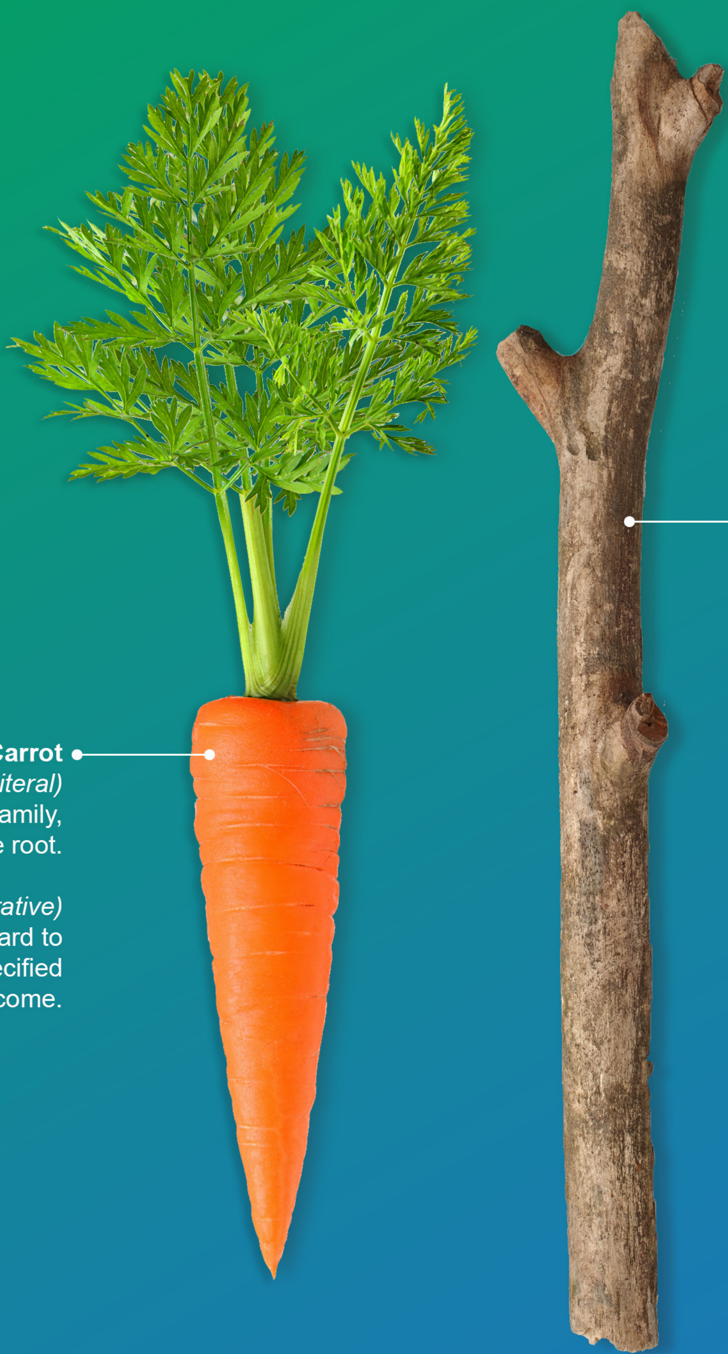
Carrots & Sticks

SUSTAINABILITY REPORTING POLICY:
Global trends in disclosure as the ESG agenda goes mainstream



Carrot
[noun] (literal)
A plant of the parsley family, valued for its edible root.

[noun] (figurative)
An incentive or reward to encourage a specified outcome.

Stick
[noun] (literal)
A tree branch that has been cut or broken off.

[noun] (figurative)
A punishment or penalty, used to induce cooperation.

GRI
USB University of Stellenbosch Business School
Responsible leaders. We shape them.

Supported by:
Sweden Sverige

With contribution and support from:
UN environment programme

Foreword

The year 2020 will be remembered for COVID-19, a pandemic that put public health infrastructure and public education on centre stage. The lockdown of economies furthermore illustrated an alternative scenario of what could be, for example a world in which greenhouse gas emissions fell drastically and where distant beacons on the horizon could be seen with a clarity long forgotten. This stimulated new debate on what climate-friendly economies and sustainable business could look like.

2020 is also a milestone in the 2030 Agenda of the United Nations. Its Sustainable Development Goals (SDGs) have raised new expectations of what work remains to be done. They have also gained prominence among business actors, who rely on markets being informed adequately, timely and strategically. However as signaled through the periodic Carrots & Sticks (C&S) reviews on sustainability disclosure requirements over the last fifteen years, there is justifiably frustration with information overload and the quality of information reported by organizations.

Inevitably headline events will continue to influence what is perceived to be most relevant to report on. Our 5th edition of C&S among others highlights that reference to the topics of health and education, i.e. SDG3 and SDG4, has been scarce in reporting provisions of the last decade. This may very well change after 2020. C&S in 2020 also signals maturation of reporting practice, the saturation of reporting requirements, and a growing interest in alignment of reporting standards and norms. Policies mandating reporting will increasingly be challenged to shape the landscape of decision useful information on Environmental, Social, and Governance (ESG) matters.

Our latest stock-taking shows the growing prominence of mandatory disclosure requirements, ones introduced by regulatory and self-regulatory actors in the public and market sphere. This raises questions of alignment and harmonization, as illustrated by the upcoming revision of the Non-Financial Reporting (NFR) Directive of the European Union. Ensuring timely and mandatory disclosure of decision useful and accountable information by companies and other reporting organizations is essential, in view of the global challenges we are facing, and should be driven by conscious policy decisions and inform national strategies.

C&S in 2020 provides an update on reporting provisions in an expanded range of countries, as well as feedback from some prominent policy actors in different parts of the world. The commentaries from interviewees add insight in weighing the impact of disclosure requirements, their ability to drive the reporting of reliable and comparable information, and the provision of relevant information in public decision-making.

We are excited by the publication of this new edition, with the support of our project partners and associates – notably the UN Environment Programme and the WBCSD's Reporting Exchange. We highlight our continued commitment to quality sustainability disclosure and reporting systems. We hope C&S will once again motivate and inspire everyone involved in sustainability reporting, and we hope to hear from you.

Peter Paul van de Wijs
Chief External Affairs Officer
Global Reporting Initiative

Cornis van der Lugt
Senior Lecturer Extraordinaire
University of Stellenbosch Business School

Table of contents

Foreword 2
Executive summary 4
Note on new methodology and terminology 5
Introduction 7
The SDGs as a key driver and reference in policy 9
    The Sustainable Development Goals 9
    The SDGs as a framework for policy 11
Enhancing corporate sustainability reporting in Latin America – focus on Colombia 12
Leading issuers and provision types 13
    Governments and financial market regulators drive the agenda 13
    New public laws and regulations issued by governments 14
    Voluntary requirements drive innovation and standardization 14
Regional specifics in approaches 16
    Europe dominates the agenda 16
    Mandatory versus voluntary requirements in the Americas 18
    Asia as an up-and-coming space 18
    Comply or explain approaches surge 19
    Approaches to assurance and the quality of information 19
Elements of policy supporting reporting uptake 21
Target organizations and sectors 22
    Large and listed companies are dominant targets 22
    Growth in sector-specific approaches 22
Pointers towards ideal policy 24
Key disclosure themes 25
    Coverage of environmental, social, governance and economic topics 25
    The climate agenda dominates 25
    Human rights and labor 26
    Governance and anti-corruption 26
    Business models and indirect impact through supply chains 28
Where and how to disclose decision useful information 29
    Growing interest in decision useful data 29
    Where to disclose data 30
    Demand driven by aggregators, raters and investors 31
Conclusion 33
About the project partners 34
Disclaimer 35
Acknowledgements 36

Executive summary

The 2020 edition of *Carrots & Sticks (C&S)* assesses the regulatory landscape of non-financial and sustainability reporting. It tracks global trends in what is required of reporters. Since the last edition of *C&S* the non-financial disclosure policy domain has expanded and deepened in terms of the type of information required to be reported. Our analysis for this edition includes over 600 reporting provisions, a substantial step up from 383 analyzed in 2016. We also interviewed policymakers to gather their views on disclosure provisions, possible market saturation, and ways to progressively develop better policies.

The Sustainable Development Goals (SDGs) have gained prominence, yet explicit reference to SDGs in disclosure requirements remains limited. Our interviews suggest that the SDGs have become a global framework, which no doubt influences policy development, despite foregoing explicit references in policy documents. The headline themes of SDG 12 on responsible production and consumption, SDG 16 on inclusive societies and accountable institutions, as well as SDG 8 on decent work and economic growth stand out as most often addressed in reporting provisions. Few provisions provide for business disclosure on SDGs 3-4, linked to health and education, although the COVID-19 pandemic may change this.

Governments and financial regulators remain the most active in issuing reporting requirements and guidance (reporting provisions), followed by stock exchanges and industry bodies. New regulatory requirements have been issued, both voluntary and mandatory, with sharpened focus on human rights, work and climate change. Voluntary codes and guidance continue to drive innovation. In parallel, there has been a push for stricter requirements for mandatory reporting to advance reliable and comparable disclosure in more developed markets.

Europe still dominates the sustainability disclosure agenda while Asia is an active up-and-comer. The biggest discrepancy in voluntary versus mandatory approaches can be seen between North and South America, where North America has the highest proportion of mandatory reporting requirements. Meanwhile, hybrid or ‘comply or explain’ approaches are seen worldwide.

Large and listed companies are still the main targets of reporting provisions. Sector specific approaches are becoming more common, with financial services and heavy industries the most targeted.

The ESG&E (environmental, social, governance, & economic and general) agenda continues to provide an evolving set of potentially material topics. Climate change, human rights, labor and anti-corruption are dominant themes among disclosure requirements. In the category of economic & general, the themes of trade, business models and supply chains receive high interest. Indirect economic impact, including themes such as infrastructure and economic development, have received less attention.

The interest in progressing the implementation of sustainability commitments is confirmed by greater demand for relevant data, including disclosure of verified statements. This is supported by interest from data collectors, aggregators and investment analysts. Disclosure types and reporting formats, meanwhile, remain diverse.

Designing policy that ensures the disclosure of high-quality and decision useful information in coming years will be crucial in providing decision makers and stakeholders of reporting organizations with relevant information. Ensuring the disclosure of this information through established reporting frameworks and ensuring the harmonization of the reporting landscape proves to be an opportunity for policy makers and regulators alike.

Note on new methodology and terminology

Past editions of *Carrots & Sticks* (*C&S*) assessed developments in the non-financial disclosure domain by providing a stock-take of global policy and regulatory trends. Quantitative assessments and descriptive statistics pointed to how the policy and standards landscape developed and what decision-makers could expect.

This fifth edition of *C&S* is enriched with in-depth interviews conducted with recognized policy and other decision-makers. Enabling these contributions to speak for themselves, the accounts are included anonymously.

Perspectives range from the European Commission, prominent South-East Asian stock exchanges, through to a number of national legislators. Their feedback enhances our quantitative analysis. They help us understand why policymakers make certain choices, the rationale behind new policies and how best to deploy measures. High-level information on the profile of the interviewees is outlined below.

C&S in 2020 also benefits from a new international partnership. In November 2019 *C&S* and the *Reporting Exchange*, two leading initiatives providing resources to help audiences understand the ESG disclosure landscape, announced a new alignment of their taxonomies for documenting and categorizing non-financial reporting provisions world-wide. The rationale for this is to ensure content is consistently categorized and easier to access and to prevent market confusion among users of both initiatives.

Ongoing research collaboration will further converge data content. This comes with agreement on their distinct target audiences. *C&S* remains the flagship report and online resource for policymakers on sustainability reporting instruments, regulation, guidance and frameworks. The *Reporting Exchange* – from the World Business Council for Sustainable Development (WBCSD) in partnership with the Climate Disclosure Standards Board (CDSB) and Ecodesk – is a global resource for ESG reporting, helping business managers understand what, where and how to report sustainability information.

Jointly, the newly aligned *Carrots & Sticks* and *Reporting Exchange* systems give public and private sector users an overview of hundreds of reporting provisions covering more than 80 countries, including the world's 60 largest economies. This includes mandatory and voluntary requirements and guidance from regulators, capital markets, professional associations, industry bodies and other organizations.

Table 1 – C&S 2020 interviewee profiles

	Role (adjusted to ensure anonymity)	Region / Country
1	Policy Coordinator, European Commission	EU
2	Advisor to Business Authority	Denmark
3	High-Level Policy Expert Climate and Sustainable Finance	France
4	Head of Unit, Ministry of Economy & Development	Greece
5	General Secretary, Local Government	Argentina
6	Listing Committee Member, Zimbabwe Stock Exchange	Zimbabwe
7	Regulator, Stock Exchange	Singapore
8	Regulator, Securities and Exchange Commission	Philippines
9	Regulator, Stock Exchange	Sri Lanka
10	Regulator, Central Bank	Bangladesh
11	Regulator, Stock Exchange	Thailand
12	Auditor & Sustainability Advisor	Denmark
13	Control Officer, Dept. of Environmental Affairs	South Africa

Under the heading *'reporting provisions'*, the two databases cover reporting requirements and reporting resources, while the *Reporting Exchange* also covers management resources. Reporting resources refer to tools such as guides, standards (e.g. on assurance) and other materials for implementation. The reporting requirements covered by both databases are:

- Public laws and regulations;
- Self-regulation (for example, issued by stock exchanges or industry bodies);
- Codes, guidance and questionnaires;
- Guidelines and standards for non-financial reporting;
- Index questionnaires (for preparing ratings).

The updated *C&S* dataset has been compiled with the help of GRI staff and GRI Hubs for regional input. The *Reporting Exchange* was also consulted in the process of compiling the information. The analysis (completed in early 2020) does carry the risk of falling short of a complete assessment of the full non-financial reporting policy landscape and the documenting of provisions inevitably involves an element of interpretation. Therefore, the information in this report should be treated as an indication of the complex reality on the ground.

Introduction

The first edition of *Carrots and Sticks (C&S*) was published in 2006 with the intent to inform debate at a time when the future direction of sustainability reporting and its use was at an early stage. The past two decades have shown how significantly the non-financial and sustainability reporting policy landscape has developed. This includes the growing role of transparency in driving corporate change.

