wbcsd

The Reporting Exchange

Insights from the Reporting Exchange: **ESG reporting trends**

CDSB Climate Disclosure Standards Board

Introduction: the Reporting Exchange

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

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

What are the objectives of the Reporting Exchange?

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

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

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

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

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

A global outlook

Our research with WBCSD's Global Network and other partners across the world identified over 1750 sustainability reporting provisions across the 60 countries. On the platform, we use the term "reporting provision" to describe the reporting requirements, reporting resources and management resources which influence disclosure of the non-financial information – this includes all corporate information about environmental, social or governance issues. This report outlines some of the trends that have been identified during our research, and poses some questions about what the underlying causes or influences of these trends might be.

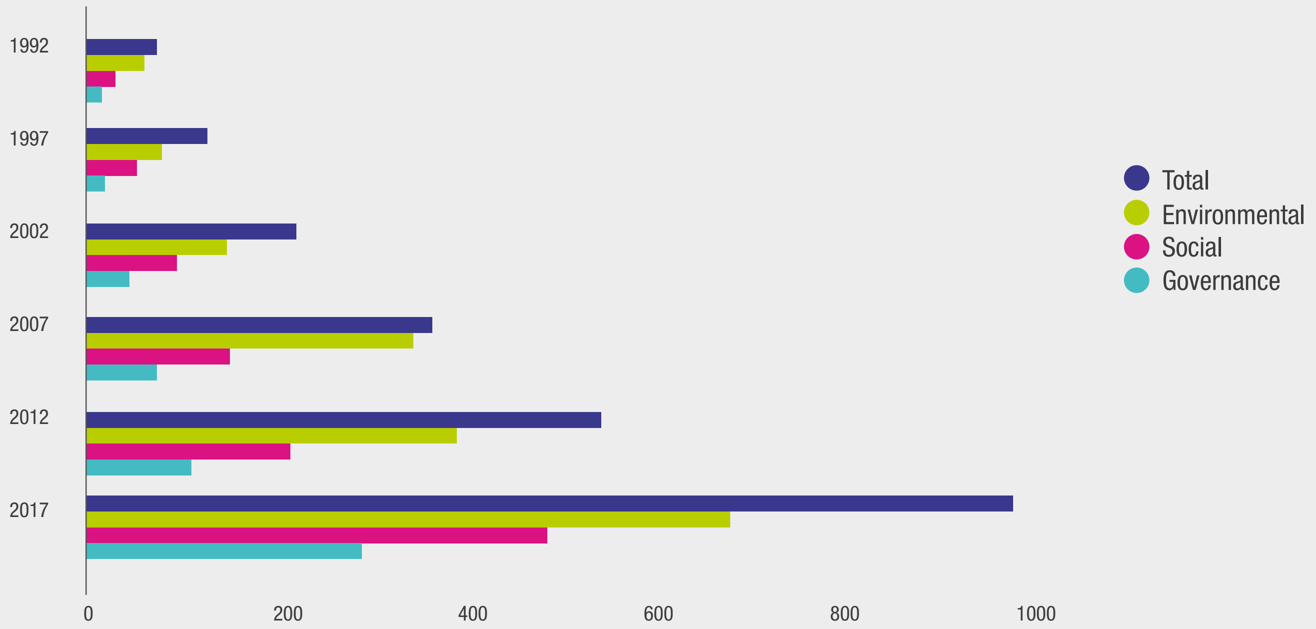
The data suggests that in the 25 years since the 1992 Rio Earth Summit, the number of sustainability reporting requirements – the provisions which specify either mandatory and voluntary disclosure requirements of specific non-financial information – has increased more than ten-fold. There are now over 1000 reporting requirements that have been introduced by various national and supranational bodies, whose growth is analyzed in this paper. Our research shows the most significant increase in the number of new requirements has taken place in the past five years, a trend which is explained in more detail later in this paper.

> *"In the 25 years since the 1992 Rio Earth Summit, the number of sustainable reporting requirements has increased more than ten-fold"*

While there are many benefits to corporate reporting, including greater transparency and easier access to better quality information, this rapid growth in the number of reporting provisions has created some challenges.

Unsurprisingly, the expansion of sustainability reporting has led to confusion, repetition and multiplicity, making it less effective. As highlighted by the ACCA, "*Beneath the surface of the waves of activity on sustainability reporting, there is much unity, agreement and synergy in what different initiatives seek to achieve*", however, *"on the surface…the activity looks fragmented and confusing."*[2]

Figure 1: The past 25 years of reporting requirements for sustainability information as well as the growth of reporting requirements for environmental, social and governance topics.



The first step we took to understand the evolution of sustainability reporting to separate the three aspects of sustainability – environmental, social and governance – to focus solely on reporting requirements.

