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The Reporting Exchange

Sustainability reporting in Australia: jumping into the mainstream

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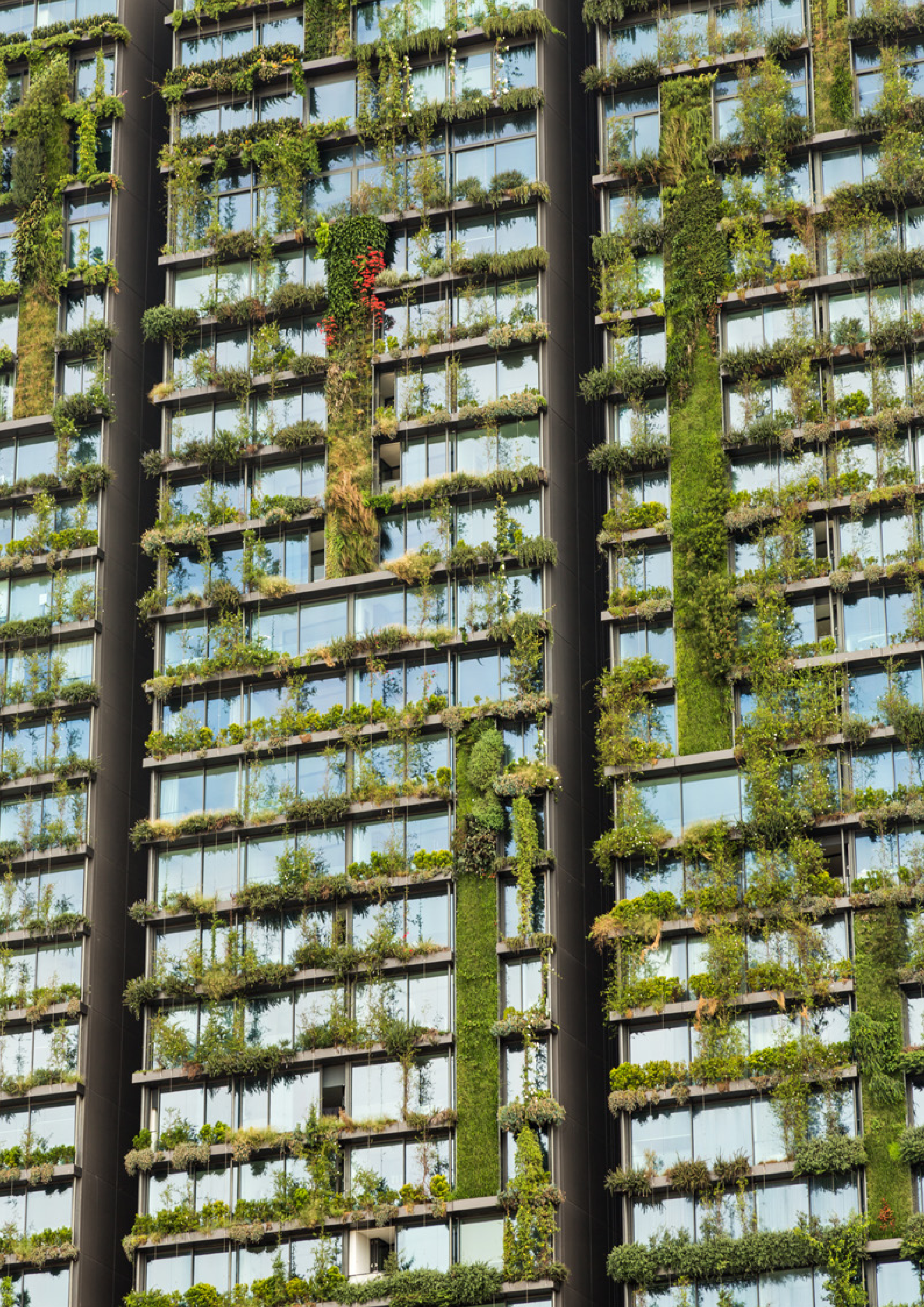


Introduction: the Reporting Exchange

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 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 and overwhelming. As such, 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 people who write corporate reports. The Reporting Exchange helps them understand what, where and how to report on sustainability issues while supporting clearer, more concise and better-informed sustainability reporting.

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 the reporting provisions on sustainability 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. This will help accelerate harmonization and alignment of corporate ESG at a global scale.