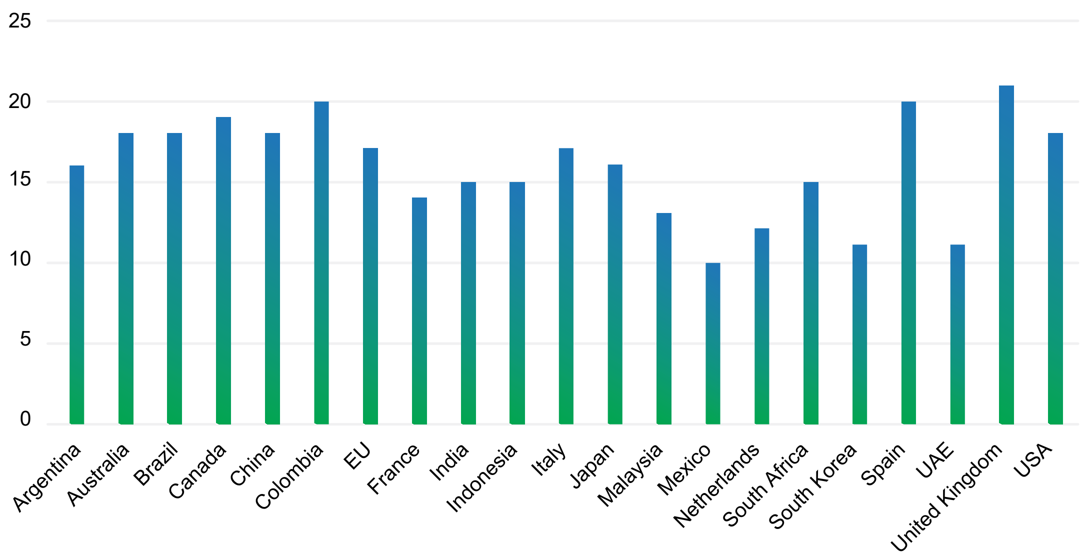
Further tracking disclosure developments, in this edition we set out to provide analysis that can inform decision-makers in government and private organizations. It includes an overview of what policy can achieve in the non-financial reporting landscape. It also supports an assessment of possible saturation in the volume of reporting provisions – reporting requirements (e.g. policies) and reporting resources (e.g. guidance documents) – in large economies, as well as maturation and new challenges in reporting practice. Furthermore, it includes insight from leading decision-makers on the core thinking behind reporting policy.

C&S has progressed from covering 19 countries in 2006, 32 countries in 2010, 45 countries and regions in 2013, to 50 countries and regions (including all OECD countries and emerging markets) in 2016. By 2016 we managed to cover the 50 biggest economies (by GDP) in the world. This latest edition now covers 84 countries – up from 71 in 2016. The full list of countries and detailed data points can be found at: www.carrotsandsticks.net.

More disclosure requirements tend to be found in larger and more mature economies, reflecting the active demand from developed economies as well as the increasing regulatory enforcement in their markets. Figure 1 below gives an overview of twenty countries and the EU with the highest numbers of reporting provisions.

The title of our first report was *"Carrots and Sticks for Starters"* (2006). We noted at the time that this is merely an appetizer of what is to come. Regulatory requirements for disclosure of non-financial or sustainability information was still in its infancy. The main course was still under preparation.

Figure 1 - Where the largest number of reporting provisions are found: Twenty countries and the EU (2020)



Today we have a better indication of the likely ingredients of that main course, but the ideal recipe is still up for debate as regulators contemplate, for example:

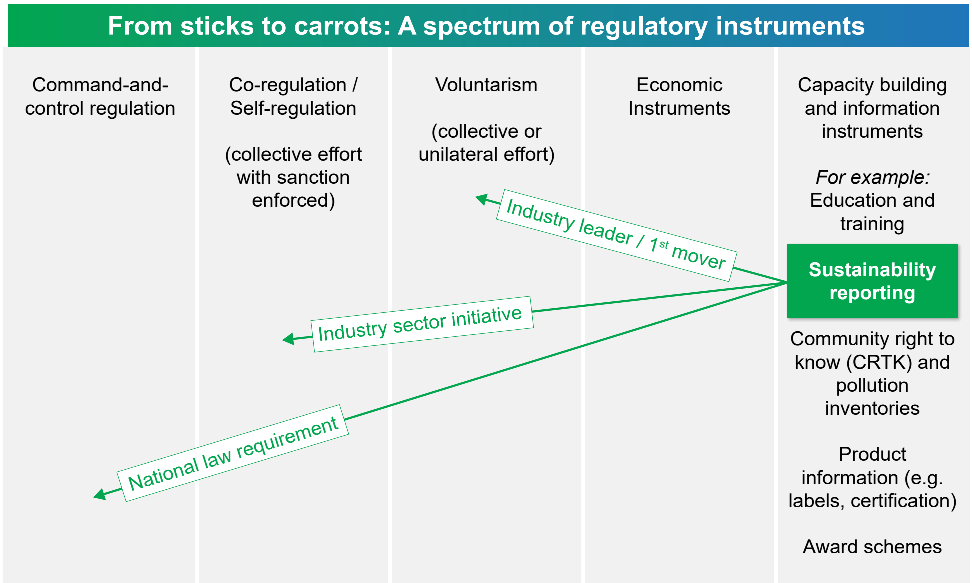
- the right combination of mandatory and voluntary approaches;
- key topics to focus on (climate change, social care and others);
- different types of statements and timeframes of coverage;
- different disclosure options (such as annual reports, sustainability reports, quantitative statements, questionnaire responses, digital platforms) and reporting reflecting financial, sustainability and integrated approaches.

In 2006, *C&S* listed a spectrum of regulatory instruments, setting out the likely progression from soft information instruments used by early champions to collective requirements by industry, and eventually governmental regulation enshrined in law. Figure 2 below is taken from our first edition and is a useful reference to consider where we stand in 2020. Non or pre-financial disclosure has progressed from first mover sustainability reporters in the 1990s to first integrated reporters in the 2000s, as well as first publishers of environmental, social and integrated statements over the last two decades.

Since the 2000s a range of industry initiatives developed sectoral guidance. These included the Global Reporting Initiative (GRI)[1] with its multi-stakeholder processes in developing standards, and the Sustainability Accounting Standards Board (SASB)[2] with its recommended materiality topics for select industry sectors. Today regulators such as the EU have introduced mandatory disclosure requirements on specified topics, and with backing of central banks the argument is made for reporting by corporations worldwide on items recommended by the Task Force on Climate-related Financial Disclosures (TCFD). The newly agreed Taxonomy Regulation of the EU is advancing agreement on standard sustainability criteria and terminology applied.

The last two decades have shown how the non-financial and sustainability reporting policy landscape has matured. The *C&S* project partners do nonetheless underline the need for further efforts to align and mainstream reporting. *C&S* seeks to support the work of policymakers with a regular stock take of developments around the world.

Figure 2 - From Sticks to Carrots, taken from Carrots and Sticks for Starters 2006



1 See the new GRI sector programme: https://www.globalreporting.org/standards/work-program-and-standards-review/gri-sector-program/

2 See the SASB sector standards at: https://www.sasb.org/standards-overview/download-current-standards/

The Sustainable Development Goals

The COVID-19 pandemic of 2020 highlighted the importance of coordinated action – from state actors to non-state actors worldwide. Such a globally relevant agenda is the spirit of the Sustainable Development Goals (SDGs). As a global framework, it provides a shortlist of key material topics for our planet and underlines the value of collaborative action.

As tracking progress against sustainability goals worldwide becomes increasingly pressing, it is timely to reference the SDGs to assess the fitness of non-financial reporting policies. The SDGs reflect a global consensus around the most urgent matters facing humanity, and serve as a compass in our journey. They can also inspire responsible business policies and practice. As one South Asian stock exchange regulator argued:

> *"The SDGs are useful in two ways: firstly, companies can measure and report their impacts in relation to the SDGs and implement new ideas that improve the business, reducing their footprint and minimizing overall negative impacts. Secondly, organizations can use the SDGs as inspiration and design criteria for new product development and business process innovation, developing products and services that contribute to solving real global challenges while meeting human needs."*

The 2020 pandemic experience makes the above only more relevant. Accordingly, the following analysis emphasizes the importance of the SDGs as a common framework for concerted action by public and private policy actors alike.

The SDGs as a key driver and reference in policy

Figure 3 shows the numbers of reporting provisions related to the individual SDGs. Considering that the SDGs feed into a time-bound 2030 agenda, explicit mentions of them in non-financial reporting policies is often lacking. Our analysis nevertheless makes high-level connections between reporting provisions and the SDGs, based on the thematic or topic-specific overlap. It should not be surprising from our mapping that the SDG headline themes most implied, directly or indirectly, by reporting provisions are the ones more directly associated with business operations.

The most implied is SDG 12, on consumption and production, followed by SDG 16 on inclusive societies and accountable institutions, and SDG 8 on decent work and economic growth. SDG 12 encompasses target 12.6, which *"encourage(s) companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle."*[3] Governments are required to report the numbers of sustainability reports submitted on an annual basis, as required in SDG indicator 12.6.1.[4] It is noteworthy that SDG 16 on peaceful and inclusive societies, with access to justice for all, is similarly highly implied in a world where increasing inequality is driving extensive debate on more inclusive economic systems.

These SDGs most implied by reporting provisions are followed at significant levels by SDGs 13-15 related to climate, oceans and land, and SDGs 5 – 7 related to gender, water and energy. Since reducing poverty and hunger tend not to be explicit goals of commercial enterprises, it is perhaps unsurprising that few reporting provisions promote disclosure by business on these broad themes.

3 https://sustainabledevelopment.un.org/sdg12

4 or sustainability disclosure included in integrated or annual reports.

It is surprising that equally few provisions provide for (direct or indirect) business disclosure on SDGs 3-4 on health and education. The COVID-19 pandemic is likely to lead to sharper focus on health and education, considering both public and private investment. In part, the health and education SDGs are ones where sector specific context may be more decisive, considering the content that, for example, pharmaceutical or life sciences companies as well as information and communications technology (ICT) companies could disclose on their contributions towards health and educational infrastructure. Examples of such disclosures can be found in the SDG Compass[5] of the GRI, UN Global Compact and WBCSD.

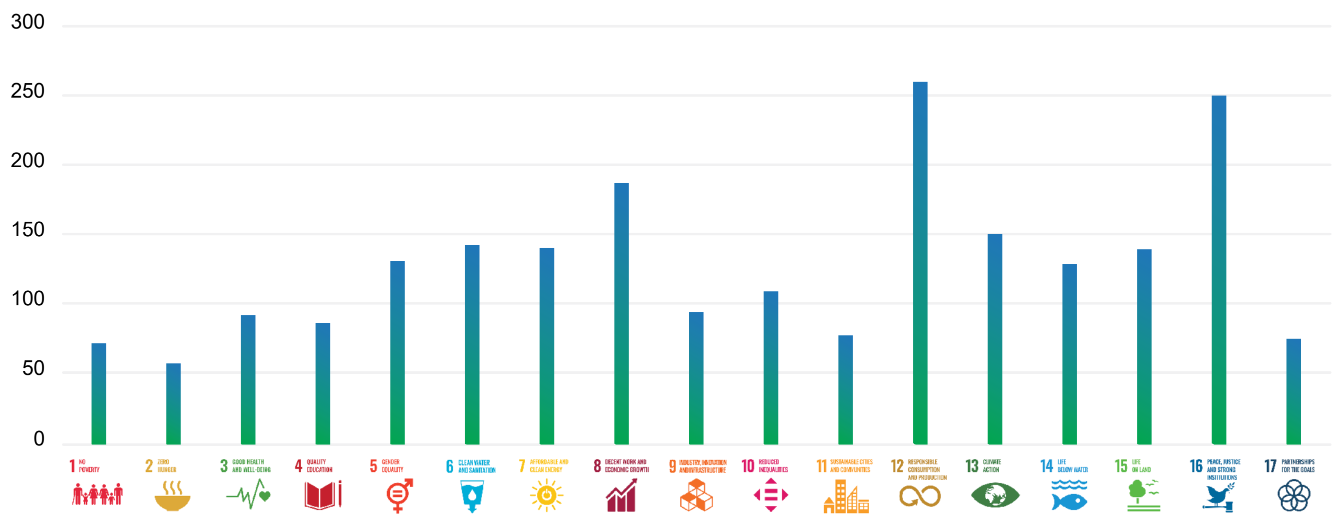
There is therefore an important gap to be filled by sector-specific reporting provisions. This is, for example, being provided by the UN Environment Programme on sustainability reporting in the mining industry, for which a resource is being finalized for publication in 2020. Historically the mining sector was one of the first, through its association, the International Council on Mining and Metals (ICMM), to commit to GRI-based sustainability reporting. The organizations and industry sectors specifically targeted by reporting provisions are outlined in detail in a later section of the report.

Sector-specific reporting initiatives are also of special relevance to SDG 11, and possibilities for disclosure on risks and opportunities related to sustainable cities and communities. According to the World Benchmarking Alliance (WBA), urban and digital systems are two of seven key systems that need transformation.[6] The WBA has aggregated the 17 SDGs based on these systems and identified the most relevant industries and companies with a critical role. One can foresee a collection of key indicators against which such companies can report progress made in these key systems.

On the alignment of reporting frameworks with the SDGs, a South Asian Central Bank regulator described an evolutionary process:

> *"The GRI standards are aligned to the SDGs and the manual [requiring companies to report] will address reporting on SDGs as well. However, I think the focus currently would be to build the capacity of companies and to enable them to start sustainability reporting that would gradually lead to reporting on SDGs."*

Figure 3 - Number of reporting provisions linked thematically with individual SDGs (2020)



5 https://sdgcompass.org

6 https://www.worldbenchmarkingalliance.org/system-transformations/

New initiatives created specifically with a focus on the SDGs include the SDG Corporate Tracker (2019), developed in Colombia in a partnership involving GRI and UNEP, a Presidential Regulation (57/2017) on SDGs Implementation published in Indonesia, the SDG Index[7] listing of countries by the Sustainable Development Solutions Network (SDSN) and Bertelsmann Stiftung, as well as the SDG assessment of corporates offered by rating agency Vigeo-Eiris.[8] Advice on how to report on the SDGs have also been published in recent years by the WBCSD[9], International Integrated Reporting Council (IIRC)[10], and GRI.[11]

The SDGs as a framework for policy

The SDGs can serve as a framework that influences the formulation of reporting provisions. This was evident from the interviews, which highlight that the non-financial reporting field – from reporters, through standard setters, to report users and policymakers – has witnessed a *"strengthened understanding of the concept of sustainability in general."* While explicit reference to the SDGs in disclosure requirements and reporting policies is still uncommon, the formulation of reporting provisions is nevertheless increasingly informed by the SDGs.