Our research shows a similar growth pattern, which has been consistent across all three aspects over the past 25 years (Figure 1). The clear trend that emerges is that **environmental topics have been consistently the most prevalent reporting requirements, while governance topics have been the least**. This finding could be the result of several factors, such as the complexity of regulating different aspects of sustainability, or equally, the challenge in both political and regulatory terms of tackling more abstract issues such as corporate governance when compared to compliance with environmental topics such as waste treatment or emissions.

More specifically, **69% of the reporting requirements** cataloged by the Reporting Exchange require disclosure on **environmental topics**, in comparison to **49% and 30% for social and governance topics**, respectively.

To gain further insight, we then dove into specific areas of sustainability reporting to assess how **regional and characteristic trends** have developed over time. From these smaller-scale analyses, we can begin to understand the mechanics at play in the wider corporate reporting environment.

Regional perspectives

The Reporting Exchange presents greater coverage in certain geographical areas, mainly because of the reach of the global network partners who contributed to the platform. While the Reporting Exchange includes provisions from 24 European countries, we have only been able to include information from two African countries. But as the Reporting Exchange grows, we aim to engage with more partners and contributors across the world to expand the platform's scope.

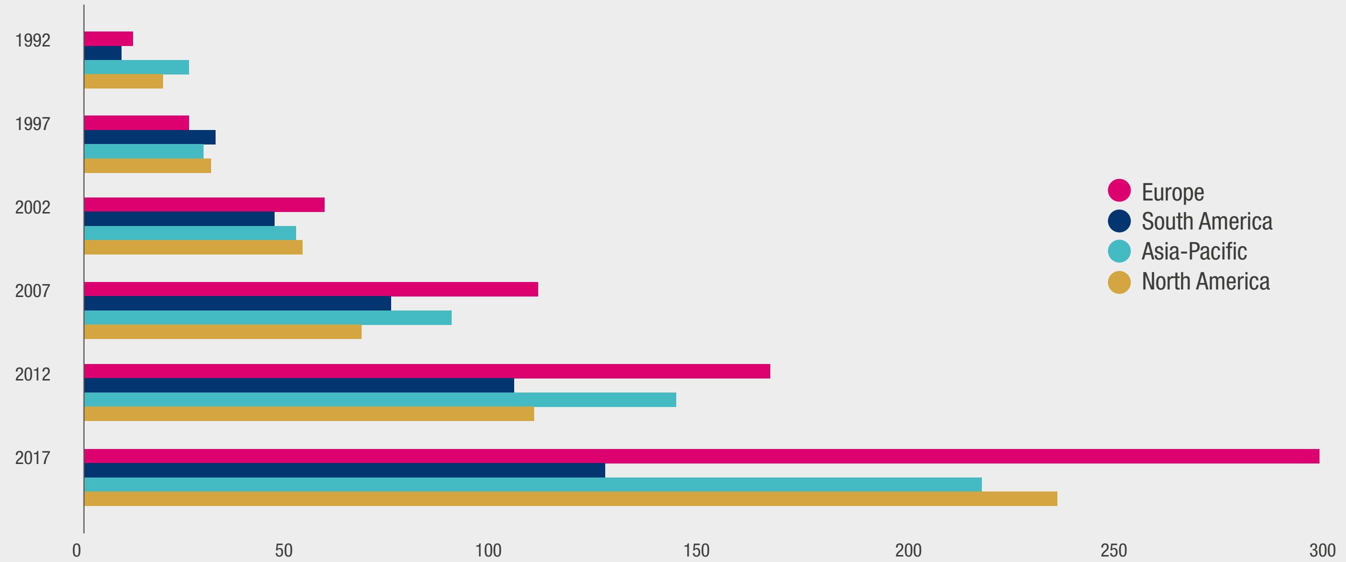
The geographic distribution of the countries on the platform is concentrated in four regions: Asia-Pacific, Europe, North America and South America.

Table 1 outlines the countries the Reporting Exchange covers in these regions. This analysis excludes provisions categorized as "International" (those that are not country specific) or "EU" (those that apply to all 28 Member States of the European Union), as well as those from the six countries outside of these specified regions (Israel, Kazakhstan, Nigeria, Russia, South Africa and Turkey).

Table1: Current coverage by region

Region	Countries included	Provisions	Reporting requirements
Asia-Pacific (14)	Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Taiwan, Thailand, Vietnam	396	213
Europe (24)	Austria, Belgium, Croatia, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Spain, Sweden, Switzerland, Ukraine, UK	411	293
North America (8)	Canada, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Panama, USA	387	236
South America (8)	Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay	199	126

Figure 2: The growth of total reporting requirements over the past 25 years in Asia-Pacific, Europe, North America and South America.



