The Reporting Exchange

Insights from the Reporting Exchange: **Corporate governance and harmonization**

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CDSB Climate Disclosure Standards Board

Introduction: the Reporting Exchange

In 2017, the World Business Council for Sustainable Development (WBCSD), in partnership with the Climate Disclosure Standards Board (CDSB) and Ecodesk, launched the Reporting Exchange. This free online platform was designed to help business navigate the often-confusing world of corporate reporting.

Compared to the development of financial reporting, the evolution of non-financial reporting has been rapid and fragmented. There are many regulations, reporting frameworks, guidance and tools which influence the corporate reporting process on environmental, social and governance issues (ESG). The resulting reporting landscape has been described in recent reports by the Business and Sustainable Development Commission[1] and ACCA[2], as complex, overwhelming and there have been calls for more harmonization and alignment.

What are the objectives of the Reporting Exchange?

The primary objective of the Reporting Exchange is to provide much-needed clarity to corporate report writers on what, where and how to report on sustainability issues while supporting clearer, more concise and better-informed reporting of sustainability information.

The Reporting Exchange summarizes and connects ESG reporting requirements and resources from across 60 countries and 70 sectors.

Better quality reporting practices can support better internal and external decision-making on sustainability-related risks and opportunities which, in turn, can influence capital allocations by investors – making more sustainable businesses, more successful.

The Reporting Exchange also provides the evidence base to help drive action towards a more harmonized, aligned and effective corporate reporting environment. The platform maps sustainability reporting provisions across the world's largest economies, showing how and where they link and align.

The Reporting Exchange has also been designed as an open and collaborative space for the many people and organizations active in corporate reporting. It allows the latest developments, insights and good practices to be easily shared across geographic borders and sectoral boundaries which may help accelerate harmonization and alignment of corporate ESG at a global scale.

This paper is part of a series that expands on the research and data insights that led to the Reporting Exchange.

While collating the provisions that are part of the Reporting Exchange, we looked for patterns and trends across countries, sectors and provisions. One of the most evident similarities we came across was among corporate governance codes. This paper focuses on these codes, measures their similarity and assesses the influence of the G20/OECD Principles and the Cadbury Report to better understand the processes at play in this example of corporate governance harmony.

Alignment and opportunities for harmonization

The first paper in the *Insights from the Reporting Exchange* series highlighted an exponential increase in the number of reporting provisions and the complexity that has created in sustainability reporting. The conclusion that emerged was a clear need for further work on alignment and harmonization.

To facilitate this work, we started looking for forms of harmonization in the sustainability landscape by exploring specific types of reporting on the platform.

In this paper, we use the concept of harmonization in reporting to describe the development of better alignment in reporting components, terminologies and methods, and not the development of a single reporting provision. The paper highlights some of the examples of alignment, with the goal of understanding the potential drivers behind this alignment and suggest the lessons that could be applied to other fields.

Environmental impact assessments

The first example of alignment across reporting regulations includes environmental impact assessments. Regulations that mandate environmental impact assessments were identified in 51 of the 60 countries that make up the Reporting Exchange.

These assessments and reports are, for the most part, carried out before major works of construction or development take place. They are then delivered to regulators and other authorities to ensure transparent, informed and accountable decision-making towards protecting the environment.

The research shows that the requirements on environmental impact reporting show alignment around the procedural components of the assessments, report writing, scope and timeframe across 51 countries. This commonality was in part fostered by international principles and rulings, such as:

- The UN Environment Programme's (UNEP) Goals and Principles of Environmental Impact Assessment[3], which set an international standard for process and output.
- The Environmental Impact Assessment (2011/92/EU) and Strategic Environmental Assessment (2001/42/EC) Directives, which have been transposed into national law of Member States, producing alignment across the European Union (EU).

There were also a few elements that differentiated the 51 reporting requirements studied. For example, applicability in terms of activity, construction or industry varied. The inclusion of public consultation in the processes of the assessment was also a key point of divergence.

Nonetheless, we found global acknowledgment of the potential conflict between development of the built environment and preserving the surrounding natural environment. This is a key principle of sustainability – many see business as responsible for maintaining this balance.