A South Asian regulator confirmed: *"The sustainability guidelines that we issued is fairly aligned with the SDGs and we have given the references to them in the document."* There are also international guidance documents, for example by UNCTAD on the core indicators for entity reporting on contributions towards implementing the SDGs,[12] and by the International Federation of Accountants (IFAC) on SDG disclosure recommendations.[13]

The SDGs as a framework for non-financial reporting policy also has its limitations. The goals are time bound and policy developers need to consider time leading up to and beyond 2030. Consider also that historically the SDGs can be seen as the third marker on the international policy path to a sustainable world, where the first marker was Agenda 21 and the second was the Millennium Development Goals (MDGs). Furthermore, the SDGs describe national (country level and public-focused) impacts and behaviors that are not directly translatable to organizational level and private sector operations.

7 https://www.sdgindex.org

8 http://vigeo-eiris.com/solutions-for-investors/sdg_assessment/

9 https://www.reportingexchange.com/reportingProvision/2526?entityVersionID=15568

10 See the SDGs, integrated thinking and the integrated report at: https://integratedreporting.org/tag/sdgs/

11 See GRI and UN Global Compact, Business Reporting on the SDGs at: https://www.globalreporting.org/information/SDGs/Pages/Reporting-on-the-SDGs.aspx

12 https://unctad.org/en/PublicationsLibrary/diae2019d1_en.pdf

13 https://www.ifac.org/knowledge-gateway/contributing-global-economy/publications/sustainable-development-goals-disclosure-sdgd-recommendations

Enhancing corporate sustainability reporting in Latin America – focus on Colombia

The government of Colombia has taken a proactive approach to engaging businesses in contributing to attaining the SDGs by 2030 and report on their progress. In 2017 the governments of Colombia, Argentina, Chile and Brazil worked with the UN Environment Programme to develop a three-year project[14] for enhancing the capacity to manage information from corporate sustainability reporting in the region. Throughout the project, the participating governments sought ways to further enhance the integration of the SDGs in corporate sustainability reporting.

Part of the project's focus was a government-led development of sector-specific corporate sustainability reporting guidelines. Following multi-stakeholder consultation, the food sector was selected for the four participating countries and each of the countries chose a sub-sector of key national importance.

For Colombia the selected sub-sector was fish, shellfish, meat and meat products (fish and meat).[15] In selecting the sub-sector and developing the sectorial guidelines, national priorities including the SDGs, were considered as well as the potential to achieve the objectives of relevant national laws, regulations and programs currently being implemented. These include the Sustainable Production and Consumption Policy and Green Growth Policy.[16]

Workshops were held to assist businesses in initiating or advancing their sustainability reporting practices and collect input for the development of sectorial guidelines. The workshops were also an important tool for the four governments to design and adapt the guidelines to the needs of businesses and other stakeholder groups.

The project included the development of a toolkit on sustainability reporting for policy makers.[17] The toolkit overviewed the key issues in corporate sustainability reporting as well as specific guidance on key themes for governments and relevant stakeholders who wish to enhance reporting practices in their countries.

An important outcome in Colombia was the development of a national reporting platform for corporate sustainability reports,[18] which links to the reporting guidelines for the fish and meat sector.[19] The platform, hosted on the website of the Colombian Ministry of Commerce, Industry and Tourism, serves both as a database for sustainability reports and as a platform for companies to create sustainability reports.[20] Enabling the creation of reports is an important part of the government's efforts to encourage and help SMEs in their sustainability reporting development.

The platform will play a key role in the Colombian government's reporting on SDG Indicator 12.6.1 on the number of sustainability reports issued in the country. It provides a specific focus on how the reporting indicators relate to the SDGs as well as the GRI Standards. It will also enable an overview of key sector specific indicators of relevance to the national SDG strategy. The platform can therefore enhance the governmental insight of business contribution to the SDGs and offers data for future policy development.

14 The project "Enhancing capacities to manage information from corporate sustainability reporting in Latin American countries" was funded by the UN Development Account and developed in cooperation with the Economic Commission for Latin America and the Caribbean (ECLAC).

15 See sectorial guidelines (in Spanish) on http://www.cnpml.org/dsectorial/vistas/img/Directriz-Sectorial-Colombia.pdf

16 Relevant legal references include the following documents of the National Council for Economic and Social Policy (CONPES): CONPES No 3866/2016 - Production Development Policy, CONPES No 3934/2018 - Green Growth Policy and CONPES No 3918/2918 – Sustainable Development Goals.

17 The toolkit can be accessed on https://www.unenvironment.org/enhancing-uptake-and-impact-corporate-sustainability-reporting

18 The platform can be accessed on http://www.cnpml.org/dsectorial/

19 Other sectors are expected to be gradually be added to the platform.

20 Companies can directly enter information on the relevant indicators into the platform and have the platform create the report.

Leading issuers and provision types

Recent years have signaled a further widening of the issuer base for non-financial reporting provisions. Financial market regulators are increasingly active, while governmental issuers include a number of new ministries. The evidence confirms that soft instruments – such as codes and guidance – can complement hard reporting requirements in driving timely and quality reporting content.

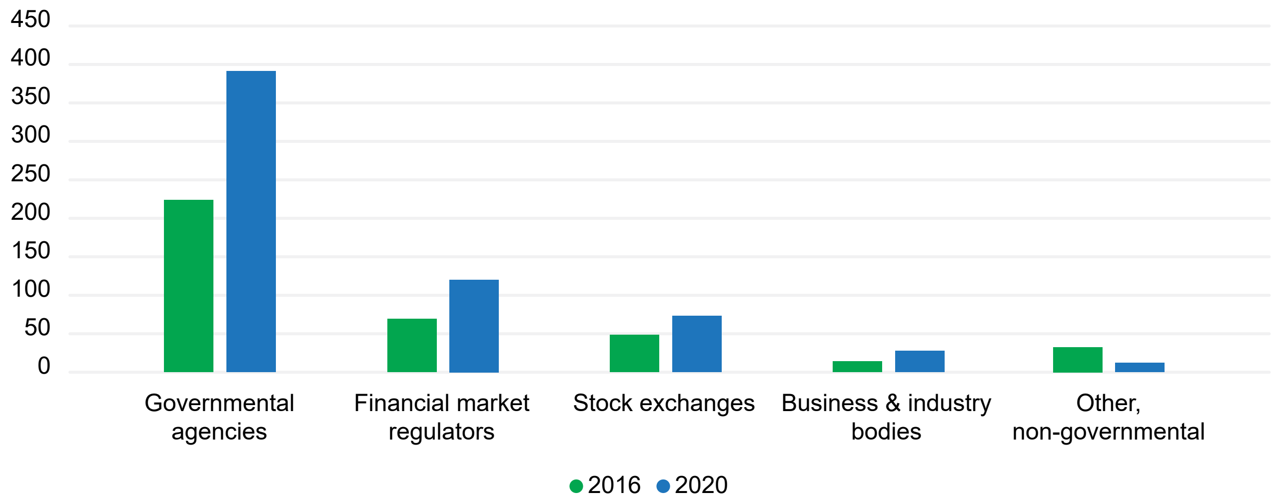
Governments and financial market regulators drive the agenda

As can be seen in Figure 4, government departments and agencies remain the most prolific issuers of reporting provisions. The number of provisions issued by such governmental bodies have grown by 74% since 2016. Requirements issued by stock exchanges has slowed down somewhat, yet the growth in reporting provisions from financial market regulators and industry bodies has been almost as strong as that issued by governmental bodies. In 2016 we found that approximately half of the provisions by governmental bodies were European ones and this trend has continued.

Financial market regulators need to assist reporters and build capacity while outlining requirements for disclosure. As a central bank regulator explained their approach: *"We had a policy on reporting yet there was limited action from the financial institutions. It was realized that capacity building and sensitizing companies towards sustainability and reporting would be crucial."* For this reason, the central bank decided to provide capacity building workshops that assist potential organizations on the how of disclosing non-financial information.

In the past, *C&S* noted that government environmental departments were often more active in issuing disclosure requirements. The 2020 stock-tacking signaled a strong increase in activism from commerce, trade and industry or finance departments. While our analysis in 2020 found 58 reporting provisions issued by environmental departments, the numbers issued almost doubled since 2016 for departments of commerce or trade and industry (now 57 provisions) and departments of finance (now 39). Other more frequent cases involve departments such as energy, mining, justice and labor.

Figure 4 - Number of provisions by different issuer types (2016 and 2020)



New public laws and regulations issued by governments

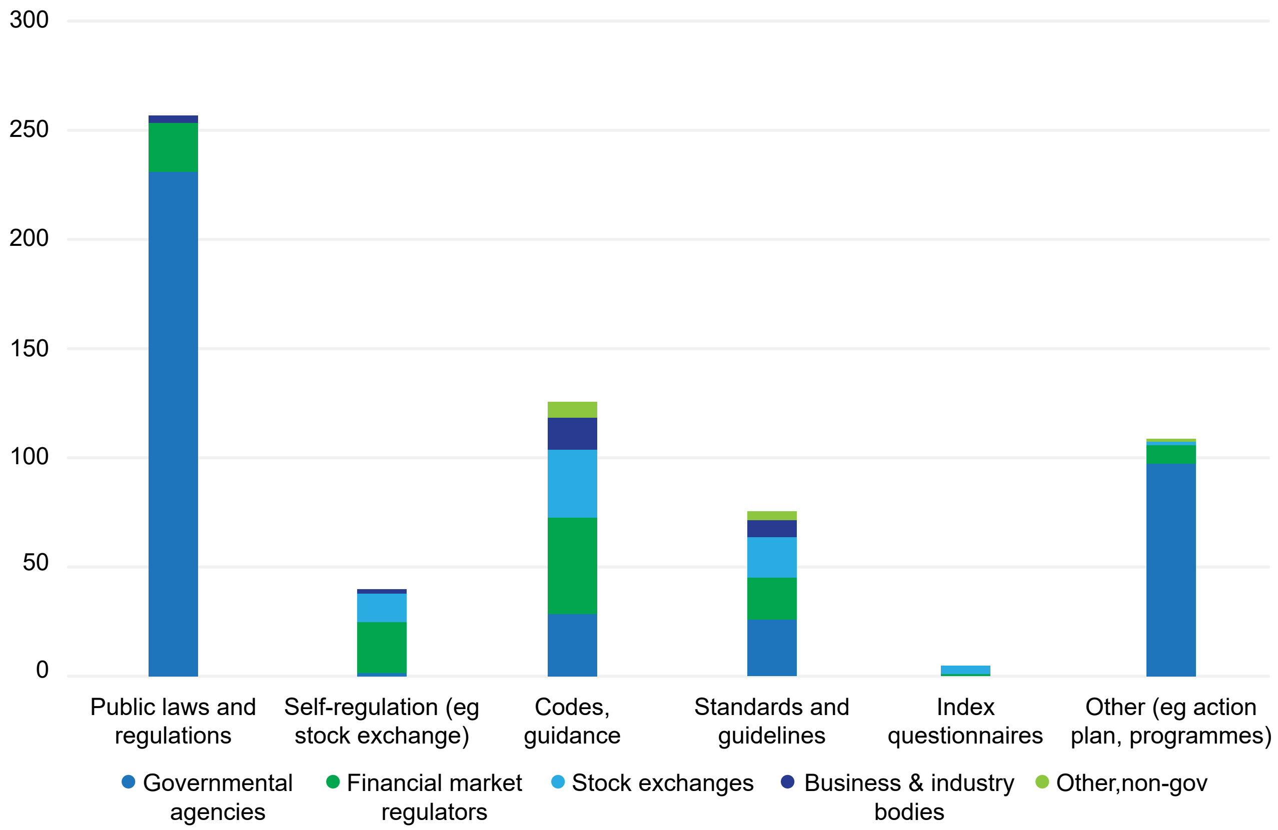
As seen from Figure 5 below, governmental departments and agencies still most commonly issue reporting provisions via either public laws and regulations or other approaches such as action plans, strategies or programs. New laws of recent years include topic-specific reporting provisions, such as modern slavery acts in for example Australia and Canada, the new EU Directive on conflict minerals (2017), as well as equality and equal pay laws in for example the UK and Netherlands.

In total, 27 new laws and regulations introduced since 2016 are by EU member states that transposed the Non-Financial Reporting (NFR) Directive into national law. National action plans introduced in recent years include plans on business and human rights, as introduced in Australia, Belgium, Chile, Colombia, Czech Republic, France, Greece, Ireland, Japan, Jordan, Kenya, Latvia, Malaysia, Mexico, Mozambique, Poland, Spain and Thailand.

Voluntary requirements drive innovation and standardization

Financial market regulators, stock exchanges and industry bodies are more active in issuing codes, guidance, standards, self-regulatory requirements and questionnaires. Market regulators, such as securities exchange commissions, as well as stock exchanges have in many cases issued updated corporate governance codes. Some, like B3 in Brazil, have introduced 'report or explain' requirements related to the SDGs. Others partner with governmental regulators, such as the China Securities Regulatory Commission working with the China Ministry of Environmental Protection in issuing mandatory environmental disclosure requirements for listed companies.

