UNCTAD-ISAR Consultative Group on SDGs Reporting – CDSB Consultation Response

24 July 2017

The Climate Disclosure Standards Board (CDSB) welcomes the opportunity to offer our written response to the draft issues paper for the 34th session of ISAR title "*Enhancing comparability of sustainability reporting: Selection of core indicators for company reporting on the contribution towards the attainment of the Sustainable Development Goals*" (the **Issues Paper**) and accompanying draft metadata guidance on SDG indicator 12.6.1 (the **Draft Guidance**).

CDSB is an international consortium of nine 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 and climate information (the CDSB Framework) with the same rigour as financial information.

In turn, this helps companies to provide investors with decision-useful environmental and climate information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials. Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets. Collectively, we aim to contribute to more sustainable economic, social and environmental systems.

Please find our comments below and feel free to get in touch with us if we can be of further assistance. We look forward to seeing the next iteration and would once more welcome the opportunity to provide you with our technical inputs.

Best wishes,

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Comments on the Draft Guidance

We welcomed the inclusion of the Draft Guidance on indicator 12.6.1 and believe this is an essential step in helping end users of the guidance report on indicator 12.6.1.

As a preliminary comment, it would be helpful for the Draft Guidance to state at the beginning who it targets and aims to support. Is the guidance aimed at company or country level? Paragraphs 8, 9 and 11 seem to suggest that it is directed at the country level. We will address this point further in our comments on the Issues Paper.

Under the second section entitled "Definition and method of computation," it might be beneficial to include clearer definitions for the term 'companies' and for the phrase 'sustainability report'. The terms company and organisation appear to be used interchangeably in the Draft Guidance. Moreover, the Issues Paper refers to both core indicators for *company* reporting and *enterprise* reporting on the Sustainable Development Goals (SDGs). The two terms also need to be made consistent for clarity purposes.

In the context of defining 'sustainability report', you may wish to combine paragraphs 4 and 6. The reference to sustainability reports as being both a stand-alone document or integrated within an organisation's annual report could be clarified to avoid confusion. You may also wish to make the distinction here with integrated reports, a third vehicle for company reporting of sustainability information. *Prima facie*, the wording of indicator 12.6.1 implies that sustainability reports are the vehicle for company reporting of sustainability information. This appears counter to paragraph 4 of the 9 August 2016 Note by the UNCTAD Secretariat on "*Enhancing the role of reporting in attaining the Sustainable Development Goals: Integration of environmental, social and governance information into company reporting"* *(*TD/B/C.II/ISAR/78), which acknowledges "the growing number of sustainability reporting instruments".

We also suggest your guidance on the definition of sustainability reports draws on the language of integrating sustainability report**<u>ing</u>** into the company reporting cycle in the target above this indicator, as the term "sustainability report" is most commonly used for the standalone sustainability report that companies publish, which is not the meaning that is intended here.

This definition guidance could also explain meant by the word publishing in Indicator 12.6.1. Do you simply mean that which is made available in the public domain?

In paragraph 4, the emphasis is very much economic-focused (i.e. understanding the company's contribution to the sustainable global economy), but should be explicitly aligned to the SDGs and its three underlying <u>dimensions</u>, notably the environment, economic and social dimensions of sustainable development, as explicitly articulated in the 25 September 2015 UN General Assembly Resolution: *Transforming our world: the 2030 Agenda for Sustainable Development.*

Moreover, the Draft Guidance could be strengthened to show greater alignment between Indicator 12.6.1 (No. of companies publishing sustainability reports) and Target 12.6 (i.e. to encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability into their reporting cycle). The Draft Guidance should also explain and how this can lead to making greater progress

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on Goal 12 by countries, particularly the production aspect of the goal (i.e. ensure sustainable consumption and production patterns). Given Target 12.6's emphasis on large and transnational companies, some additional guidance in this regard, as well as clarity on what is meant by 'large' could prove beneficial.

In terms of further references for the Draft Guidance, we also wish to draw your attention to the 2016 ACCA-CDSB Joint Publication, *Mapping the Sustainability Reporting Landscape: Lost in the Right Direction*, (See: http://www.accaglobal.com/gb/en/technical-activities/technical-resources-search/2016/may/mapping-sustainability-reporting-landscape.html). This report analyses the current state of play and proposes terminology, tools and approaches for charting routes through the landscape. It concludes that a centralised "home" is needed to coordinate and the align various sustainability reporting provisions. This could be a useful resource to include in the Draft Guidance.

Comments on the Issues Paper

Corporate country-by-country reporting

UNCTAD/ISAR appears to suggest corporate data is to be provided country-by-country. See the Introduction to the Issues Paper (see Section I, para. 5): "UNCTAD-ISAR has been working on a metadata guidance for indicator 12.6.1, so that countries have more clarity on criteria and methods for collecting data that can be useful towards measuring their contribution towards the Goals in a comparable and consistent manner."

It could be that this guidance is not for corporates but for statutory reporting for the individual legal company to the local authorities; however, this is unclear. One should in that case consider that a demand for non-financial reporting for individual legal companies instead of the corporates may conflict with national statement acts, which often give companies the possibility simply to refer to the consolidated corporate non-financial reporting. Country-by-country reporting has the potential to be an administrative burden for corporates.