Workplace accidents and illness

The research also showed alignment in the reporting requirements on workplace accidents, illness and death across 42 of the 60 countries available on the Reporting Exchange.

There are clear commonalities in the indicators that regulators have used in specific qualitative and quantitative reporting requirements. Take the Bilan Social in France and the OSHA Form 300A in the United States, for example. Both summarize annual work-related injuries and illnesses and use very similar indicators. Differences across these two appear only when it comes to mandating whether companies should report on the cause of the injuries and illness or on the types of injuries and illness.

There's also alignment between indicators on the Chinese Regulation on the Reporting, Investigation and Disposition of Work Safety Accidents and the OSHA Form 301 in the United States, both of which refer to single incidents. Over 70% of the indicators from the Chinese regulation are the same as those included in the OSHA Form 301. These are only two of the many examples that display alignment, but **they can be an interesting starting point for discussions about how health, safety and labor rights are regulated across different jurisdictions.**

Corporate governance codes

Corporate governance codes are designed to encourage high standards in the mechanisms and processes that guide business governance and management. These codes are mostly voluntary and offer recommendations of best practice rather than mandating specific methods. This allows companies to implement the suggested systems based on their specific circumstances.

Our research identified corporate governance codes in 52 of the 60 countries included on the Reporting Exchange. These codes have been issued by a mix of regulators, stock exchanges, business associations and standard setters, with some jurisdictions having multiple governance codes issued by different organizations. Nonetheless, we found that **the governance subject topics included in their recommendations and principles are well aligned with each other.**

> *"The global coverage of corporate governance codes appears to highlight a widespread understanding of the need for good governance for a prosperous economy and society."*

A closer look at corporate governance

Through the Reporting Exchange, we analyzed different aspects of corporate governance codes from 52 countries, focusing in on the governance subject matter they cover.

We found that corporate governance codes are produced most commonly by regulators (44%), and can take different forms - as either codes, regulations, principles, guidance or listing rules. 46% of the studied corporate governance codes use a comply or explain approach that requires companies to disclose how they follow principles or recommendations in the provisions or explain why they have not. This provides flexibility, allowing the codes to be adapted to individual circumstances.

The main area of similarity among the 52 governance codes is the subject matter and the principles they cover. This alignment across numerous jurisdictions indicates pronounced harmonization because it is the subject matter, not the name or author, that denotes the substance of a provision. The Reporting Exchange shows that most corporate governance codes reference 70% or more of the governance subject topics.

As shown in Figure 1, the strongest alignment was found in the following subject areas:

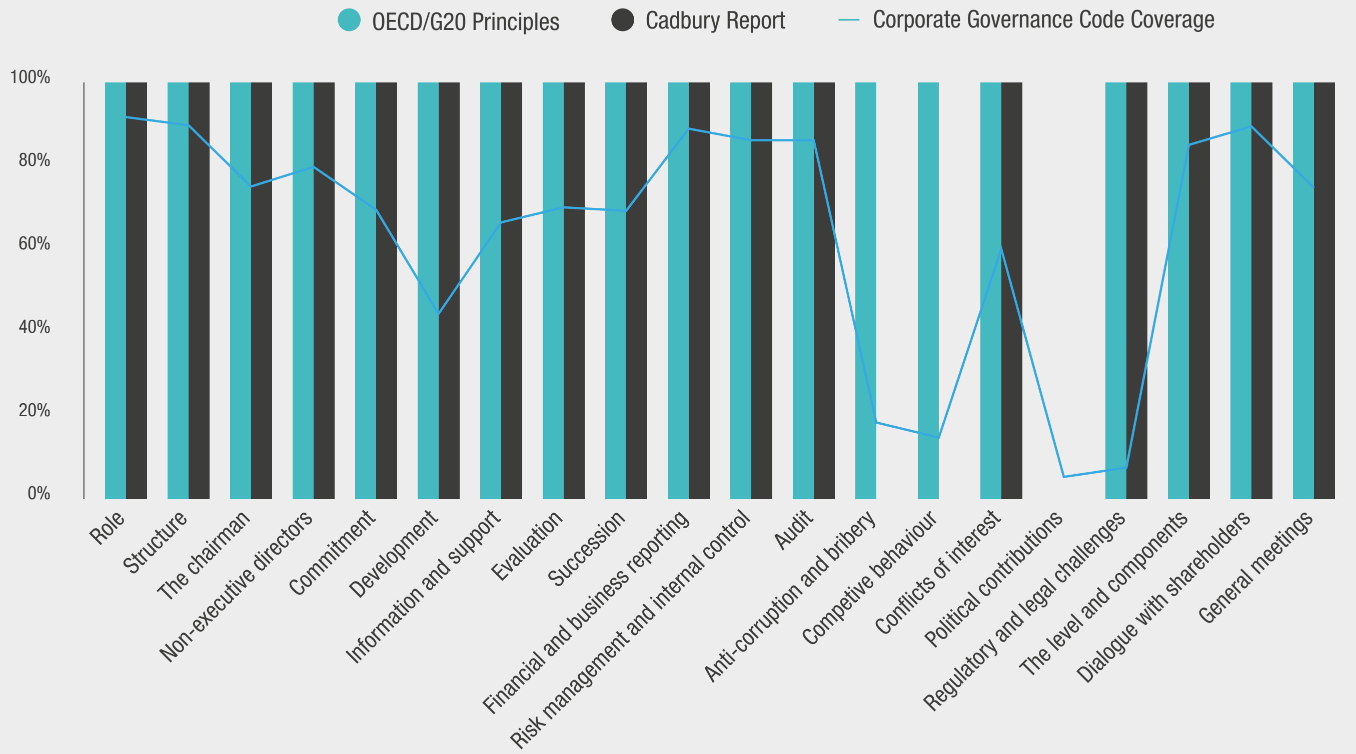
- **Risk management and internal control** was applied to 87% of the 52 corporate governance codes;
- **Corporate leadership and remuneratio**n subjects were included in over 80% of cases; and
- **Dialogue with shareholders** was a subject covered in 90% of studied codes.

The most inconsistently applied subjects were those associated with accountability, which relates to the measures or actions taken by companies to ensure transparency and build trust. For instance, the principles and rules for businesses to follow on political contributions were included in just three of the 52 codes studied (Figure 1). This inconsistency could be partly the result of rulings on these topics being mandated elsewhere in national legislation. For example, the UK Corporate Governance Code does not include political contributions in its principles, as this is regulated by the Large and Medium-sized Companies and Groups Regulations.

International alignment

There's also alignment and consistency between specific international codes and the 52 national codes analyzed. For instance, the G20/OECD Corporate Governance Principles and the ICGN's Global Governance Principles are two of the major contributors, as the principles of most of the codes in analysis reflect these international provisions. These two international provisions also mirror the ambition of the previously noted UNEP Goals and Principles of Environmental Impact Assessment, showing the widespread aim of convergence in the global corporate reporting landscape.

Figure 1 Percentage of the 52 corporate governance codes in which the governance subjects are included, with bars indicating which subjects are included in the OECD/G20 Principles and the Cadbury Report.



This analysis points us towards an understanding of the impact that authoritative bodies, such as the OECD, the International Monetary Fund (IMF) and the World Bank, can have on the harmonization of corporate ESG disclosure.

All three organizations have issued principles on corporate governance, and around **a third of the 52 studied corporate governance codes directly reference the G20/OECD Corporate Governance Principles.**

Others appear to be have been inspired by one or more these codes, then adapted to reflect differing socio-economic circumstance. **The result is a broad but shared set of corporate governance principles that provide us with an example of how to move towards greater coherence in corporate reporting.**

On average, the **governance subjects** of the G20/OECD Corporate Governance Principles are included in **around 70% of the corporate governance codes studied** (Figure 1).

However, there is a lack of alignment between the G20/OECD Corporate Governance Principles and the 52 global codes on the subjects of anti-corruption and bribery, competitive behavior, and regulatory and legal challenges (Figure 1). Disclosure on these subjects is required in less than 20% of the corporate governance codes studied.