Figure 5 - Number of provisions types, issued by different organisations (2020)

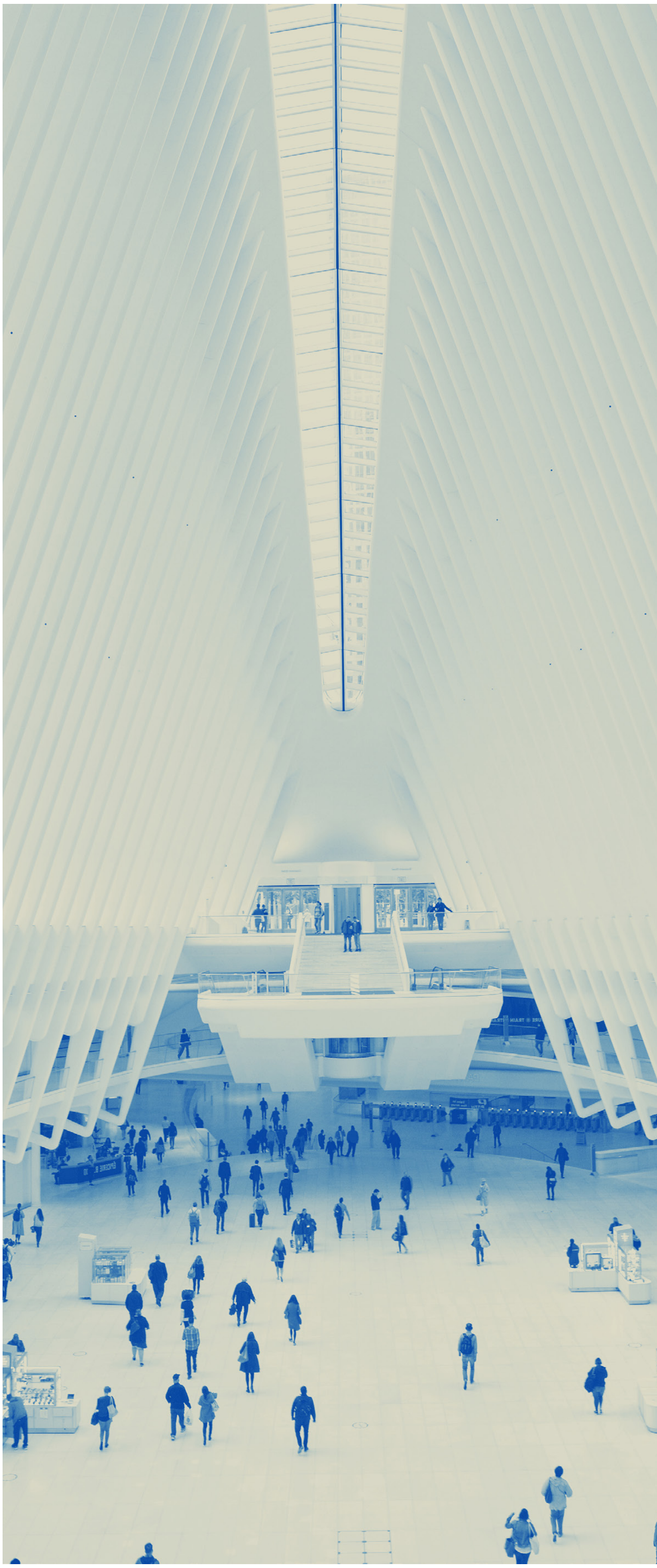


What is the rationale behind these approaches? A central bank regulator explained as follows:

> *"Non-financial reporting should not be made completely voluntary. A good approach would be to recommend companies to adopt reporting. This should be backed by capacity building of the companies followed by report or explain and gradually mandatory reporting after 3-4 years of guidance and capacity building. This would give companies enough time to internalize the value of adopting a responsible business practice. However, after 4-5 years of regulation, if a company is still not adopting responsible practices and reporting on their impacts, they should be penalized."*

Accordingly, easing reporters into the practice of reporting appears to be an important success factor. This involves gradually increasing the depth of requirements, accompanied by building the capacity of organizations. Regulators and public authorities can play an active role.

Based on their listing requirements, stock exchanges are also in a position to support and drive their members gradually towards more comprehensive and quality reporting. Exchanges in the World Federation of Exchanges (WFE) continue to be active in issuing reporting provisions. Of the 100 exchanges in the UN-backed Sustainable Stock Exchanges (SSE) initiative, almost half provide written guidance on ESG and 24 have mandatory ESG listing requirements. By 2020, the SSE members hosted some 50,000 listed companies, with a total market capitalization of over US$80 trillion.



Regional specifics in approaches

C&S in 2020 covers 614 reporting provisions, of which 73 are from Africa and Middle East, 174 from the Asia Pacific, 245 from Europe, 37 from North America and 85 from South America. It should be noted that these numbers cannot be taken out of context. Numbers of reporting provisions are documented country-by-country, and regions including many countries will inevitably have a higher number of total provisions.

The number of countries covered per region is shown in Figure 6. Drivers in the growth of provisions include public awareness, stakeholder pressure, new policies and international benchmarking.

Looking at the level of provisions in individual countries, some conclusions can be drawn related to the size and nature of the economy, as well as a regulatory culture that is more or less focused on intervention or free market approaches. The historical background of countries also results in certain sustainability topics receiving greater interest.

Europe dominates the agenda

In early 2020, Europe saw lengthy negotiations between the 27 EU member states on a long-term budget for 2021 – 2027, one that provides for increased spending on items such as the digital revolution, security, green growth and climate change. Opposing budgetary cuts were a grouping of 15 countries, seeking assurances on cohesion funding earmarked for poorer areas of Europe. A listing of reporting provisions by each EU member state gives insight into the priorities of countries at different levels of development.

Figure 6 - Number of countries covered per region

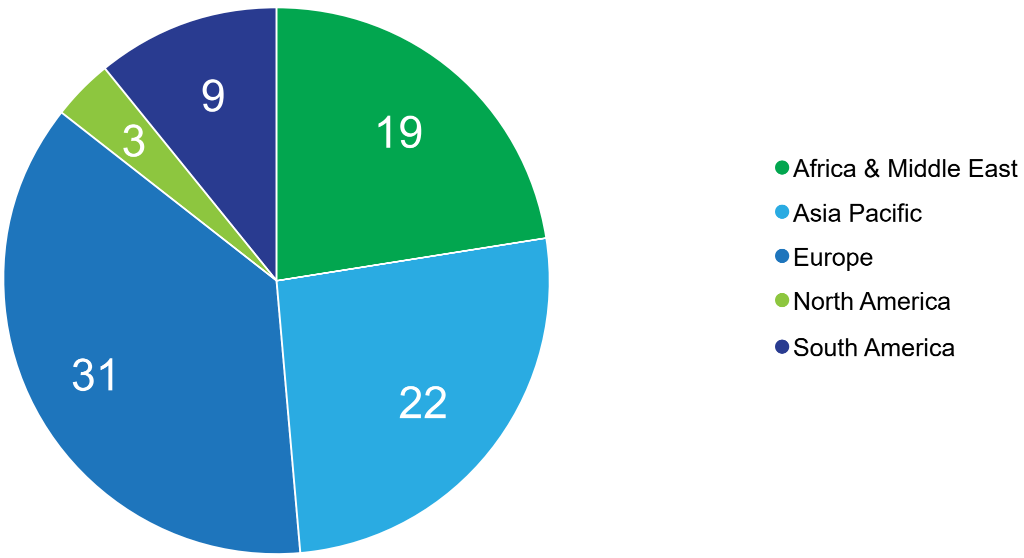


Figure 7 lists the number of reporting provisions in *C&S* for each of the 27 EU member states. While it may be assumed that more advanced economies have more disclosure requirements on diverse issues, it may also be the case that some economies add new reporting requirements yet fail to rationalize and reduce outdated requirements. Still, the below chart signals that larger economies tend to have more provisions.

Figure 8 shows the growth in total numbers of reporting provisions traced by *C&S* since the mid-2000s. It displays the historical dominance of mandatory approaches as well as the relatively higher volume of voluntary provisions tracked by 2020. This may reflect a greater sense of urgency among diverse actors to monitor certain issues, mindful that the complex nature of the topics involved still require experimental and voluntary disclosure. This growth rate is among others driven by new guidance documents - instruments that do not first and foremost require disclosure per se but rather advise organizations on how to report.

Figure 7 - EU27 ranked by size (GDP) and number of reporting provisions per country 2020

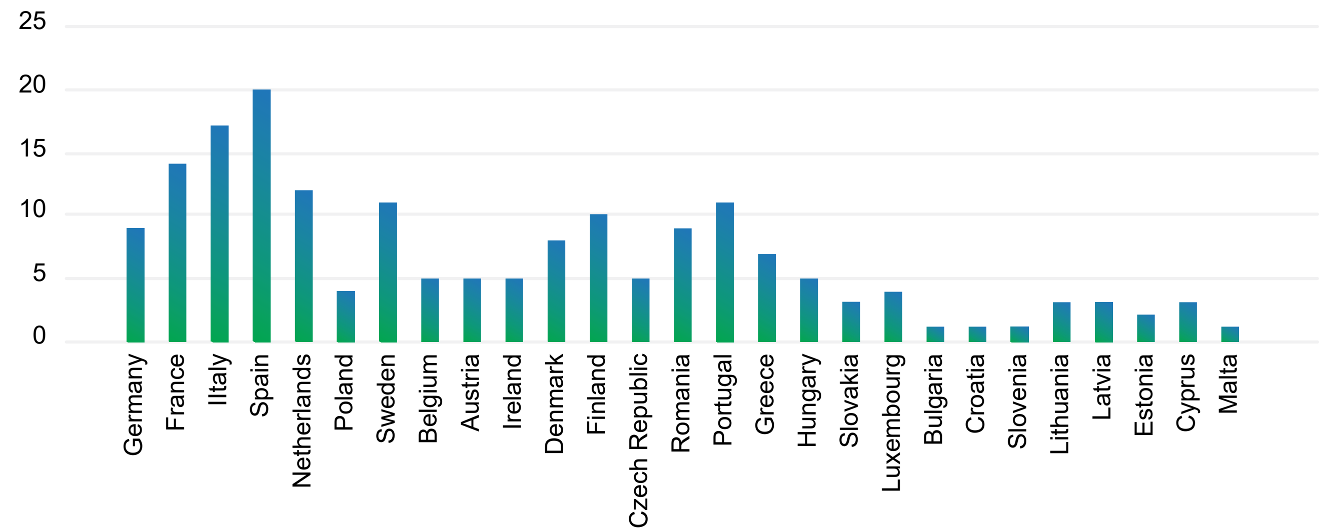
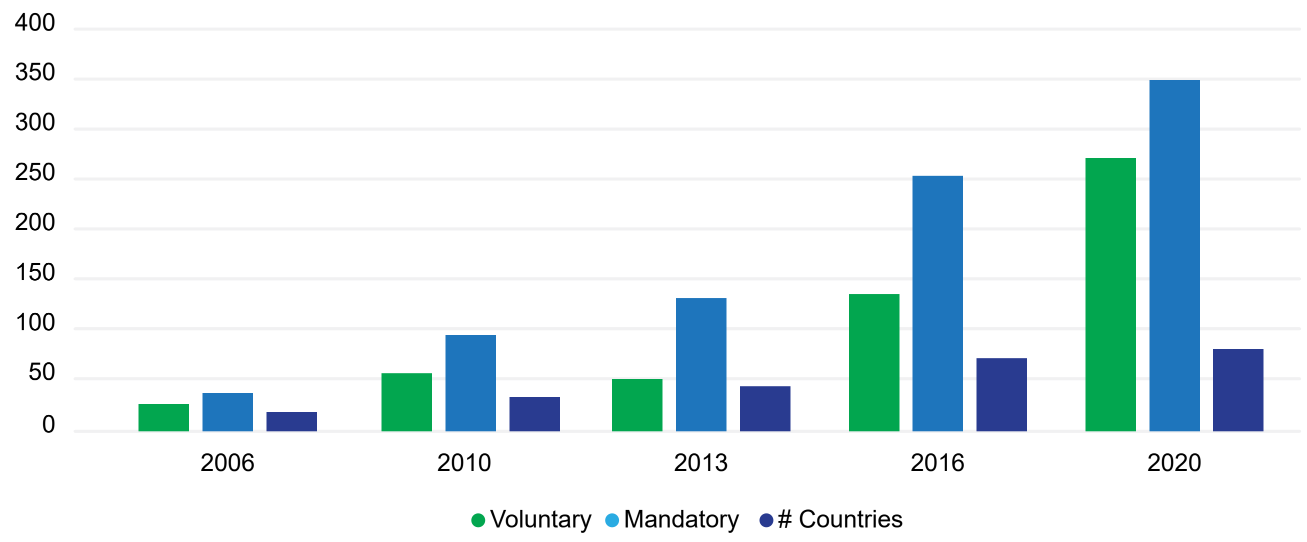


Figure 8 - Number of Voluntary - Mandatory provisions and countries covered



Mandatory versus voluntary requirements in the Americas

The numbers of voluntary versus mandatory reporting provisions are broken down by region in Figure 9. The ratio differences are not vast, and the total volume of provisions may be more telling about regional developments. The figure suggests that in North America a greater proportion of reporting provisions are mandatory than in South America. Based on our sample of reporting instruments, the status in North America of mandatory reporting requirements at the national level shows the USA at 77%, Canada 63% and Mexico at 50%.