Let's start by looking at the growth of all ESG reporting requirements across the four regions. Though there are discrepancies across the regions, the exponential growth of ESG requirements in the **Asia- Pacific, Europe and North America** is clear. On the other hand, we can see a steadier, more linear growth of sustainability reporting requirements in **South America**, as outlined in Figure 2.

This trend could be an indication of a different approach to sustainability across the South American countries because of national identity or cultural norms. Take the Ecuadorian Constitution of 2008, for example. The constitution aims to build a form of "coexistence, in diversity and in harmony with nature, to achieve the good way of living."[3] Based on the Andean concept of sumak kawsay (good living), which describes a collective development that is achieved in harmony with nature. **This constitution was the first in the world to recognize legally enforceable ecosystem rights.**[4]

The second identified trend is the rate at which reporting requirements on different **sustainability** topics have developed across the four regions (Figures 3, 4, 5 and 6).

Figures 3 to 6 show that each region fits with a global pattern, with a clear trend towards environmental over social and governance reporting provisions. More specifically, South America shows the most sustained development of corporate reporting across time. Despite the relatively small number of countries in the region (8), the number of provisions related to environmental issues is still high. This is perhaps, in part, a response to the environmental challenges in the region and a desire of governments and others to protect ecosystems and their potential resources. For example, Bolivia's Law of Mother Earth gives nature equal rights as humans and regards sustainability as integral to all. With its Framework, corporate reporting in Bolivia is mandatory, as to ensure companies' actions are in line with the health and regeneration of nature.

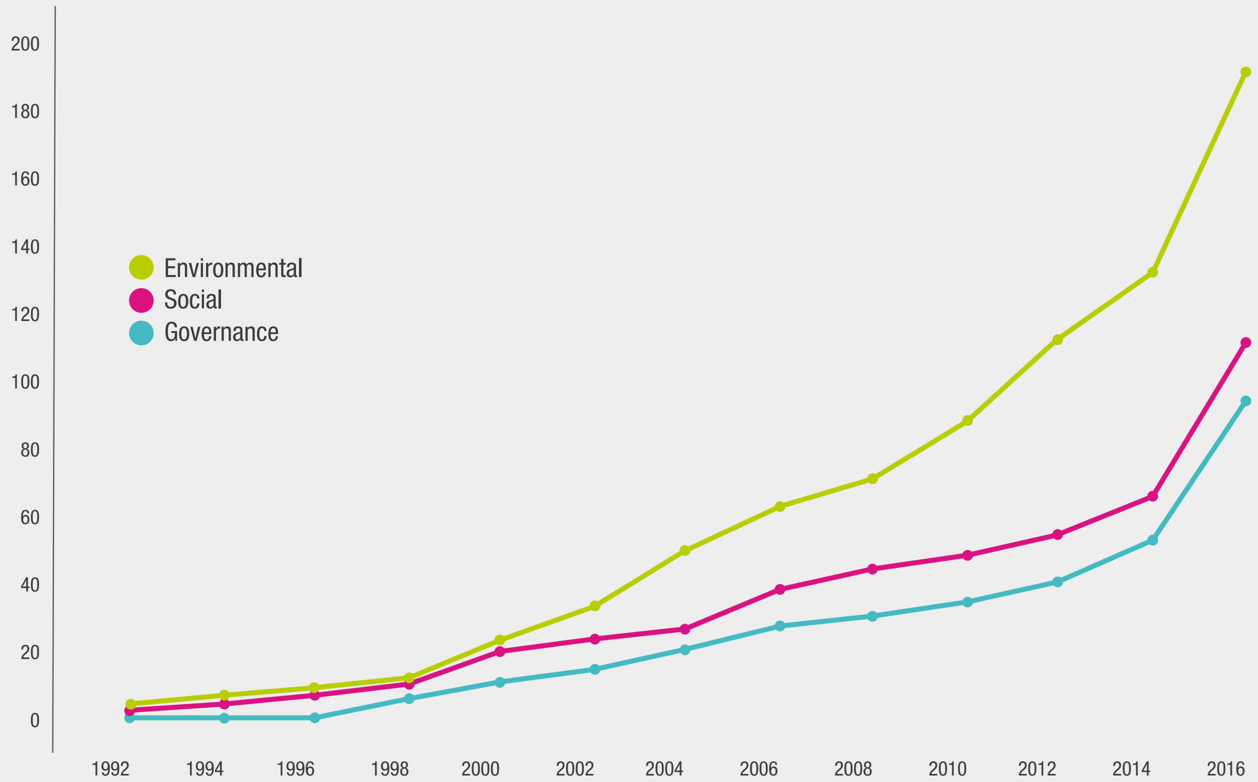
In Europe, on the other hand, we see the largest number of provisions requiring the disclosure of good governance practices, compared to all the other regions. This could potentially be the result of the European Union's proactive position on governance, which is evidenced by several directives, such as Directive 2007/36/EC on shareholder rights or Directive 2013/34/EU on annual financial statements and related reports.

