

Sustainability Reporting: Public Policy Trends Workshop

hosted by the United Nations Environment Programme (UNEP)
and the Global Reporting Initiative (GRI)
at UNEP DTIE, Paris, 30 - 31 May 2005

- Report on the Workshop -

Attendance

Participating were representatives from EU Commission, OECD Secretariat, GRI Secretariat, UNEP DTIE, Governments of Brazil, France, India, Italy, Sweden, United Kingdom, and United States of America, as well as the Johannesburg Stock Exchange and KPMG.

Presentations

The workshop programme included the following formal presentations (attached):

Sustainability Reporting Public Policy Trends Workshop – Introduction by Monique Barbut / Cornis van der Lugt, UNEP

Sustainability Reporting Public Policy Trends Workshop – Introduction by Ernst Ligteringen, GRI

Sustainability Reporting Public Policy Trends Workshop – Introduction of the KPMG Draft Discussion Document by Daniel Malan (meeting facilitator), Sustainability Services, KPMG

French legislation on SD Reporting: the NRE Experience, presented by Christian Brodhag, French Government

Sustainability Reporting in South Africa, presented by Nicky Newton-King, Johannesburg Stock Exchange

GRI Framework – Public Agency Reporting presented by Teresa Fogelberg, GRI

Sustainability Reporting by the European Commission, presented by Dominique Be, EU Commission

Main discussion points

Participants were reminded of the primary objective of the workshop, namely to assess new trends in reporting policy and legislation in selected OECD and emerging market countries. Related to this was the question how much interest or progress public authorities are showing in producing sustainability reports on their own operations. Related to the primary objective, a key question was whether governments would agree about the need to establish minimal international sustainability reporting requirements or rules, in order to avoid fragmentation. This would still leave room for choices by individual countries of mandatory or voluntary schemes, with national regulation taking international agreements and initiatives into account.

Although there was no agreement on the above questions, there was a spirited discussion on following core issues:

- Why disclose / report?
- Should reporting be mandatory or voluntary?
- Who should report?
- To whom should be reported?

Why disclose / report?

While most of the discussion took the need for sustainability reporting for granted, it was mentioned that in developing countries much **awareness raising and capacity building** remain to be done on reporting as a management tool and as legislative subject. In many developing countries pressure for non-financial disclosure from the finance & investment community is still non-existent.

Discussion also noted the need to link **micro-level / company reporting with national / macro level reporting** to international institutions such as international agreements (MEAs) and UNGA on issues such as the MDGs. GRI has incorporated and integrated many elements of these international processes into its principles and guidelines. However, there is an apparent gap between intergovernmental processes such as CSD and multistakeholder international processes such as those of ISO, ILO and the UN Global Compact.

Participants discussed the difference and overlap between **what the market demands, what the public / society demands and internal company reporting / management information systems demands**.

Should reporting be mandatory or voluntary?

The Johannesburg Stock Exchange approach provides an example of a mid-way between mandatory and voluntary approaches in the form of **self-regulation**. Companies are invited to volunteer for consideration for inclusion in their new JSE SRI Index. Before the introduction of the index the stock exchange started requesting listed companies to report non-financial information, based on recommendations from the second King Report on Corporate Governance (King II). This is, however, not a mandatory requirement. Like France the country has seen strong growth in sustainability reporting, but significantly not as stand alone reports but rather as **sustainability reporting integrated with annual financial reports**.

Discussion on different approaches highlighted **the role of carrots and sticks**. In the USA, EPA requirements under the Performance Track programme offer incentives such as recognition, reduced number of company site inspections, and discussion with the finance community (insurance, investment) to recognise / improve the rating of performer companies. The Government of France has general incentives through eg green purchasing / procurement programmes. But in France sustainable development is presented as a strategic issue, one that should be driven by that long term focus rather than short term incentives.