Asia as an up-and-coming space

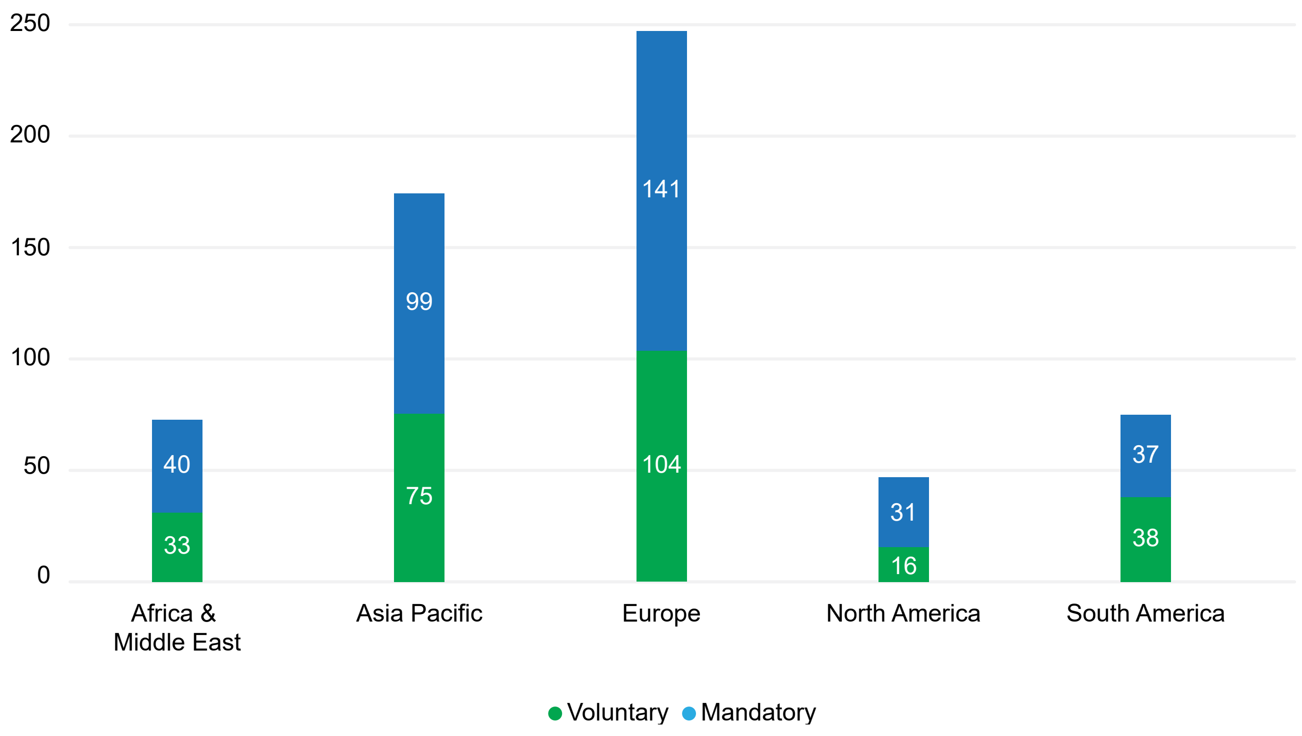
Asia as a region can be seen as a close follower of Europe in terms of volume of reporting provision developments. A South East Asian SEC regulator said: *"Asia is lacking compared to Europe, however five years ago there was not much discussion about ESG in decision making. This is now changing."* In China, the thirteenth Five Year Plan has an explicit focus on the SDGs and sustainable development, with both State-owned Enterprises (SOEs) and private companies becoming more active in the disclosure domain.[21]

These developments include a shift towards mandatory reporting provisions. The regulatory push is accompanied by pull from the reporters themselves. One South Asian regulator noted:

> *"Companies start with reporting to be in compliance, but later they identify the immense benefits that it offers. We have gone ahead as far as corporate governance is concerned, and it was made a part of the our listing rules and made mandatory."*

Developments in South and South East Asia – particularly among financial market regulators – similarly show a trend towards introducing reporting provisions alongside supporting documents on corporate governance, often codes and guidance materials. Most exchanges in these regions are members of the Sustainable Stock Exchanges (SSE) initiative.

Figure 9 - Number of voluntary vs mandatory provisions by region (2020)



21 https://www.cdsb.net/sites/default/files/cdsb_case_study_china.pdf

Comply or explain approaches surge

In 2016, we found 38 provisions that follow a ‘comply or explain’ approach, of which 21 were introduced by stock exchanges. By 2020 we saw a strong surge in this approach, reaching 120 examples. Some 45 were issued by stock exchanges and financial market regulators and 62 by governmental departments or agencies. As an Asian market regulator outlined:

> *“In the region most of the exchanges today require ESG reporting as a part of listing rules. Some of them are mandatory (based on size) while others have a ‘comply or explain’ basis. We have included only a corporate governance element to the listing rules and combine this with the provision of trainings to listed entities on ESG reporting. This will help us create an environment to eventually include the social and environmental elements to our listing rules.”*

This account also highlights that there is no one-size-fits-all approach. Emphasizing certain topics over others can open the door to structural changes in reporting entities. Specific examples of ‘comply or explain’ approaches include the 2018 versions of the UK and Singapore corporate governance codes, as well as new disclosure guidance for listed companies published by the Warsaw Stock Exchange (GPW 2016) and the Vietnam Ho Chi Minh Stock Exchange (HOSE 2016).

Approaches to assurance and the quality of information

The *C&S* stock-take of 2020 includes 90 provisions that require third party verification of information. This signals realization among regulators that the reliability of data and comparability of information is crucial for the decision usefulness of content. A South East Asia stock exchange regulator mentioned:

> *“I think we need to look at the initial reports we receive in collaboration with auditors and assurance providers to understand better what quality is […] This will be a challenging task for public limited companies. Even if they do assurance, the assurance providers cannot say if the information is of high quality or not.”*

It is apparent that defining the quality of reported information does not only lie in the hands of regulators or standard setters alone. Efforts have been made by actors such as the International Auditing and Assurance Standards Board (IAASB)[22] at guiding assurance provision throughout the industry. Regulators need to collaborate with standard setters, as well as data aggregators and data users to understand their needs. Assurance providers need to be responsive to the outcome of such discussions.

22 https://www.iaasb.org/publications/consultation-paper-extended-external-reporting-assurance


7542
7636

Elements of policy supporting reporting uptake

With the expansion of reporting provisions comes growth in reporting practice. This is evidenced by some 60,000 reports registered in the GRI Sustainability Disclosure Database (SDD). The numbers raise a key question: what elements of policy lead to greater reporting uptake? The interviews we conducted provide some ideas.

The market needs accessible, reliable and comparable information. Decision-makers and investors in the ESG field are hungry for relevant and decision-useful information, as many surveys have shown.[23] Reporting provisions expect the disclosure of certain types of information, which in many cases require the use of improved reporting standards to ensure a comparable and accessible frame of reference.

Our interviews confirmed that the involvement and motivation of report preparers is an important aspect when it comes to defining policy. The reporting provisions should not simply drive mindless compliance-driven approaches but allow for reporters to internalize the information resulting from disclosure. As a South East Asian stock exchange regulator remarked:

> *"Companies are at different stages in terms of their maturity in the sustainability reporting journey. There is no good in forcing companies to report against their will, otherwise it will become a box-ticking exercise, without companies realizing the true benefits of disclosure."*

Reporters can be eased into disclosing information with voluntary measures in the initial stages, followed by the strengthening and elaboration of reporting requirements – and ultimately building towards mandatory measures related to existing reporting frameworks.

A clear step-by-step approach to policy development can serve the demand from investors and others for better quality information. Ensuring that reporters have the knowledge and capacity to report relevant non-financial information requires setting clear expectations on what recognized frameworks to use and how to progress in doing this.

Target organizations and sectors

Large and listed companies continue to be the main targets of reporting provisions worldwide. This trend is supported by new listing requirements of stock exchanges. Furthermore, sector-specific and thematic reporting provisions are also becoming more common.

Large and listed companies are dominant targets

The majority of reporting provisions target either all organizations or specifically large and listed companies (Figure 10). Size is specified in terms of metrics such as turnover and number of employees (for example 500 employees in the case of the NFR Directive of the EU). There have been fewer new developments related to state-owned enterprises since 2016. One exception is the State-Owned Enterprise Regulation (2017) in Indonesia. It addresses SDGs and requires SOEs to include, in their annual reports, information on partnerships, small business development and community support programs. Similarly, China continues its move towards non-financial reporting by SOEs which reflects its centralized approach.

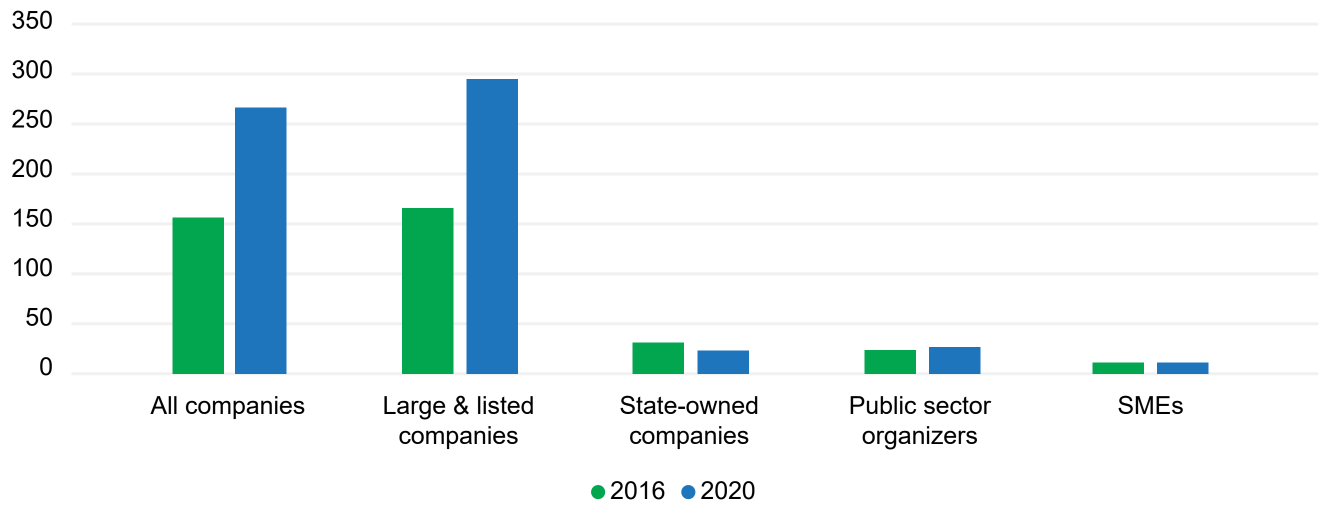
For listed companies many stock exchanges have published ESG reporting guidance. They represent almost half the 100 exchanges in the Sustainable Stock Exchanges (SSE) initiative. Recently recommendations have been published by, for example, the exchanges of Hong Kong (2019), Colombo (Sri Lanka, 2019), the Philippines (2019), Oslo (2018), and Luxembourg (2019). Among market regulators, such as the British Columbia Securities Commission (2018) in Canada, recently published disclosure requirements on corporate governance make special reference to women in senior executive positions.

Growth in sector-specific approaches

Sector and industry-focused reporting provisions are becoming more common. Figure 11 indicates the trend in reporting provisions over the last decade, where specific industries are targeted. It shows provisions that cover the financial services (banking, insurance, investment) and heavy industry sectors. Based on the aligned taxonomy agreement between C&S and the *Reporting Exchange*, *C&S* in 2020 reflects a refined and standard breakdown of industry sectors. On this basis, what was in the past roughly categorized as *"heavy industries"* can now be broken down as per Figure 12. It signals special interest in extractives, manufacturing, transport and storage, energy supply and natural resource industries.

Common topics for the extractive industries are those related to transparency of payments to foreign governments, human rights and conflict minerals. An example is the Act on Transparency Measures in the Mining, Oil, and Gas Industries (2016) by the Government of Quebec in Canada. Provisions targeting the manufacturing industries often imply global supply chain management, such as the Corporate Sustainability Compact for the Textile and Apparel Industry (2018) issued by the China National Textile and Apparel Council (CNTAC).

Figure 10 - Organisations covered by reporting provisions



The development of sector-specific guidance for sustainability reporting continues to be of special interest, as shown by the guidelines for the meat and fish sector (2019) undertaken by a multi-stakeholder initiative in Colombia. Sector-specific guidance becomes a critical element in securing the disclosure of more relevant and material information, considering the context of individual sectors and their value chains.

Figure 11 - Two prominent industry clusters targeted by provisions (number of provisions)

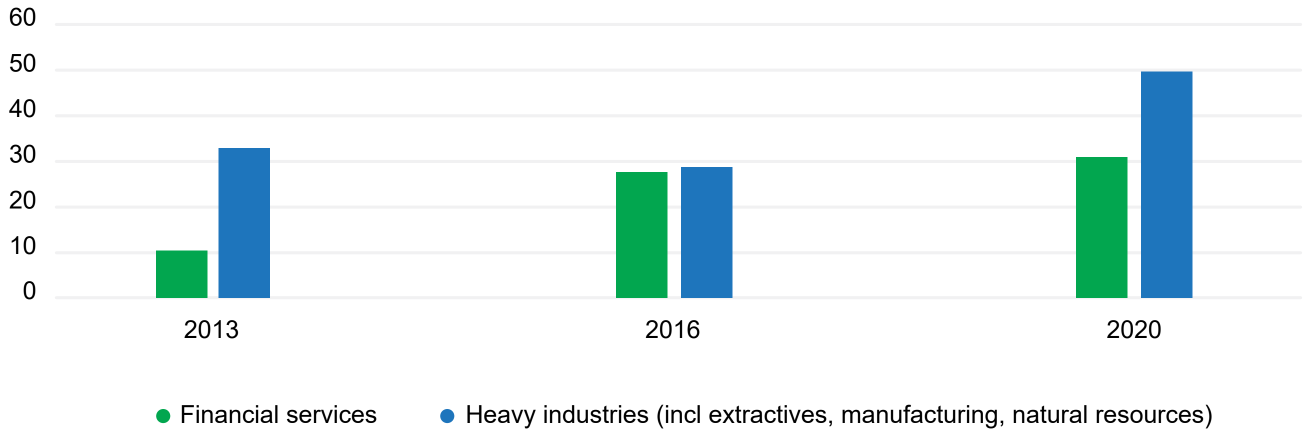
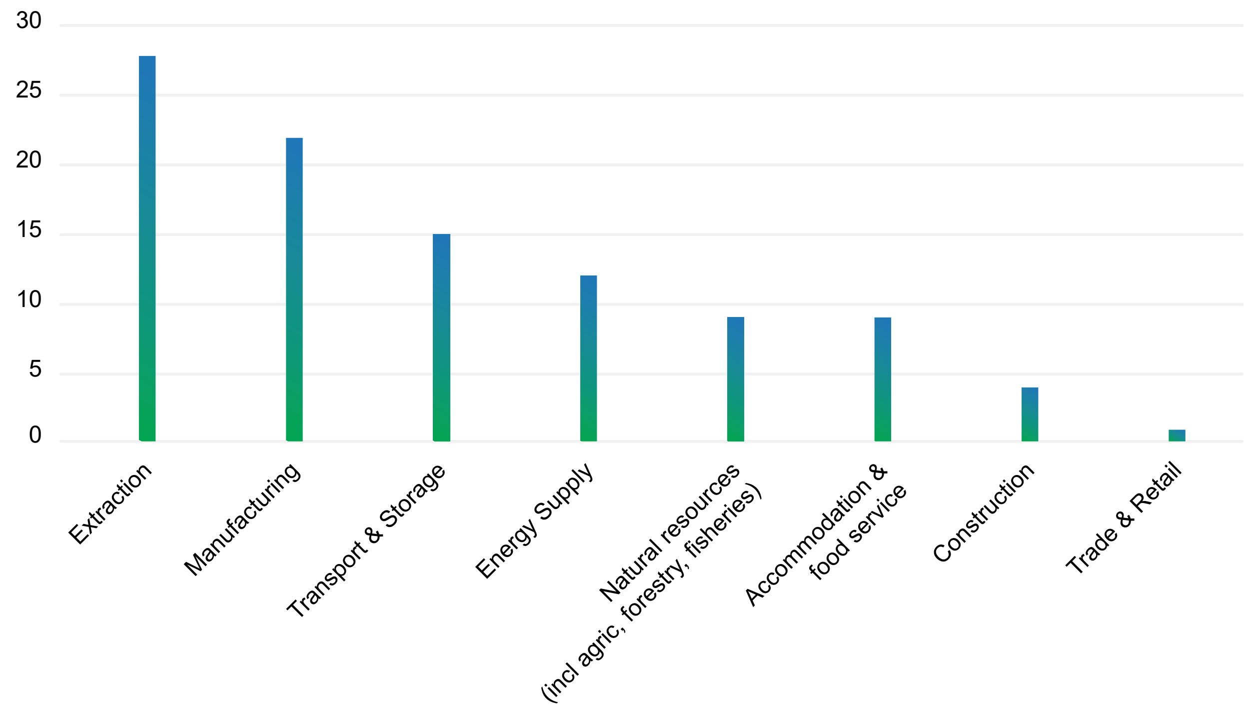