It may be that these topics, like the previously noted issue of political contributions, are included in other reporting provisions for companies to follow. For example, the [Non-Financial Reporting Directive], which has into national legislation across the EU, requires large and public interest companies to disclose in their annual report the actions to fight corruption and bribery. This regulation of anti-corruption and bribery disclosure means that there is less necessity for the governance codes of the Member States of the EU to codify such action.

Knowledge sharing for greater alignment

There are historical roots for global alignment, arising from developments over the past decades in the UK.

In reaction to several high-profile corporate collapses in the early 1990s, the London Stock Exchange and the Financial Reporting Council (FRC) convened the Cadbury Committee to investigate corporate governance systems within the UK. The aim of the Committee was to improve the UK's corporate governance and restore public trust in business and the market. The resulting Cadbury Report[4], which was published in 1992, outlined a series of recommendations that led to reform of the British corporate governance system and the development of the UK Corporate Governance Code.

Comparing the governance subjects recommended by the Cadbury Report with the corporate governance codes from across the 60 countries, a strong 77% alignment was found (Figure 1). The Cadbury Report introduced the concept of comply or explain, which, as shown earlier, has been highly influential in ensuring the effectiveness of corporate governance codes around the world.
The codification of the Cadbury Report's recommendations inspired similar committees, such as the King Code in South Africa (1994) and Peters Report in the Netherlands (1997), in the development of their principles.
This suggests that certain publications or regulations produced in response to national circumstances may become landmark policy if effectively supported.

As of January 2018, the FRC is undertaking a review of the UK Corporate Governance Code to reflect the growing demands of corporate governance with respect to accelerating technological change, stakeholder engagement and diversity. This review could include the integration of sustainability throughout the code and a consideration of directors' duties in the reporting of sustainability information.
Proposals such as these would represent another step forward in our understanding of good corporate governance by the FRC.

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With the support of international organizations such as the OECD, G20 and IMF, **the UK example was the starting point towards an aligned, global and evolving corporate governance standard for businesses to flourish more sustainably.**
As such, it appears that both mechanisms have influenced the harmonization of corporate governance. If the current review does lead to the greater integration of sustainability into corporate governance, it might again require the backing of influential international organizations and bilateral knowledge sharing to ensure the wider evolution of governance.

Steps forward

The most recent example of a major provision within the field of sustainability is Article 173 of the French Energy Transition Law for Green Growth, which is influencing the development of various international reporting practices.

The Law requires listed companies to disclose their financial risks associated with the effects of climate change and the actions they're taking to mitigate such risks.

In addition, **Article 173 requires institutional investors to disclose the ESG criteria used in investment decisions** and how their investment policies align with national ambitions of ecological and energy transition.

There are ongoing discussions about the potential for EU-wide implementation of Article 173[5] and the tenants of the Law are echoed in the influential Financial Stability Board with their Task Force for Climate-related Financial Disclosures (TCFD) Recommendations. **Article 173 is working towards greater harmony between state and business policy, which - with the support of the TCFD and the EU - could produce significant improvements in corporate climate action.**

Another important development is the UK's Modern Slavery Act. This provision, introduced in 2015, requires companies who meet defined conditions related to turnover to produce an annual statement that discloses the actions taken to ensure no modern slavery is present in their business or supply chains.

This reporting requirement has inspired an Australian version of the law, Modern Slavery in Supply Chain Reporting Requirement, which, as of January 2018, is under public consultation.

The consultation paper specifically states that "the Australian reporting requirement will require entities to report against substantially the same criteria set by the UK reporting requirement"[6]. The proposed Australian provision is also aligned with the British Act in its requirement for the statement to be approved at board-level and signed by the company's director. While the penalties for non-compliance differ between the two provisions, the substance and structure of the disclosures are in alignment.

A space for further discussion

The Reporting Exchange can provide the evidence base to ensure the development of corporate reporting provisions that are effective and consistent among different countries.

Convergence in global requirements is essential for developing good practices and ensuring comparability of information across jurisdictions. Lack of comparability obscures transparency and understanding for shareholders and investors. Inconsistent reporting requirements also create an additional burden on international corporations, making it hard to comply with different requirements.

