policy coherence. The model convention would encourage reciprocity between reporting provisions so that compliance with one provision might be regarded as satisfying obligations under another provision where the objectives of both are compatible. The model convention could co-exist alongside national approaches and rely on or adopt existing established corporate reporting provisions and practices where appropriate.

Some activities that could inform the development of a model convention are already under way. For example, sector-specific initiatives by the oil and gas, cement, mining and metals industries have convened committees to agree common global approaches to climate change and sustainability reporting. Similarly, some regionally agreed reporting requirements have been formalised. There is an opportunity to learn from these and from cross-disciplinary activities, such as the negotiation of the OECD Model Tax Convention or the OECD's work on the international management of chemicals.

CONCLUSION

Some of the groundwork on sustainability reporting has been done. It forms a stable foundation on which to develop the objectives of sustainability reporting, technical reporting solutions, common language and metrics, the characterisation of resources and the criteria that corporate reports should satisfy to standardise reporting. As sustainability reporting progresses towards those goals, the landscape will flourish through the provision of vital, usable, actionable information that can be used by capital markets, governments and others to realise their sustainable development vision and goals.

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EA-SUSTAINABILITY-REPORTING-LANDSCAPE

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