About this report

This paper surveys the non-financial reporting landscape of Australia using data and insights from the Reporting Exchange. With WBCSD's Global Network Partner, Sustainable Business Australia (SBA), we explore the challenges and opportunities for corporate reporting in the country, drawing on international best practice to provide suggested steps to ensure Australia is a global leader in sustainable finance.

Moving towards sustainable finance

Investors are realizing the importance of sustainability and environmental, social and governance (ESG) issues[3].

In a report published in 2017, McKinsey & Co. found that over a quarter of assets under management globally are invested considering ESG factors[4]. In addition to ethical principles, this growth has been largely the result of traditional economic principles – risk and returns.

The World Economic Forum concluded earlier this year that **environmental and social risks make up four of the top five global risks** in terms of impact, and three of the top five in terms of likelihood[5]. Businesses and investors are increasingly becoming aware of these risks.

While many are concerned about the impact of business on the environment or the workforce - such as through pollution incidents or labor abuses - there is also a growing understanding of the impact of ESG risks on business itself.

The Task Force on Climate-related Financial Disclosure (TCFD), for example, asks companies and investors to report on how climate change will impact their revenues, expenditures, assets, liabilities, access to capital and financing[6].

In addition, recognition of emerging markets and products, social license to operate and a host of other factors are establishing a clearer connection between ESG criteria and corporate financial performance.

For example, research by academics such as George Serafeim is continuing to cement this connection[7] and in the most comprehensive study to date, researchers from Deutsche Asset & Wealth Management and the University of Hamburg conducted a meta-analysis of over 2,000 studies on this topic. They concluded that the majority of studies found a positive relationship between ESG and financial performance over time - regardless of regions and asset classes[8].

> *"85% of S&P 500 companies issued a sustainability report in 2017 compared with under 20% in 2011."*

Despite the interest in sustainable investment, there appears to be a disconnect on ESG issues between corporates and investors. Though corporate disclosure on ESG issues is certainty increasing – 85% of S&P 500 companies issued a sustainability report in 2017 compared with under 20% in 2011[9] – the quality, consistency and comparability of reporting requires further development.

PwC's Governance Insights Center found that only 29% of investors are confident in the quality of ESG information reported, while just 8% thought the information issued allowed them to compare companies[10]. Overall, the authors found that 21% of investors were somewhat satisfied with current practices, with close to three-quarters somewhat dissatisfied or neutral regarding ESG reporting practices.

> *"Only 29% of investors are confident in the quality of ESG information reported."*

One of the issues regularly found in associated studies is that **the reporting landscape is not currently capable of delivering ESG information that is comprehensive, consistent and comparable enough for investors.** Though more work needs to be done to ensure financial markets are truly sustainable and oriented towards long-term value creation, WBCSD and COSO's work to integrate ESG risks into enterprise risk management are steps in the right direction[11].

The issues mentioned above apply globally, specifically in Australia.

The Australian business community is highly vulnerable to the worsening extreme weather and other effects that climate change will bring[12]. Significantly, Australia's Senate Economics References Committee last year recommended that the government act to ensure that assessing and taking account of carbon risk becomes a business norm, including the implementation of the TCFD recommendations[13].

As such, Australia's largest investors are calling for change. As part of a global coalition, 23 Australian institutional investors, including Australian Ethical Investment, Australian Super, HESTA and VicSuper, issued a call in June for the G7 to step up action on climate change, including the improvement of corporate reporting[14]. These 23 investors, who manage close to USD $2 trillion in assets, understand the importance of ESG issues to the long-term value of Australian business.

As a leader in the Asia-Pacific region with an active and pronounced finance sector, **Australia is well-positioned to spearhead sustainable finance**. This will require improvements across the financial system, including the regulation and standards that determine how ESG information and data are disclosed by companies and interpreted by investors.

Australia's reporting landscape

Research for the Reporting Exchange shows that there are 22 ESG reporting provisions in Australia.

While these provisions are split 50:50 between mandatory and voluntary obligations for companies, there are seven key reporting requirements, which are all mandatory for applicable companies. Over half of the provisions identified are resources designed to help companies implement the seven requirements and support more general sustainability disclosure.

The most common channels (45%) for ESG disclosure are **specialist systems**. These refer to reported sustainability information and data which are specifically directed to the authority or regulator demanding it, rather than investors or other stakeholders.

Despite this, the Australian reporting landscape is more focused on reporting ESG information through mainstream annual reports when compared to other countries on the Reporting Exchange. This could be because of a greater focus on investors as the chosen audience for ESG reporting in Australia.