Problems experienced with the French NRE include the fact that Government created a law without providing for **enforcement (sanctions)**. The law needs to be followed by a decree,

which is currently being developed. In the first year of the NRE some companies assumed they could get away with not reporting. The foreseen OFR in the UK provides for a penalty for not reporting or for not providing explanation when not in compliance.

The EU Commission reported that the new **EU Directive on Annual Accounts** already includes a reference to sustainability, hinting that this already comprises some form of mandatory requirement. In several EU countries this has led to sustainability reporting references in their Annual Accounts legislation.

It was agreed that the GRI offers a neutral framework that can fit any mandatory, voluntary or mixed/self-regulatory system.

Reporting legislation: fragmented or consolidated? In most countries **reporting requirements on various / specific issues is dispersed throughout national legislation**. A first challenge for any Government is simply to take stock of current reporting requirements for companies, laying the ground for improved integration and development of comprehensive sustainability reporting legislation. The KPMG study presents such stock taking in the mainly OECD countries covered. The wish was expressed to expand such stock taking to developing countries, to start with more emerging market economies.

In France companies complain that they are expected to simply report against a list of issues. Question is how reporting legislation can avoid a bureaucratic, re-activist approach, and allow for reporting being a pro-active, innovative management tool that supports improved company performance. Many companies initially respond by complying with the law to the letter, rather than complying with the spirit of the law.

It appears that from public authority side, no guidance is given to companies on **how to decide what is material / relevant**. Nor are companies required to report how they decided what is material / relevant.

Who should report?

Governments / Public authorities need to consider whether they wish to see reporting by e.g. sites (local level), by small companies (SMEs), by subsidiaries or corporate groups. GRI is being developed for use by any organisation, with sector specific supplements added. The arrival of the new GRI public sector supplement is a reminder that Governments and the Public Sector are increasingly asked to report as well.

Public authorities are invited to join the pilot phase testing of the new GRI public sector supplement. A key player will be the Centre for Public Agency Sustainability Reporting, based at ICLEI in Australia / NZ, who is setting up in Melbourne an international centre on public agency sustainability reporting that will support GRI.

The EU Commission (DG Employment) presented progress made in the development of its own sustainability report, which is based on the GRI guidelines. It wishes to set an example, building on existing efforts such as the Green Housekeeping activities of the administration of the Commission and environmental management (EMAS) related activities in the Commission. In terms of boundaries, the Commission explained its focus on its own operations and not the impact of its policies (which is indirect, implemented by national Governments).

To whom should be reported?

The UK's proposed Operating and Financial Review focuses on **shareholders** as the target audience. Companies are expected to report on economic, environmental and social issues generally (i.e. no requirement on specific issues / indicators), considering what issues are "material" (relevant) to the financial performance of the company.

Linked to the question of target audience is the **ministry / government department to whom must be reported**. Is it a department that drives policy, or a department that is at the forefront of enforcing regulation (such as an economics / finance ministry)?

Conclusions / follow-up required

The KPMG report will be updated on the basis of the outcome of the workshop and the reactions of other (invited but absent) governments, and be made available as a resource document (UNEP and KPMG to decide on possible publication as a "*discussion document*" in September 2005).

Governments will be asked to provide comments and any corrections (eg law references) to the document latest by 30 June 2005.

Participants will consider which Government(s) could suggest introducing the theme of the workshop and the discussion document at a meeting in Paris of the OECD on its CESR-related guidelines (MNEs, corporate governance).

In developing voluntary or mandatory national reporting guidelines or regulation Governments should consider the relationship with the global level (GRI) and where possible build national initiatives based on and complementary to the GRI. (*considering value of global comparability and transparency*)

In addition to developing national sustainability reporting policies, a further strengthening of GRI as the global sustainability reporting framework is necessary. This will require adequate financial support.

UNEP is encouraged to:

- maintain and expand this network of workshop participants and other Government officials who can act as focal points on the issues of CESR / sustainability reporting policy, legislation and practices in different countries. More learning experiences can be shared through this discussion group.
- Identify examples of sustainability reporting by Governments and other public authorities, such as the European Commission and several ministries.