These regional developments highlight the connection and the roles of cultural outlook, politics and history in the prevalence and style of sustainability and corporate reporting.

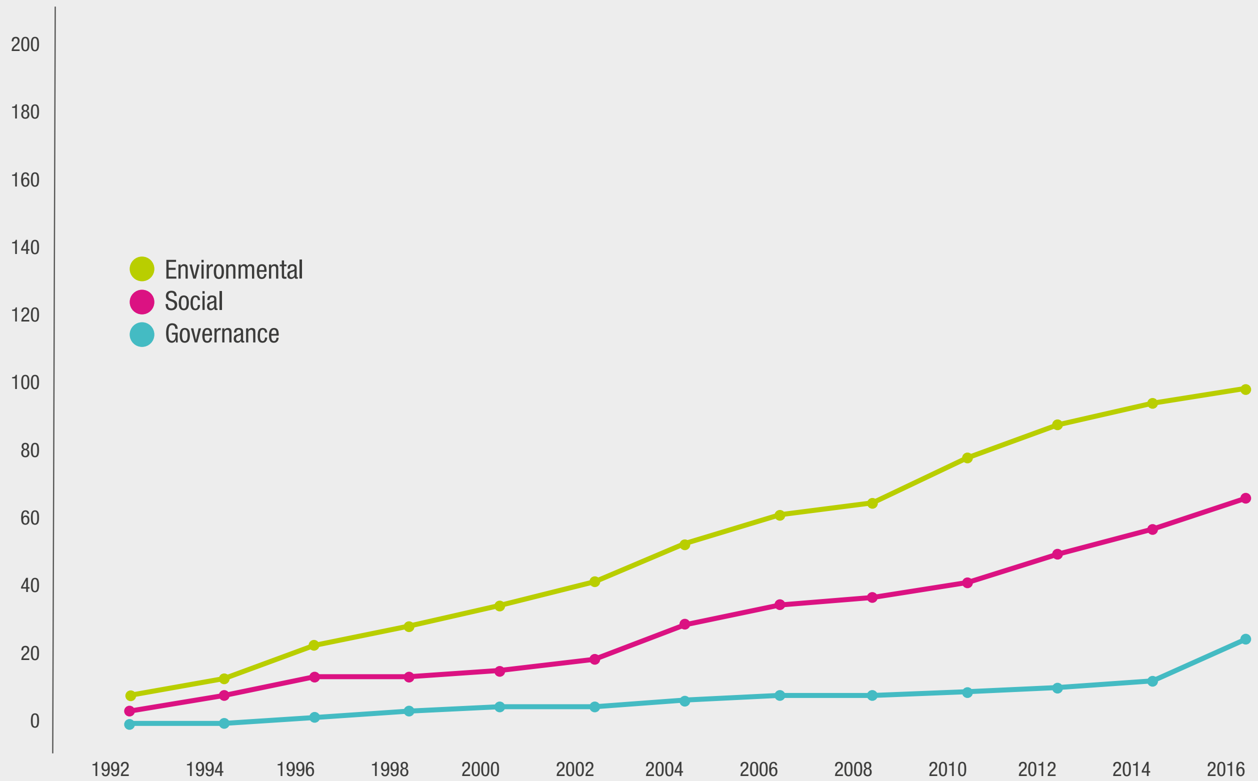
[4] It's important to note that the regional groupings in this report might have obscured some of the local contexts and specific conditions that influence the reporting landscape. For instance, in the USA, the Sustainability Accounting Standards Board (SASB) was responsible for a large number of voluntary reporting requirements introduced in recent years, determining a significant growth across the period in analysis. Such impacts will require a more in-depth consideration of the trends and the drivers behind them.

Figures 3 to 6 Growth of total environmental, social and governance reporting requirements for the past 25 years in Asia-Pacific, Europe, North America and South America, respectively.