As with most countries, **environmental issues are the most common focus of reporting in Australia.** In contrast, governance **is the second most popular focus**, ahead of social issues. Zooming into specific subject areas of reporting, **corporate accountability is the most common subject** of disclosure in Australia.

The Australian Securities Exchange's (ASX) Listing Rules and Corporate Governance Principles and Recommendations are two of the most important reporting provisions for Australian publicly-listed companies. Recommendation 7.4 in the latter recommends that listed entities disclose whether they are exposed to any material economic, environmental or social risks and how they manage them. Additionally, the Listing Rules require companies to disclose how they meet these recommendations and where they do not, to disclose the reason for divergence.

Over 80% of reporting provisions in Australia are at least partly concerned with environmental issues, with climate change and emissions/pollution being the second and third most popular subject areas respectively, behind corporate accountability.

The National Greenhouse and Energy Reporting (NGER) Act, passed in 2007, is the most prominent reporting requirement in Australia. NGER creates a mandatory, national reporting framework for the largest 500 corporate entities by greenhouse gas emissions and energy production/consumption to report this data. From 2012 (until its repeal in 2014), a carbon pricing mechanism was integrated into the NGER system. The repeal is among the reasons why Australia has been ranked as a "very low-performing" country in Germanwatch's analysis of countries tackling climate change[15]. However, the reporting requirement still exists and represents the longest unbroken national mandatory GHG reporting scheme in the world.

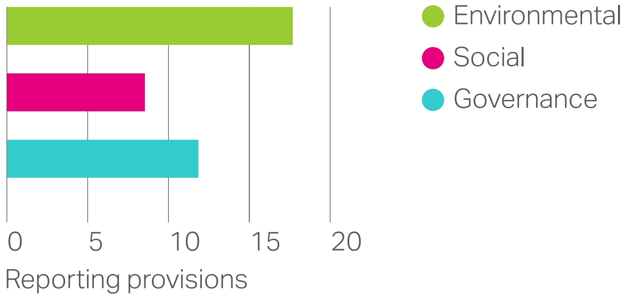
On the social side, the Workplace Gender Equality Act is a significant requirement for Australian business. The provision requires companies with over 100 employees to report against a set of standardized gender equality indicators, which include composition of workforce and governing bodies, remuneration, availability of flexible working arrangements, gender-based harassment and discrimination. The reporting requirement was the inspiration for the UK's Gender Pay Gap Reporting, whose scope for disclosure is far narrower than the Workplace Gender Equality Act.

There's a wide variety of reporting and management resources available to support these reporting requirements and to encourage understanding and engagement with sustainability issues.

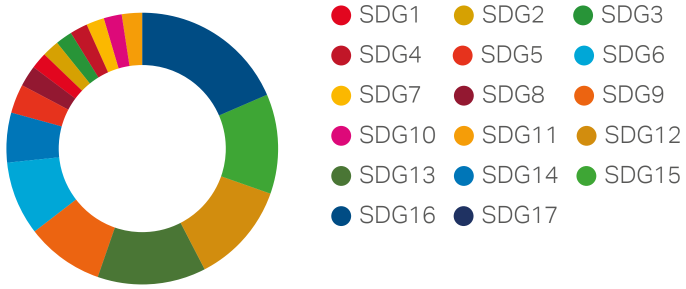
For instance, the Australian Financial Services Council and Council of Superannuation Investors have prepared the ESG Reporting Guide, which aims to assist companies in disclosing their ESG risks in a consistent and comparable manner.

There are also sectoral and subject-specific initiatives. The Minerals Council of Australia published their Framework for Sustainable Development, which covers a wide range of ESG issues focused on the mining and associated equipment, technology and services sectors. Estimates show these sectors contribute to around 15% of Australia's economy and 10% of the country's full time employment[16], making this provision particularly relevant. Similarly, the Australian Water Accounting Standards Board has created standards that aim to bring reliability and commonality for an issue of growing importance for investors in Australia and beyond[17].

Australia: ESG focus



Australia: SDG focus



How does Australia measure up?

To investigate how Australia stacks up against other countries, we have chosen to explore two countries whose economies overlap with Australia's in different ways.

South Africa and Australia share close political and economic ties, have large extractive industries and similarly sized stock exchanges. Singapore also has a vibrant financial sector like Australia's and the Singapore Exchange is a regional rival to Australia Securities Exchange[18].