Figure 12 - Number ot provisions targeting specific heavy industries (2020)



Pointers towards ideal policy

Mindful that one-size-fits-all solutions are neither possible nor desirable, we considered what makes an ideal policy approach in the non-financial reporting field. From our interviewee feedback several important elements can be identified. First of all, to quote a listing committee member of an African stock exchange:

> *"There is no such thing as an ideal policy that applies to all stakeholders. On the one hand you know that listed companies want to use the least resources in corporate disclosure, while on the other hand you have investors who want more quality data. I think we need to balance the demand from both sides."*

A gradual shift from voluntary measures to more stringent requirements that demand the necessary accountability of reporters is desirable. Interviewees offered ideas on how to reach this stage:

> *"Many times, the focus should not be on what they need to report, but on the why they need to, and here supporting instruments are meaningful […] regulators and exchanges need to play an important role in driving this agenda. We need to provide them [reporters] guidelines, which go hand-in-hand with training activities that focus on reporting as well as ESG integration in business practice."*

> *"Legislation should be mandatory and focused on impact. What the guidelines should provide is a set of impact focused performance indicators, which in the end should be mandatory for companies and investors […] In terms of processes, the legislation should refer to existing frameworks."*

A reoccurring theme is the practical implementation of policy. While implementation should be assumed in the formulation of any type of disclosure requirement, our interviews signaled that the sanctioning of non-compliance is lax. Closely linked is a need for mechanisms that allow *"stakeholders to have the opportunity to query if there is information that is inappropriate or inconsistent"*. This accompanies the inclusion of assurance and non-financial audit provisions.

Thematic disclosure requirements also carry potential, as these can be focused per industry or topic. This should be done nonetheless by avoiding the proliferation of specific topics without considering the ongoing need for prioritization and materiality. This demands referencing recognized reporting frameworks and standards, including consideration of relevance to specific sectors.

Ultimately, policymakers need to consider innovative ways of conducting smart regulation. Resulting reporting requirements should allow organizations striving for sustainability to effectively improve their performance. As a regulator, it all *"depends on what kind of flexibility you want to give companies in supporting sustainable development and ensure they stay competitive."* Policymakers should not only think of quantity and mainstreaming, but also what quality information is really needed for decision-making. Accordingly, policymakers have to appreciate the *"need for companies and investors to have discussions on how useful the information is that reporters put out."* Moreover, as a central bank regulator stated:

> *"Regulation is crucial, but it is not the only driver. It's not enough to have regulation for mainstreaming non-financial reporting. Having good quality reports are essential and policymakers need to understand how to ensure that companies publish those quality reports."*

Key disclosure themes

Tracking disclosure themes, *C&S* enables an assessment of how the ESG agenda evolves and in how far regulators are converging in focus on priority themes. For this edition we expanded our analytical framework with an Economic & General category. Overall, it is clear that climate change is a top agenda item for policymakers. On the social agenda, human rights and labor similarly score highly in terms of frequency of the topic being addressed. Following the COVID-19 pandemic, health-related matters are likely to receive more attention. As to governance-related topics, aspects of anti-corruption receive most attention.

Coverage of environmental, social, governance and economic topics

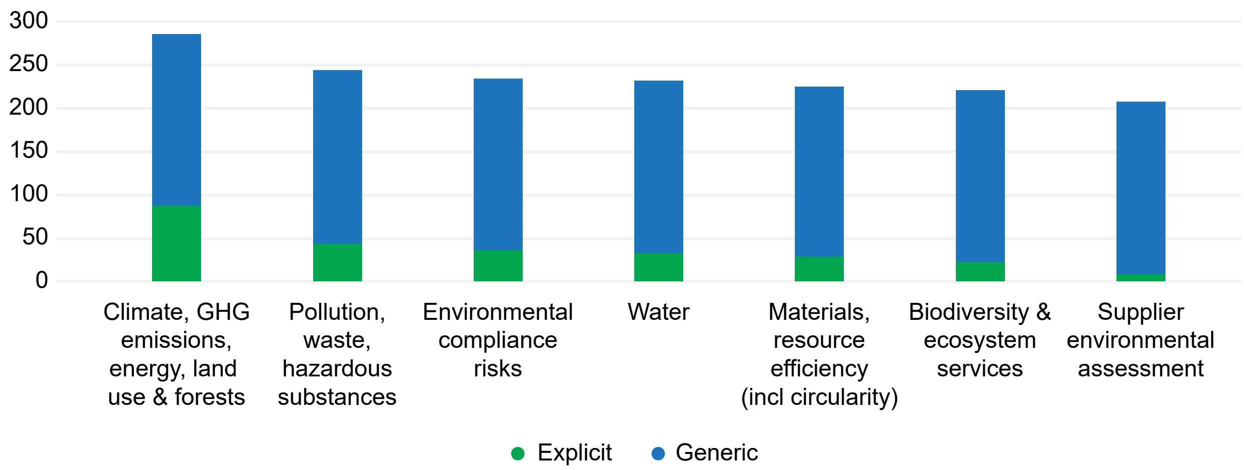
The reporting provisions in the 2020 edition of the *C&S* database display a broad spread of environmental, social and governance issues, with over half the total 614 provisions addressing either E, S, G, or E themes. There is overlap between these as provisions include different combinations of specific E, S, G or E themes addressed. Two hundred provisions address our new E category of Economic & General, including sub-themes such as economic performance and indirect economic impact.

The climate agenda dominates

Figure 13 indicates key environmental themes or aspects addressed by the reporting provisions. It shows a dominance of provisions related to climate change, including GHG emissions, energy, land use and forests. As put by a European Commission policy coordinator, *"climate change is quite far beyond other issues."* Some 85 provisions explicitly address these climate-related matters, while 42 address pollution, waste and hazardous substances, 33 cover environmental compliance and risks and 30 refer to water. We differentiate between explicit and generic references – explicit targeting topics specifically, whilst generic when addressing the topic as part of ESG or E issues in an overall manner (e.g. Environmental).

As expected in the last edition of *C&S*, the Paris Climate Agreement of 2015 has been an important driver for the issuance of new climate disclosure provisions. Central banks[24] are also paying close attention to uptake of the Recommendations by the Taskforce on Climate-related Financial Disclosures (TCFD)[25] published in 2017. In his annual letter to chief executives, BlackRock CEO Larry Fink in January 2020 encouraged corporates to report against the TCFD recommendations.[26]

Figure 13 - Key environmental themes addressed by reporting provisions (2020)



Of 327 provisions that address environmental themes, 34 are from Africa and the Middle East, 85 from Asia Pacific, 146 from Europe, 28 from North America and 34 from South America. These include guidance on ESG reporting by listed companies issued by the Botswana Stock Exchange (2018), guidelines on climate reporting by the EU (2019), environmental reporting guidance with specifications on energy and carbon disclosures from the UK Government (Defra, 2019), recommendations in a report by an Expert Panel on Sustainable Finance in Canada (2019) and a new Circular Economy strategy launched in Colombia (2019).

Human rights and labor

Human rights and labor are still dominant themes on the social agenda, as can be seen from Figure 14. Of the 321 provisions addressing social themes, 35 are from Africa and the Middle East, 78 from Asia Pacific, 157 from Europe, 19 from North America and 32 from South America. The pandemic experience of 2020 will only sharpen interest, including matters related to job creation, working conditions and health.

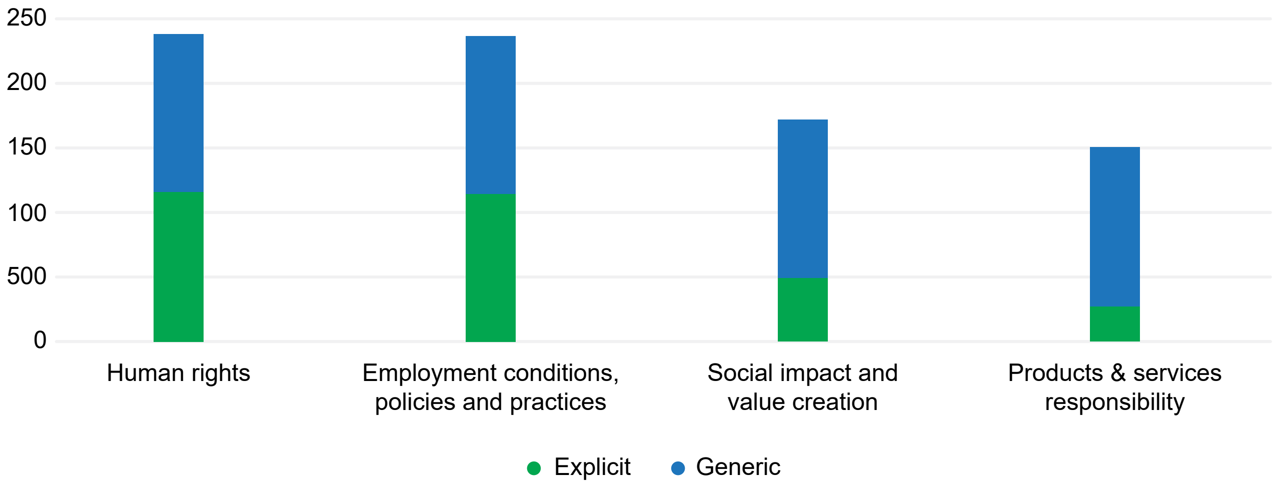
New provisions addressing social themes include the ESG disclosure guidance for listed companies by the Abu Dhabi Securities Exchange (ADX 2019), National Action Plans on Implementing the UNGP on Business and Human Rights introduced in a number of countries, a proposed Human Rights Due Diligence and Reporting Requirement for Multinationals published in Norway (2019), and Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation in Japan (Ministry of Economy, Trade and Industry, 2017).

Governance and anti-corruption

As can be seen from Figure 15, the governance-related theme that receives most attention is accountability, anti-corruption and anti-competitive behavior. This is followed by structure and leadership (including the role of board chair and non-executive directors), ethics and integrity, and stakeholder engagement. The growing involvement of boards is a key development. As one interviewee noted: *"If they [board members] have the obligation to provide investors with quality ESG information, and they misinform them, then they have to take the responsibility for that."*

A statement on the purpose of the corporation by the Business Roundtable of the USA in August 2019 recognized the relevance of a broader range of stakeholders and moved away from the doctrine of shareholder primacy.[27] It also acknowledged that the duty of management and directors is not foremost to maximize shareholder value. In a related development, the new EU Shareholders Rights Directive (EU) 828 or SRD II[28] of 2017, which requires transposition into each member state's national law, encouraged shareholder engagement with a long-term perspective and the public disclosure of information by institutional investors and financial intermediaries.

Figure 14 - Key social themes addressed by reporting provisions (2020)



27 https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans

28 https://op.europa.eu/en/publication-detail/-/publication/9b871b38-3d20-11e7-a08e-01aa75ed71a1/language-en

In terms of geographic distribution, of the 349 provisions addressing Governance themes, 41 are from Africa and the Middle East, 86 from Asia Pacific, 169 from Europe, 25 from North America and 28 from South America. These include the Corporate Governance Directive for financial institutions issued by the Bank of Ghana (2018), new corporate governance codes in France (2018), the UK (2018), Norway (2018), Australia (2018), Singapore (2018), Bangladesh (2018) and Malaysia (2017), the Guidance on Pay Ratio Disclosure in the USA (SEC, 2017), the proposed BIC Bcorp Law of Collective Interest in Peru (2019), as well as the Presidential Regulation 57 on SDGs Implementation issued in Indonesia (2017).