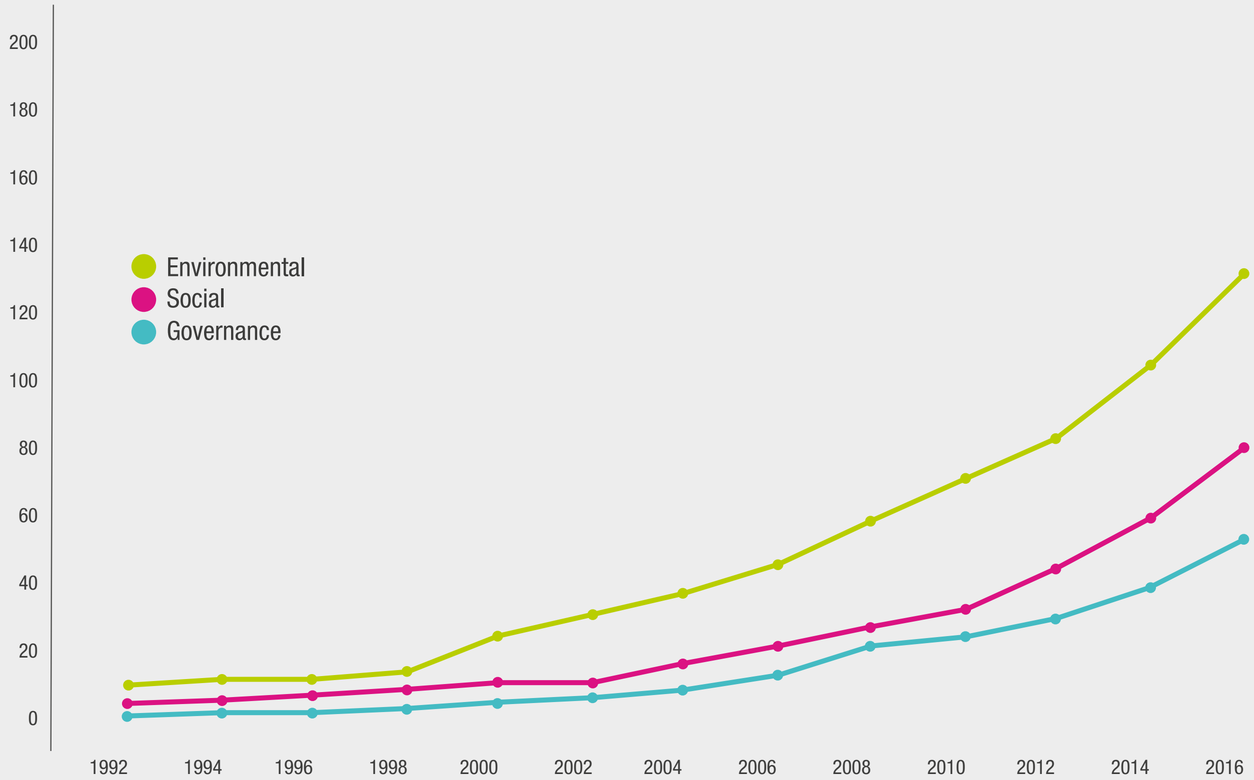
Europe ESG - Accumulative



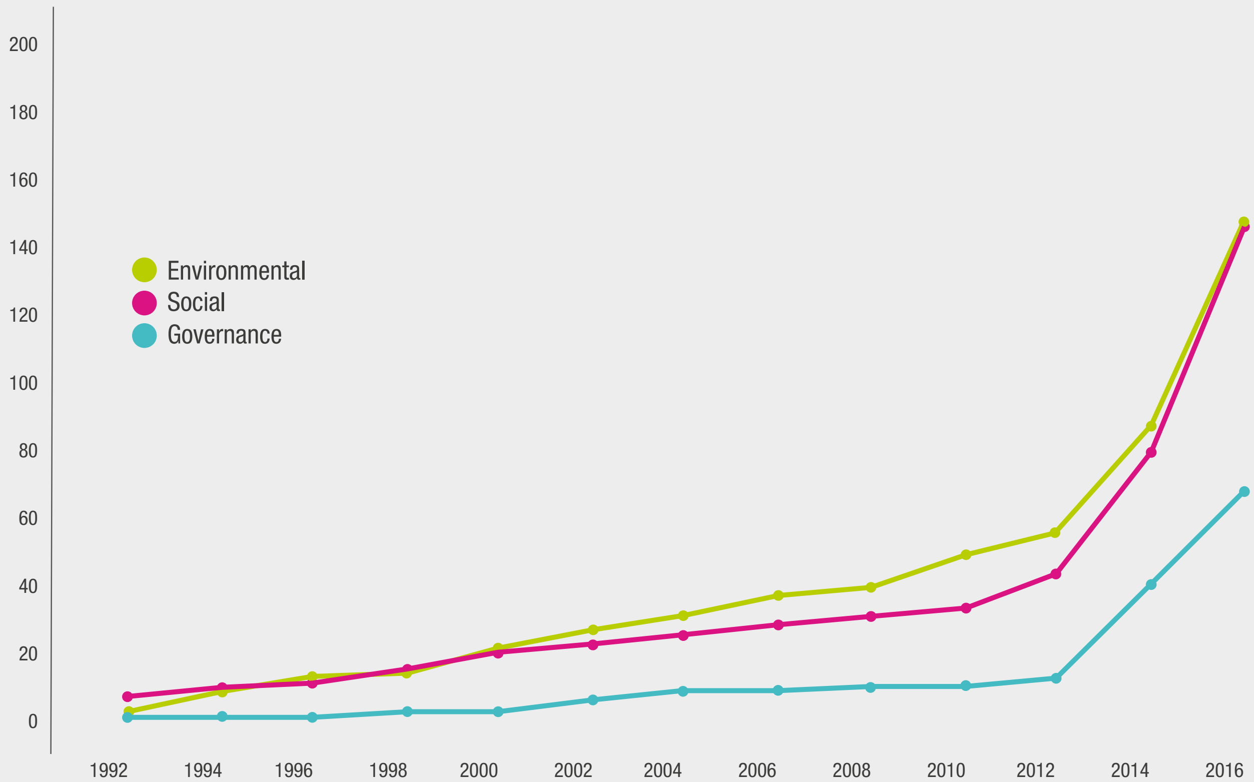
South America ESG - Accumulative



Asia-Pacific ESG - Accumulative



North America ESG - Accumulative



The changing landscape

The Reporting Exchange allows us to consider how the features of corporate reporting are changing over time globally. In this section, we look at three elements of the framework used to categorize provisions to understand how the characteristics of reporting have evolved:

1. **Obligation** – how companies are expected to respond to a requirement, whether on a mandatory, voluntary or comply or explain basis;
2. **Conditions** – everything that influences the applicability, relevance and obligation associated with reporting provisions, including thresholds and specifications of the organizations to comply; and
3. **Channel** – the means through which companies are asked to disclose information, such as sustainability reports, annual filings or others.

These elements are fundamental for understanding how companies, investors, regulators and other actors interact with the reporting environment, and therefore points to how more efficient and effective reporting practices are developed.

> *"Over the past ten years, the number of voluntary reporting requirements around the world has increased from under 10 to 182"*

Obligation

The Reporting Exchange considered three types of obligations that were identified from a thorough review of various reporting provisions:

1. **Mandatory provisions** impose an obligation on the organizations within their scope to report or respond;
2. **Comply or explain** requires companies to comply with requirements or explain why they have not done so; and
3. **Voluntary provisions** have no defined obligation and companies respond on a voluntary basis.

Most of the reporting requirements are mandatory. This is a result of the legislative and regulatory focus of the research but also a reflection of how fundamental the topics of sustainability are to development, social protection and good governance.

The use of comply or explain is still relatively limited but there has been increasing adoption of this mode. From just two reporting provisions at the turn of the millennium, there are now over 30 provisions with this obligation. First introduced by the UK Corporate Governance Code in 1992, comply or explain became popular with influential developments such as the OECD/G20 Principles of Corporate Governance and the South African King Code.

Comply or explain is still most commonly used by corporate governance codes. However, because of its ability to take account of companies' specific circumstances and to provide appropriate flexibility, the influence of comply or explain is spreading into other areas of sustainability reporting. For example, the recently introduced Greek Sustainability Code, a framework which aims to improve the environmental and social performance of Greek businesses, uses the obligation to allow flexibility and wide-scale application.