The Reporting Exchange allows a wide community of experts to share their experiences, insights and best practice, creating a system for feedback and learning. We hope that the Reporting Exchange and its dynamic community will contribute to taking corporate reporting further, driving the harmonization that the issues of sustainability require.

Appendix

The Reporting Exchange country coverage

Argentina	Honduras	Portugal
Australia	Hong Kong	Romania
Austria	Hungary	Russia
Belgium	India	Singapore
Bolivia	Indonesia	Slovakia
Brazil	Ireland	South Africa
Canada	Israel	South Korea
Chile	Italy	Spain
China	Japan	Sweden
Colombia	Kazakhstan	Switzerland
Costa Rica	Luxembourg	Taiwan
Croatia	Malaysia	Thailand
Czech Republic	Mexico	Turkey
Denmark	Netherlands	Ukraine
Ecuador	New Zealand	United Kingdom
El Salvador	Nigeria	United States
Finland	Norway	Uruguay
France	Panama	Vietnam
Germany	Peru	
Greece	Philippines	
Guatemala	Poland	

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Glossary

Conditions: Conditions that influence the applicability, relevance and obligation of provisions.

Channel: Channel refers to the route of disclosure and the communication of published information.

- Mainstream report: Annual reporting packages which organizations are required to deliver under the corporate, compliance or securities laws of the country in which they operate, providing information to existing and prospective investors about the financial position and performance of the organization.
- Integrated report: An integrated report explains to providers of financial capital how an organization creates value over time. An integrated report aims to provide insight about the resources and relationships used and affected by an organization – these are collectively referred to as "the capitals."
- Sustainability report: A report published by a company or organization about the environmental and social impacts caused by its everyday activities, communicating sustainability performance and impacts.
- Specialist system: Allow companies to disclose information through online response systems, questionnaires, forms often directly to a given organization or authority.

Content: Content refers to the type of information requested in reporting requirements. Clear content elements set out what a reporting organization should report.

Characteristics: Characteristics identify some of different ways reporting provisions introduce and describe disclosure requirements. Some provide high level thematic requirements to disclose, while others introduce and define specific indicators and accounting metrics, with descriptions, providing further clarity on definitions, scope, accounting, compilation and presentation

Obligation

- Mandatory: A mandatory provision imposes an obligation on the organizations within its scope to report or respond.
- Comply or Explain: Comply or Explain requires companies to comply with requirements or explain why they have not done so.
- Voluntary: Voluntary provisions have no defined obligation but are often more detailed, providing opportunities for innovation.

Provision type and sub-type: Provision types include requirements, reporting resources and management resources. Sub-types include regulation, standards, codes, principles, tools and guidance that set out what an organization should prepare, present and report information or manage sustainability matters.

Reporting landscape: The landscape is made up of individual organizations and infrastructure in the form of legislation, standards, frameworks, codes, principles, guidance, tools and methodologies, as reporting provisions that introduce requirements or support the disclosure of sustainability and non-financial information.

Reporting provisions: Requirements or resources that directly or indirectly influence the reporting of sustainability/non-financial information. Provisions are included on the Reporting Exchange to the extent that they are introduced, interpreted or developed to include or support sustainability reporting and non-financial disclosure requirements.

About the World Business Council for Sustainable Development (WBCSD)

WBCSD is a global, CEO-led organization of over 200 leading businesses working together to accelerate the transition to a sustainable world. We help make our member companies more successful and sustainable by focusing on the maximum positive impact for shareholders, the environment and societies.

Our member companies come from all business sectors and all major economies, representing combined revenues of more than $8.5 trillion and 19 million employees. Our global network of almost 70 national business councils gives our members unparalleled reach across the globe.

WBCSD is uniquely positioned to work with member companies along and across value chains to deliver impactful business solutions to the most challenging sustainability issues.

Together, we are the leading voice of business for sustainability: united by our vision of a world where more than 9 billion people are all living well and within the boundaries of our planet, by 2050.
www.wbcsd.org

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About the Climate Disclosure Standards Board (CDSB)

The Climate Disclosure Standards Board (CDSB) is an international consortium of business and environmental NGOs committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. Recognizing that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds trust and transparency needed to foster resilient capital markets.

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