Figure 15 - Key governance themes addressed by reporting provisions (2020)

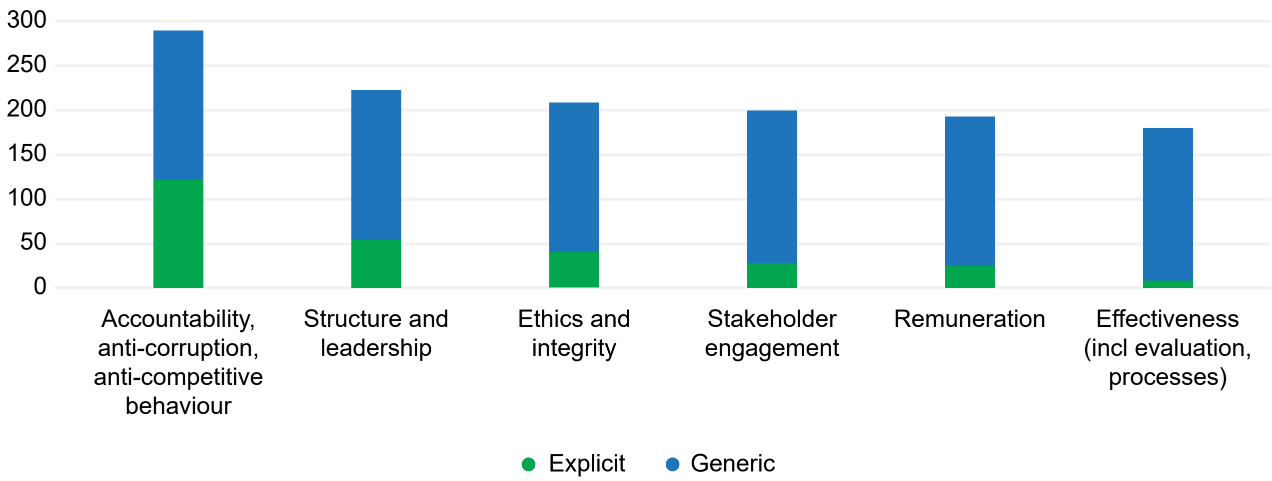
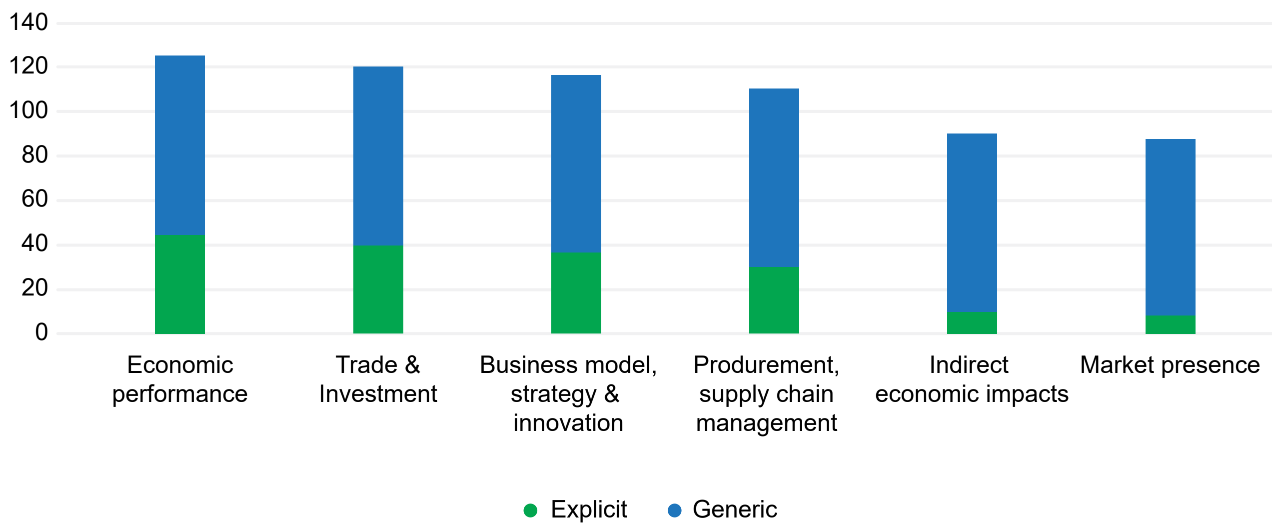
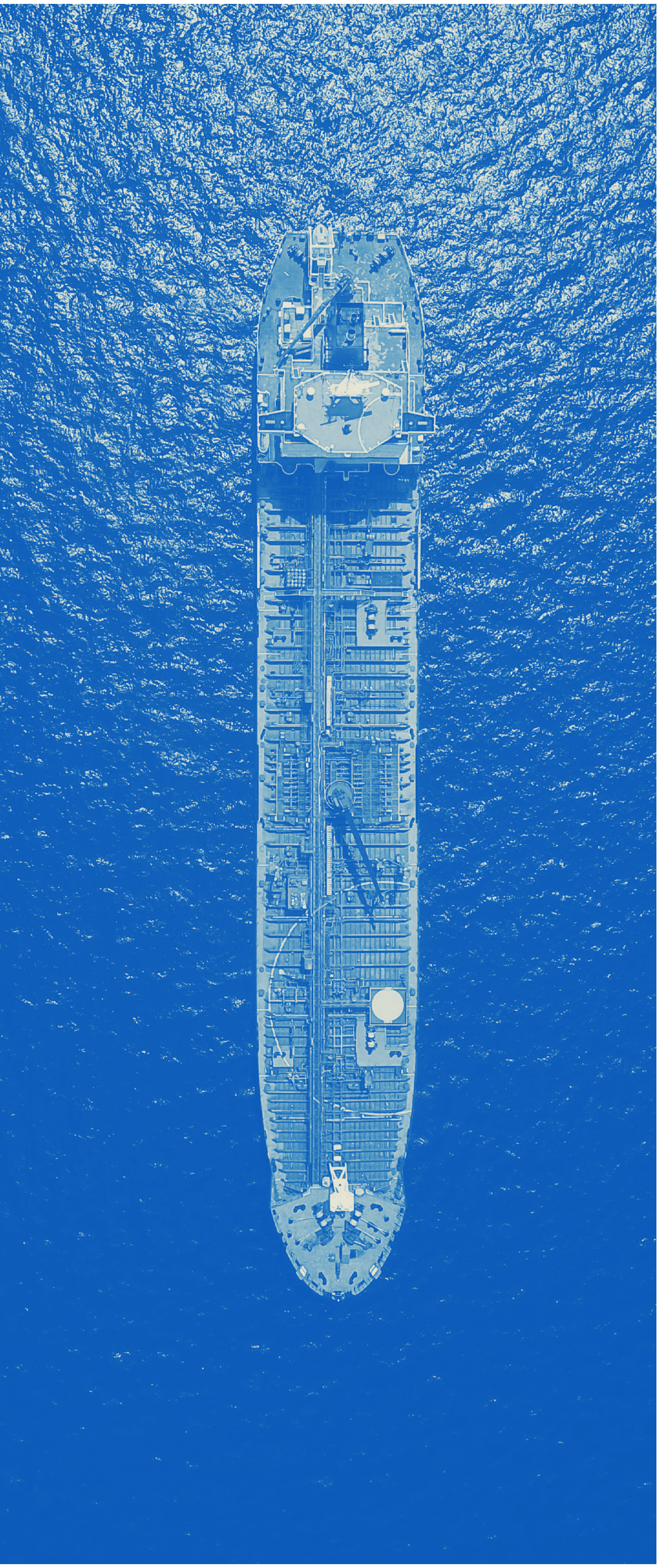


Figure 16 - Key economic themes addressed by reporting provisions (2020)





Business models and indirect impact through supply chains

From the key economic and general themes in reporting provisions (Figure 16), it is clear that economic performance (including revenue and income), trade and investment, as well as business models and supply chains are the aspects that receive greatest attention. Indirect economic impact, including infrastructure and economic development, receive less explicit attention. In coming years growing interest in progress made with the SDGs may redress this shortcoming.

Research and ratings initiatives such as the World Benchmarking Alliance and Vigeo-Eiris apply new methodologies for assessing the contribution of corporations to individual SDGs.[29] Initiatives such as the new Capitals Coalition,[30] launched in 2020, are refining and improving application by corporations of methodologies for assessing external impacts related to for example natural resources and socio-economic development.

Of the 200 provisions addressing economic and general themes, 12 are from Africa and the Middle East, 62 from Asia Pacific, 98 from Europe, 9 from North America and 19 from South America. These include the sustainability index of the Mauritius Stock Exchange (2015), a listing of international standards and guidelines on sustainability reporting published by the SIX Swiss Exchange (2016), the Law 208 on Benefit Corporations in Italy (2015), a new five year sustainable development plan issued in South Korea (2016), the State-Owned Enterprise Minister Regulation of Indonesia (2017) which addresses community development programs, and the SDG Tracker launched in Colombia (2019).

Where and how to disclose decision useful information

While there is a growing sophistication of reporting provisions in the type of information required, this is not accompanied by a significant trend in the venues for disclosure. What is clear is that there is a high demand for quality data, a weakness to be addressed through closer collaboration between regulators, standard setters, professional associations and reporters. As a Danish policy advisor argued:

> *"Three quarters of reporting is about the process: how you plan, how you take into account ESG, what processes you've put into place to ensure reporting, and to ensure you revised your strategic objectives. But what about the indicators? It is not so well developed."*

The World Economic Forum's consultation draft on Common Metrics and Consistent Reporting of Sustainable Value Creation[31] points to the type of output required as well as the necessary collaboration for better harmonization in the non-financial disclosure field. The document links recommended metrics to the SDGs as a global framework and can serve as an important reference for policymakers. Clearly policymakers should also sufficiently review existing provisions, their historical background and effectiveness in the process of formulating new policy.

Growing interest in decision useful data

The demand for decision useful, accountable, reliable and comparable data is reflected in developments in the policy domain. A European Commission policy coordinator argued that *"what has changed and is changing very fast is the demand for better, more reliable and more comparable information coming from the investor community."* This includes special interest in data, since having the right numbers is critical to getting things done in the market environment.

This development can be exemplified by looking at energy supply and energy intensive industries, which are under pressure to produce reliable inventories of GHG emissions, data that can be used for national climate programs and economic instruments such as carbon taxes and emissions trading. In Brazil the national electricity agency ANEEL expects power utilities to produce comprehensive sustainability reports since the 2000s. Requirements more specifically related to GHG emissions are becoming common, such as the National GHG Emission Reporting regulations (2017) issued by the Environment Ministry of South Africa. The interest in data also accompanies greater focus on implementation and progress reporting, which often results in the requirement for disclosure of such statements, as summarized in Table 2.

Table 2: Climate-related data disclosures: increasingly common in reporting provisions since the 2000s

Mandatory GHG Accounting System (2005), issued by Ministry of Environment, Japan	Green Posting System (GHG emissions and energy use) (2012), issued by Financial Services Commission, South Korea	GHG Monitoring Regulation (2014), issued by Ministry of Environment and Urbanization, Turkey	Circular No. 52 Law N 20.780 / Carbon Tax (2014), issued by Ministries of Finance and Environment, Chile	Energy Transition Law (institutional investors, banks and listed companies to report on climate risks, 2015), issued by Ministry of Environment, France	National GHG Emission Reporting Regulations (2017), issued by Department of Environmental Affairs, South Africa

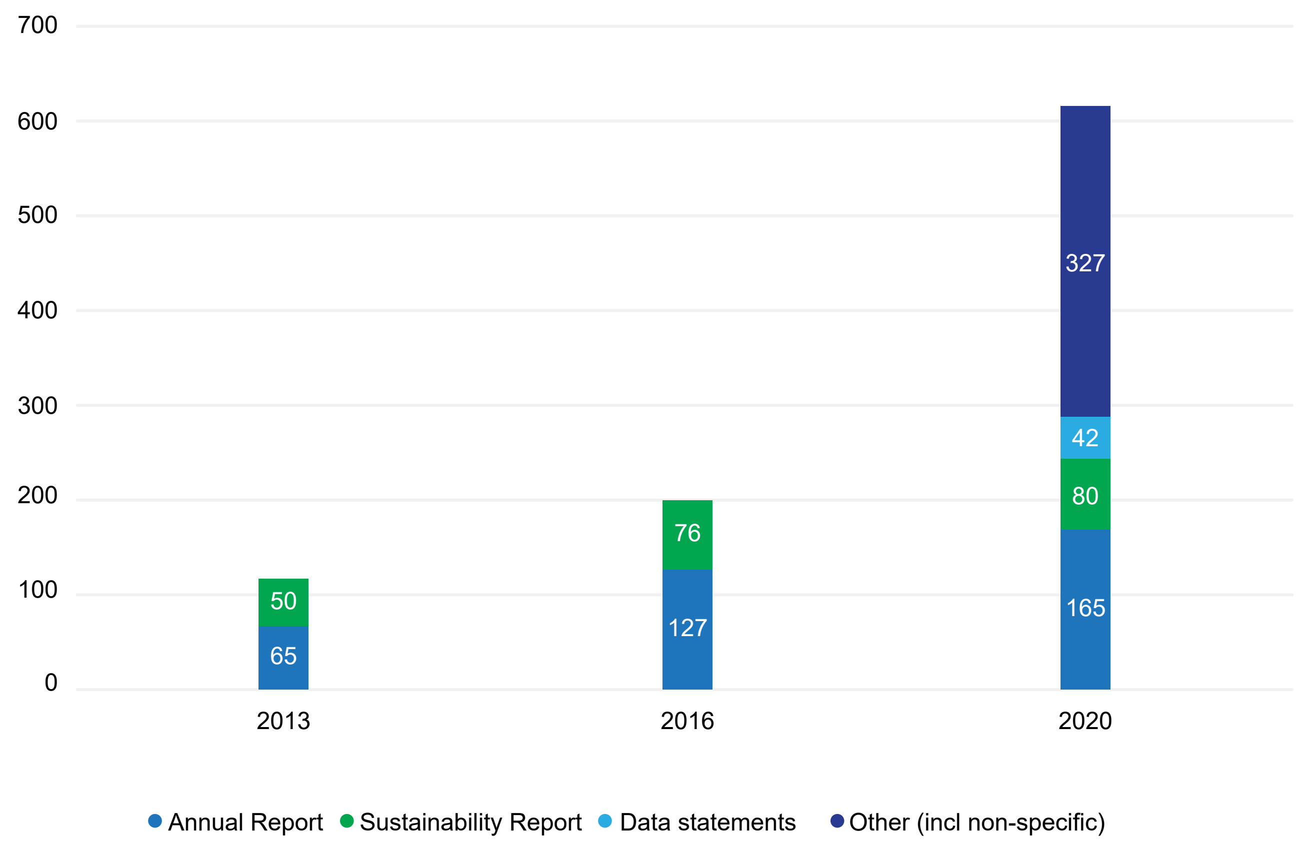
An examination of the sustainability reports of the 1,000 largest companies in Europe by the Alliance for Corporate Transparency (ACT) in 2019 noted the weakness of companies in reporting quantitative goals and targets, as well as data to track progress.[32] Taking lessons for review of the EU's NFR Directive as of 2020, the study pointed to the tendency of large companies to report policies yet displaying weakness in implementation and outcomes. Considering the type of data desired, which describes quantitative progress, it may be asked whether regulatory requirements for more data disclosures and thematic statements will help to address this weakness. Such requirements may also boost standardization, with improved reliability and comparability of data that is required in a mandatory fashion.

Where to disclose data

Where should data and thematic statements be published? Previous editions of *C&S* noted trends in the disclosure venue specified by some reporting initiatives. For example, our last edition found that the number of reporting provisions asking for disclosure of sustainability information within specifically mainstream annual reports increased from 65 in 2013 to 127 in 2016, and references to sustainability reports increased from 50 in 2013 to 76 in 2016.