Increasing emphasis on voluntary reporting is also apparent in the Reporting Exchange data.

Over the past ten years, the number of voluntary reporting requirements around the world has increased from under 10 to 182. To date, 80% of these voluntary requirements are issued by non-governmental organizations such as CDP, the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB).

These provisions are highly focused on certain ESG topics or specific sectors, and have been developed to encourage and assist companies towards ESG disclosure that's directed at investors and stakeholders, rather than regulators.

Advocates for voluntary reporting acknowledge the flexibility and innovative potential of such systems, while also supporting the development of mandatory requirements to achieve a more effective and complete reporting system[2]. Mandatory reporting is beneficial because it can create a level playing field by ensuring that companies who disclose are not disadvantaged by making ESG risks and other information public.

Recent analysis of international finance companies' sustainability reporting patterns led the UN Environment Programme to be "doubtful to what degree…voluntary initiatives can help align incentives, diminish ESG information asymmetry and establish a shift towards a more sustainable finance sector," seeing these initiatives primarily benefiting the institutions themselves[5]. This could indicate that more work still needs to be done to ensure these voluntary reporting requirements result in high-quality dislcosure and action.

As the landscape has changed, placing greater emphasis on individual companies and stakeholders, the role of forward-thinking and pioneering business is especially pronounced towards achieving a sustainable future for all.

Conditions

During the research, we noted that there are conditions which influence the applicability, relevance and obligation of certain provisions. These conditions often refer to a company's sector, activity thresholds or size (personnel or financial). They are commonly included in regulatory provisions, as the conditions ensure the greatest impact of sustainability reporting without excessive burden across business.

For example, the impact assessment undertaken by the UK Department for Environment, Food and Rural Affairs (DEFRA) for company greenhouse gas reporting led to amendments of the UK Companies Act in 2013[6]. The assessment considered five options – business as usual, enhanced voluntary reporting, reporting for quoted companies, reporting for large companies and reporting for companies meeting energy use criteria – and tested each with a combination of rigorous cost-benefit analysis and broader impact assessment. The authors found that the third option – mandating GHG reporting under the Companies Act when applied to all quoted companies – provided the greatest benefit, especially in terms of exposing companies' climate change risk to investors and other stakeholders.