The UN Statistics Division, who we understand are represented at the working group, already have statistical country-by-country data for the SDG-tracking and have established a database with indicators with data stemming directly from the national statistical offices (see: http://unstats.un.org/sdgs). They already do provide development reports; thus, we should assume data is fine?

Therefore, there should be no need for further country-by-country reporting from the corporates. What this suggestion for core indicators should be doing is to assist the corporates to make comparative SDG-reporting, whereby the investors can use the reporting to determine, which corporate that is doing the best, enabling them to make sound investment-decisions.

If country-by-country reporting for the corporates is suggested, it will often be quite expensive and problematic – if not impossible – to produce for the corporations. Moreover, most often the data-split will be quite arbitrary, which limits its usability. Think about how large multinational corporations often works with centralized service centers, centralized procurement-functions, have lots of internal trading, which must be eliminated before consolidation to corporate data, etc. Country-by-country reporting makes even less sense, if the corporate is doing business with cross-border activities; such as shipping, trucking, flights,

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jack-up-rigs, etc. International Financial Reporting Standard (IFRS) 8 demands geographical split of revenue and certain assets – and it does not provide comparable reporting as the rules for geographical splits are not defined – thus, there are as many split-rules, as there are corporates. That is also costly and not of value.

We suggest revisiting the indicators to ascertain which are driven by a desire to make country-by-country reporting. For example, the following paragraph presupposes country-by-country reporting, and could be removed, as country-by-country GHG is especially impossible to report for cross-border activities:

- 53. *The selection of appropriate boundaries is essential to the validity of data from enterprise reporting compiled by national statistical offices for the purposes of country-level reporting on GHG. The United Nations Framework Convention on Climate Change (UNFCCC) provides reporting guidelines, including the full list of GHG and other criteria for data compilation by parties to the Climate Change Convention*.

UNCTAD/ISAR also refers to 2016 analysis of indicators that the 100 largest listed corporates already report on. We must assume the corporates have defined them as material (See Annex 1 in the 2016 paper). In the Issues Paper, UNCTAD/ISAR have added a range of indicators, and it is unclear why these were added and others not. This requires further clarification.

Possible reporting frameworks to be taken account in preparing guidance on these core indicators

The **CDSB framework** (http://www.cdsb.net/what-we-do/reporting-frameworks/environmental-information-natural-capital) sets out an approach for reporting environmental information in mainstream reports which may be useful guidance to be taken in account when preparing guidance on these core indicators. It helps companies to prepare and present environmental information in mainstream reports that is clear, concise and comparable and connects the company's environmental performance with its overall strategy, performance and prospects. It does not prescribe indicators, but embraces the concepts of materiality.

Under the first CDSB Framework Requirement (REQ-01) on Management's environmental policies, strategies and target, we require that "Disclosures shall report management's environmental policies, strategy and targets, including the indicators, plans and timelines used to assess performance". In the context of targets and indicators, we state that "Information about the targets, timelines and key performance indicators against which delivery of environmental strategy and policies should include...whether and to what extent targets are informed by external parameters, for example, the UN Millennium Development Goals (and their successor [i.e. the Sustainable Development Goals], etc.)

Next steps in translating the core indicators list into useful guidance for policy-makers, and use of global forums to contribute to SDG reporting and consensus-building on core indicators

Within the Issues Paper, there could be flexibility built in to allow for different capacities. For example, is it possible to use core indicators which can then be expanded upon or tailored to meet the specific country context and capacities?

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We see global forums, such as ISAR, as providing a further opportunity for promoting consistency, coherence and harmonisation in SDG reporting (see *Lost in the right direction*, ACCA&CDSB, 2017). In the spirit of harmonisation, building consensus on and selecting a set of core indicators for company reporting on the SDGs could also take into consideration the final recommendations report of the G20 Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), released last month, and the EU Non-Financial Reporting Directive (2014/95/EU) (NFRD). Both TCFD and NFRD are key policy developments and have the potential to be significant drivers of a change in reporting practice at both the country and company levels.

TCFD refers to starting with qualitative narratives or storylines in the absence of information and building capacities and good reporting practices over time. This suggestion is also consistent with Section I, para 5 of the Draft Note which acknowledges that "contextual or narrative information might enhance [metrics/indicators] usefulness for stakeholders". TCFD also includes an adoption code recognising that reporting practice and uptake will evolve over time. This is something which you may wish to integrate into your guidance.

We also note that one of the desired functions of the core set of indicators is "providing a baseline framework for integrating financial and sustainability information". The 9 August 2016 background document, paragraph 6, refers to ISAR's reiteration of the "need for reliable and comparable reporting by enterprises of the financial and non-financial aspects of their performance and the integration of sustainability information into reporting cycles". We wish to point out that the TCFD recommendations share a similar objective of linking financial and non-financial information (note in the case of the TCFD this is principally on climate-related information; however, this linking concept could easily extend more broadly to natural capital, i.e. the E in ESG, as well as other forms of capital such as social as covered by the core set of indicators).

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