It is unclear whether recommendation of disclosure venue by regulators effectively consider the user target audience. Diverse communications through which large companies disclose information today include annual reporting, periodic reports, investor briefs, newsletters, press releases as well as web announcements and engagement events.[33] The final report of the EU`s Technical Expert Group on Sustainable

Figure 17 - Disclosures venue referenced by reporting provision: 2013, 2016 and 2020 (expanded breakdown)



32 See the 2019 Research Report at: https://allianceforcorporatetransparency.org/assets/2019_Research_Report%20_Alliance_for_Corporate_Transparency-7d9802a0c18c9f13017d686481bd2d6c6886fea6d9e9c7a5c3cfafea8a48b1c7.pdf

33 On the range of disclosure venues and accounting disciplines involved, see the Blueprint for New Accounting published by Reporting 3.0 in 2018: https://reporting3.org/accounting-blueprint/

Finance[34] in 2020 recommended a Taxonomy Regulation with a new disclosure requirement for companies already providing a non-financial statement under the NFR Directive. It added: *"This disclosure should be made as part of the non-financial statement, which may be located in annual reporting or in a dedicated sustainability report".*

Our 2020 stock-take looked in greater detail at disclosure venues and concluded that the variety of forms is too diverse to give a reliable conclusion on trends. While we found 165 cases explicitly refer to annual reports (or components thereof such as management discussion & analysis, directors' report or governance report) and 80 cases that mention sustainability or non-financial reports, our latest data also includes 175 cases where nothing is specified and 42 cases where specific reference is made to data disclosures and statements.

Other disclosure vehicles referred to include thematic reports, plans and online disclosure. The diverse nature of these specifications possibly call for some standardization, for example consideration by regulators of what specifications are most effective and efficient in the digital age. Greater interest in data and the format in which data is communicated need to address ongoing concerns related to the reliability, comparability and timeframe of data disclosed. Reporting format or type also need to consider the specific user audience addressed and their information needs.

Demand driven by aggregators, raters and investors

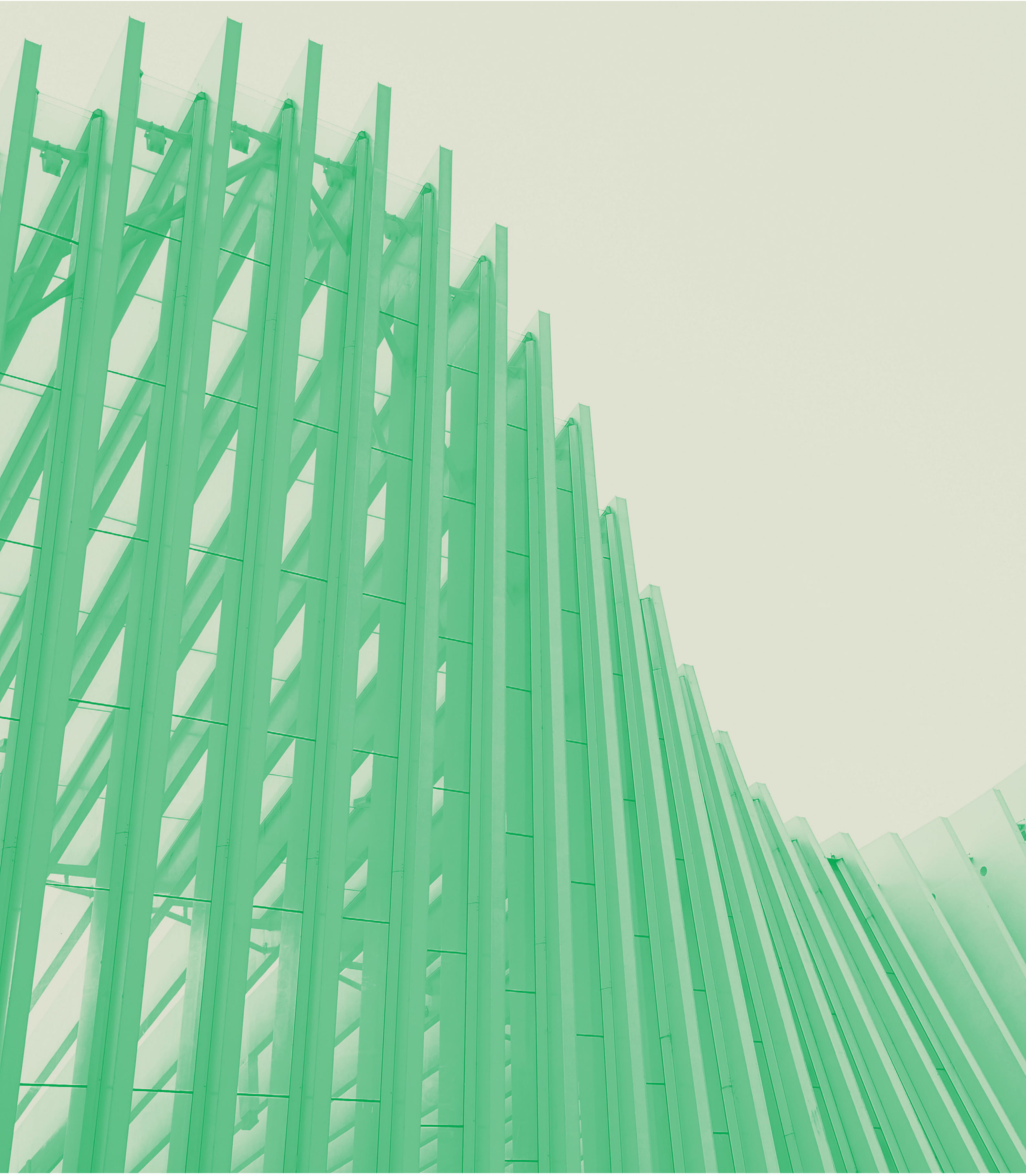
A further aspect to consider is key players in the sustainability performance information value chain. Main stakeholders driving non-financial reporting and the closely linked policy space include the data aggregators, researchers and raters, and ultimately investors as users of the information. Progressing to decision-relevant information in that chain demands quality data. As a stock market regulator said:

> *"To have investor needs satisfied, a policy should require specific indicators, which are relevant for investment decision-making. The uniformity of structured data would allow them to judge one company`s performance and benchmark it against another of the same sector."*

The diverse actors in the information value chain highlights a potential role for policymakers in terms of setting clear requirements. Ideally this should happen in collaboration with standard setting bodies, to ensure harmonization and quality disclosure. As a stock exchange regulator explained, the key problem with multiple disclosure frameworks and lenient disclosure requirements is that *"since there is no globally and fully standardized method to report there is a need for data aggregators, who translate information into more comparable and standardized formats."* Our call nevertheless is not to question the role of diverse actors but to highlight the gaps that exist between reporting frameworks, disclosure requirements, reporting practice and market realities. Such a clear and welcomed step from 2020 is the EU taxonomy for sustainable activities, which sets out a regulatory framing of what constitutes green activities and by this allows (impact) investors to reallocate financial means towards sustainable development.[35]

34 The group started with a focus on climate and environmental objectives. See the final report of March 2020 at: https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf

35 https://ec.europa.eu/info/publications/sustainable-finance-teg-taxonomy_en



Conclusion

The fifth edition of *C&S* presents an overview of developments in the non-financial reporting policy domain since 2016. Our analysis shows further growth in the number of reporting provisions, accompanied by a deepening and sophistication in the level of what is required of reporters. This implies increases in the volume of disclosure required as well as enhancing the quality of information required.

We adjusted our research methodology to reflect these developments. With a possible saturation in the volume of reporting provisions present in the market, and the maturation of reporting practice, the project partners decided to approach leading public decision-makers to better understand the goals and drivers of disclosure policy. Combined with the quantitative overview of reporting provisions, this addition has added depth to *C&S* in 2020.

From our analysis it is clear that financial market regulators and stock exchanges are increasingly active in this area, while government regulators remain the dominant players. Behind this development lies the hunger from data users and analysts for easily accessible information that is relevant, reliable and comparable. This category of stakeholder is becoming more demanding in expecting decision-useful information as regulations shape new markets in which sustainability data gains currency.

Moving forward we would like to echo our call from the last edition of *C&S*. Despite steps by initiatives such as the Corporate Reporting Dialogue[36] and the TCFD for climate-specific disclosures, an appropriate level of coordination and harmonization in the non-financial reporting field is still falling short. This is mirrored in policies requiring reporting, which also reflects weak coordination between regulatory bodies from diverse sectors. Standard setters, reporters, report users, regulators and public policymakers should collaborate in streamlining core requirements for reporters. As an interviewee outlined:

> *"Alignment with international standards would allow investors to have a common picture of the reporting practices. The reporters, report users, and policymakers need to start speaking the same language."*

Our research has added depth to the quantitative assessments of past *C&S* editions by aligning our taxonomy with the WBCSD's *Reporting Exchange* and including commentary from public policymakers. Our analysis cannot guarantee capturing all reporting provisions in the countries involved, and inevitably it may reflect subjective interpretation. Nevertheless, it provides a representation of trends in the evolving field of non-financial reporting policy.

The research community can explore the analysis in more depth, through quantitative assessments and/or through further conversations with the policy community. A number of questions can be answered by further research. For example, how do reporting provisions contribute to the impact envisioned by policymakers and governmental bodies? What role can policy play in ensuring investors and other decision-makers obtain more useful and accountable information? And what is the role of reporting provisions in tracking the private sector contribution to the SDGs?

C&S primarily targets policymakers from the governmental, regulatory and nonprofit community. It supports their drive for developing regulatory frameworks and requirements that secure the disclosure of more relevant information. This in effect can support accountable stewardship, ultimately optimizing impact for a more sustainable future.

About the project partners

Global Reporting Initiative (GRI):

GRI is an independent international organization that has pioneered sustainability reporting since 1997. GRI helps businesses and governments worldwide understand and communicate their impact on critical sustainability issues such as climate change, human rights, governance and social wellbeing. This enables real action to create social, environmental and economic benefits for everyone. The GRI Standards, the world's most widely used for sustainability reporting, are developed with multi-stakeholder contributions and rooted in the public interest.

University of Stellenbosch Business School:

The University of Stellenbosch Business School was the first school from an African university to receive all three international accreditations: AACSB, EQUIS and AMBA. USB's mission is to develop responsible leaders who can help to create value for a better world. USB's areas of expertise include business management, development finance, futures studies, management coaching, leadership development, project management and financial planning.

Disclaimer

This report does not claim to be an in-depth scientific study or analysis. It also does not aim to provide complete and consistent coverage of mandatory and voluntary reporting provisions. The report does not include an assessment of the impact of the reporting provisions identified.

This document does not constitute legal advice – it is a general research report prepared for the purpose of informing discussion. The report is based largely on desk research and may contain inaccuracies.

Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future.

No individual or any other entity, including governments or governmental representatives, should initiate actions based solely on the contents of this report. Readers are encouraged to inform the project partners about any inaccuracies or to provide additional information for future editions.

The country examples, evaluations of existing reporting regimes and recommendations take into consideration the country specific socio-economic background and legal systems in place. Given the varying approaches to non-financial and sustainability reporting, the different underlying assumptions and the limited practical experience inherent in some of the more recent approaches, it has not always been possible to draw a justifiable conclusion.

The views expressed in this publication reflect those of the individual authors and not necessarily those of the University of Stellenbosch Business School, Stellenbosch University, or GRI.

While the GRI Board of Directors encourages use of GRI publications by all organizations, the views expressed do not necessarily represent the decisions or the stated policy of GRI nor does citing of trade names or commercial processes constitute endorsement. Neither the GRI Board of Directors nor the project funders can assume responsibility for any consequences or damages resulting, directly or indirectly, from the use of GRI publications.

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the UN Environment Programme concerning the legal status of any country, territory, city or area or of its authorities, or concerning delimitation of its frontiers or boundaries. Moreover, the views expressed do not necessarily represent the decision or the stated policy of the UN Environment Programme, nor does citing of trade names or commercial processes constitute endorsement.

This work has been funded by the Government of Sweden. Responsibility for the content lies entirely with the creator. The Government of Sweden does not necessarily share the expressed views and interpretations.

Acknowledgements

This report was prepared by the core project partners, namely the Global Reporting Initiative (GRI) and the University of Stellenbosch Business School (USB). The report The report includes contributions from the UN Environment Programme. Information on the instruments in each country was compiled with support from the GRI Regional Hubs, and other partners.

GRI greatly appreciated the support received for this project from the Government of Sweden.

Lead authors

Cornis van der Lugt, Senior Lecturer Extraordinaire, University of Stellenbosch Business School
Peter Paul van de Wijs, Chief External Affairs Officer, Global Reporting Initiative
Daniel Petrovics (project lead), Policy Research Consultant, Global Reporting Initiative

Core project team

GRI: Julien Parkhomenko, Lily Ouyang
University of Stellenbosch Business School, Centre for Corporate Governance: Dr Daniel Malan

We would also like to thank the following people for their contributions:

The interviewed policy makers and regulators for their time and input.

UN Environment Programme contributors: Elisa Tonda, Hanna Thorsteinsdottir

WBCSD and the *Reporting Exchange* for revising early versions of this report and providing feedback on data.

GRI: Alyson Genovese, Aditi Haldar, Anupama Gupta, Andrea Pradilla, Allinette Go Adigue, Beatriz Fatio Vasconcelos, Bao Nguyen, Chiara Ferracioli, Daniel Vargas, Douglas Kativu, Estefania Rubio Zea, Hendri Yulius, Hidemi Tomita, Glaucia Terreo, Juliana Serrano Duarte, Katrina Pillejera, Kofi Anyemedu, Lany Harijant, Lina Camargo, Mariona Isnard Garrell, Michele Lemmens, Pallavi Atre, Piya Baptista, Rubina Pal, Sarah-Jayne Dominic, Siobhan Cleary, Tendai Matika, Thijs Reuten, Tom Whittles, Ximena Gonzalez, Xiang Yao, Yuan Yuan.

This report should be cited as:

Van der Lugt, C. T., P. P. van de Wijs, & D. Petrovics. (2020). Carrots & Sticks 2020 - Sustainability reporting policy: Global trends in disclosure as the ESG agenda goes mainstream. Global Reporting Initiative (GRI) and the University of Stellenbosch Business School (USB).

Carrots & Sticks

Global Reporting Initiative

Barbara Strozzilaan 336
1083 HN Amsterdam
The Netherlands
Telephone: +31(0) 20 531 00 00

www.globalreporting.org

University of Stellenbosch Business School

Carl Cronjé Drive
Cape Town (Belville)
South Africa
Telephone +27 21 918 4111

www.usb.ac.za

GRI

USB University of Stellenbosch Business School
Responsible leaders. We shape them.

Supported by:

Sweden Sverige

With contribution and support from:

UN environment programme