The Reporting Exchange shows that since the year 2000, the proportion of conditional requirements in ESG reporting has increased. This suggests that reporting requirement developers are becoming increasingly focused and specific, requiring reporting only from those companies with the greatest potential for impact.

Channel

There are numerous channels through which companies are asked to disclose their sustainability performance. The four main disclosure channels identified during the development of the Reporting Exchange are:

1. **Mainstream report:** Annual reporting packages which provide information to existing and prospective investors about the financial position and performance of the organization. They generally contain financial, governance statements and management commentary.
2. **Integrated report:** An integrated report explains to financial capital providers how an organization creates value over time. It also seeks to explain how the organization interacts with the external environment to create value over the short, medium and long term.
3. **Sustainability report:** A report published by a company or organization about the environmental and social impacts caused by its everyday activities, communicating sustainability performance and impacts.
4. **Specialist system:** This allows companies to disclose information through online response systems, questionnaires, or forms and is often directly to an organization or authority requesting the information.

The Reporting Exchange shows that the primary channel for disclosure for sustainability information is the specialist system. This is primarily because reporting requirements ask companies to address their disclosures directly to regulators and governmental institutions.

However, an interesting trend in the channel of disclosure may represent a fundamental change in attitude to sustainability: in 2013, over 80% of all published reporting requirements required disclosure using a specialist system. But by 2017, this percentage dropped to 70%, with nearly a quarter of all requirements focusing on the mainstream report as the preferred channel for disclosure. It appears that regulators are putting an increasing emphasis on disclosure through mainstream and sustainability reports, which may help make ESG risks and opportunities a common factor for decision-making for mainstream investors.

This change is highlighted by two recent and influential developments – the adoption across Europe of the EU Non-Financial Reporting Directive and the release of the Task Force on Climate-related Financial Disclosure Recommendations. As the Task Force notes, "companies with public debt or equity have a legal obligation to disclose material information," and as "climate-related issues are or could be material for many organizations", the disclosure should be to the mainstream report[7].

Taking this analysis further, we found that 53% of voluntary reporting requirements direct their disclosure into mainstream annual reports and are three times more likely to require mainstream reporting. As such, the introduction of voluntary reporting requirements seems to be driving sustainability into the annual reporting cycle and, therefore, is turning into a core part of businesses' strategies and operations.

> *"Regulators are putting an increasing emphasis on disclosure through mainstream and sustainability reports, which may help make ESG risks and opportunities a common factor for decision-making for mainstream investors"*

Proportion

As noted, there has been significant increase in the number of reporting requirements across the 60 countries covered by the Reporting Exchange.

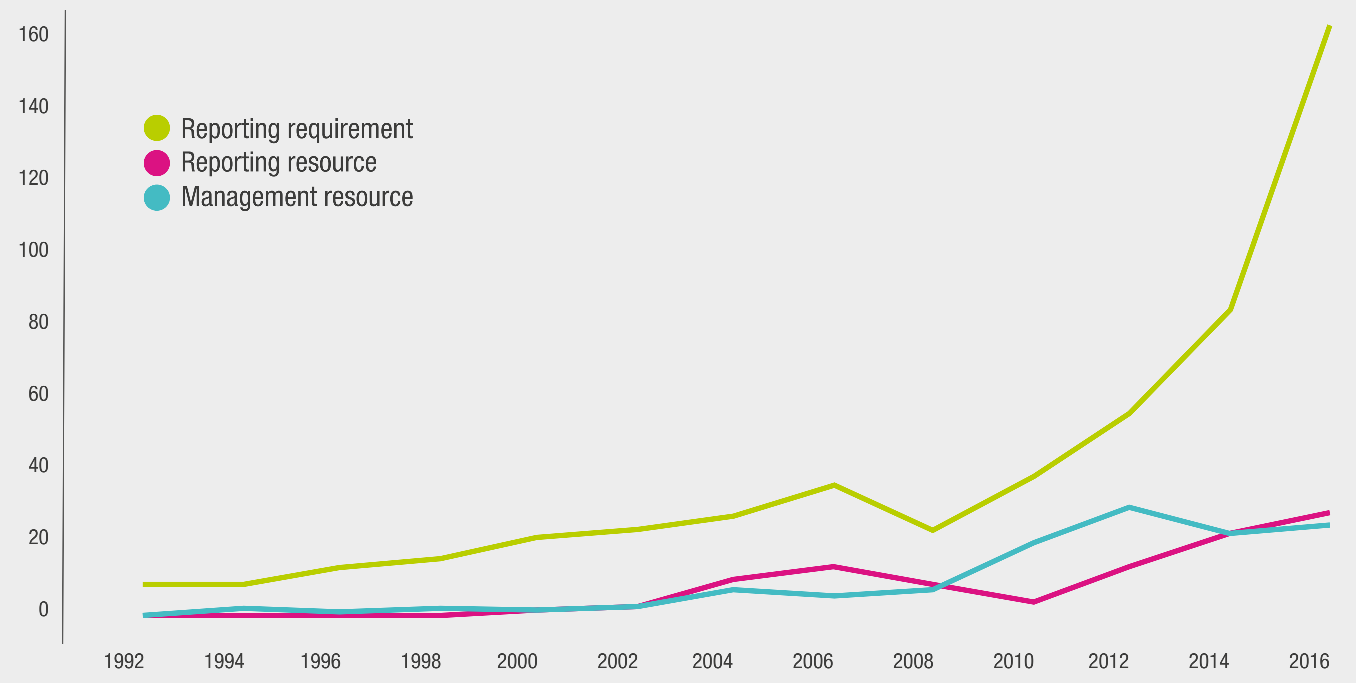
But the platform includes two other types of provisions: reporting and management resources. These assist companies in the disclosure process and help them embed sustainability in their corporate practices. Another trend we found in our research is that the clear growth in the number of reporting requirements has not been accompanied by a large increase in the publication of reporting and management resources (Figure 7).

Why does this matter? Because the lack of maturity in understanding and reporting on sustainability issues, especially on social subjects, could cause poor reporting practices. The pattern could also represent dissatisfaction with the types of resources so far available, which have been accused of cluttering and confusing the reporting environment[2].

For example, in Hong Kong there are a total of 42 reporting and management resources, compared to just three reporting requirements. Among these resources, we found that there are eight overlapping certification or award schemes related to climate change and energy for companies alone. This makes things confusing for companies and report generators because it's not clear which advice to follow and which resources to use.

The Reporting Exchange can provide a safe environment for the feedback that sustainability reporting requires as it continues to grow. By bringing together a community of experts and a library of requirements and resources, the platform aims to host and connect users' experiences. This will help determine the reporting requirements that would benefit from further guidance and identify the most useful resources, and so move the landscape towards greater effectiveness and efficiency.

Figure 7 The annual publication over the past 25 years of reporting requirements, reporting resources and management resources.



Conclusion: complexity and harmony

The research conducted as part of the Reporting Exchange project supports the existing argument that the variety and overlap of corporate reporting provisions make this field complicated and confusing [1,2]. The research has allowed us to draw the conclusions outlined in this paper:

- There are currently over 1000 reporting requirements for sustainability information, representing a 10-fold increase since the Rio Earth Summit in 1992, which are accompanied by around 750 reporting and management resources;
- The reporting landscapes of Asia-Pacific, Europe and North America have seen exponential growth in environmental, social and governance reporting requirements, while in South America the growth has been more linear and sustained;
- In recent years, reporting requirements have increasingly become voluntary for companies to follow, while also encouraging disclosures in mainstream annual reports; and
- The recent growth in the publication of reporting requirements has not been accompanied by a similar trend in the number of reporting and management resources, to assist companies towards more sustainable practices.

What becomes even clearer is the need to work towards the alignment and harmonization of sustainability reporting, focusing on both the national and international level. The insights, trends and developments that have been revealed and outlined here showcase the potential impact of the Reporting Exchange for corporate reporting. We believe the platform can support this process, acting as an evidence base and catalyst to evolve corporate reporting towards better practices.

This paper is part of series that explores the trends in corporate sustainability reporting that emerge from the research behind the Reporting Exchange. If you have any comments about this paper or the series please get in touch with hello@reportingexchange.com.

Appendix

The Reporting Exchange country coverage

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

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[6] Task Force on Climate-related Financial Disclosures (2017), Recommendations of the Task Force on Climate-related Financial Disclosures. https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf

Disclaimer

We recognize that the coverage of the Reporting Exchange, though comprehensive, is incomplete. Our research has categorized reporting provisions from 60 countries listed in the Appendix that represent over 90% of global GDP but we acknowledge our geographical gaps, most notably in Africa and the Middle East. We also recognize our limited coverage in states where the problems of translation and accessibility are apparent, and that corporate reporting is a constantly evolving field.

Glossary

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

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

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

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

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

Obligation

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

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

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

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

About the World Business Council for Sustainable Development (WBCSD)

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

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

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

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

For more information contact
Johanna Tähtinen
tahtinen@wbcsd.org

About the Climate Disclosure Standards Board (CDSB)

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

For more information contact
Gemma Clements
gemma.clements@cdsb.net

Find out more at www.reportingexchange.com

If you would like to contribute, join our moderator community, or just ask a question, send us an email to hello@reportingexchange.com

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