Country	GDP (in billions)[19]	Reporting provisions	Reporting requirements
Australia	1,379.5	22	7
Singapore	332.9	21	12
South Africa	349.3	24	20

Our research shows that the number of corporate ESG reporting provisions for each of these three countries is similar. The greatest difference is in the composition of these provisions - over 80% of provisions in South Africa are reporting requirements, compared to less than one-third in Australia. Singapore also has a greater proportion of reporting requirements than Australia.

There are also differences in ESG focuses for corporate disclosure. All three countries give weight to disclosure on environmental issues, but social sustainability is much more prominent in South Africa.

At the same time, Singapore's environmental focus has strengthened in 2018 with the introduction of a carbon tax for large direct emitters. The Singaporean Government has estimated that 40 companies, accounting for around 80% of the country's GHG emissions, will be affected[20]. This contrasts markedly with Australia's where there is a particular focus on corporate governance.

Regulators in South Africa have used corporate reporting to increase transparency and encourage change for issues related to socio-economic inequality, working conditions, training, and community prevalence of HIV and tuberculosis. Much like the Australian Workplace Gender Equality Act, these requirements look to tackle structural issues that hinder equality and success and show how corporate reporting can be applied to confront other social issues in Australia.

Compared to Australia, Singapore and South Africa have a smaller proportion of reporting provisions aiming to integrate ESG data into mainstream reports. Instead, they focus on disclosing directly to authorities and regulators. Both Singapore and South Africa have mandated companies to **produce corporate sustainability disclosures aimed at investors** as well as other stakeholders.

For instance, all companies listed on the Singapore Exchange must produce a sustainability report through Listing rule 711A and B. The reports must note and explain the material ESG factors identified by the company, outline the policies and practices relating to each factor while setting sustainability targets for the forthcoming year.

Key subject areas for sustainability reporting

Australia	Singapore	South Africa
Accountability	Emissions/pollution	Employment conditions, policies and practices
Climate change	Waste	Accountability
Water	Employment conditions, policies and practices	Effectiveness
Emissions/pollution	Water	Leadership

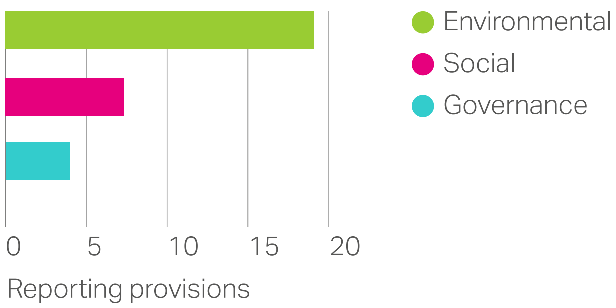
Environmental
Social
Governance

In South Africa, several reporting provisions promote integrated reporting, a form of corporate disclosure that has developed around the King Code and its unique and recognized form of corporate governance.

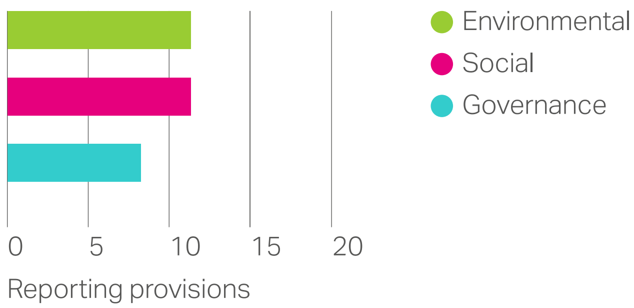
Integrated reporting aims to contextualize a company's financial performance with wider and interconnected sustainability information to provide stakeholders a more holistic understanding of value-creation.

All companies listed on the Johannesburg Stock Exchange are required to disclose according to the principles and recommendation of the King Code, which means sustainability information and metrics are integrated into the annual disclosure of South Africa's largest public companies. South Africa's wider financial system is encouraged to act with regard to sustainable and long-term value creation under provisions such as the Pension Funds Act and the Code for Responsible Investing.

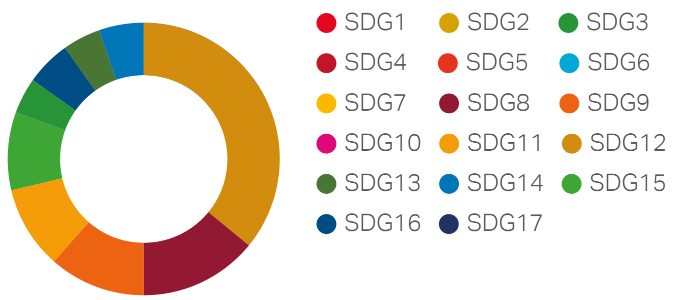
Singapore:
ESG focus



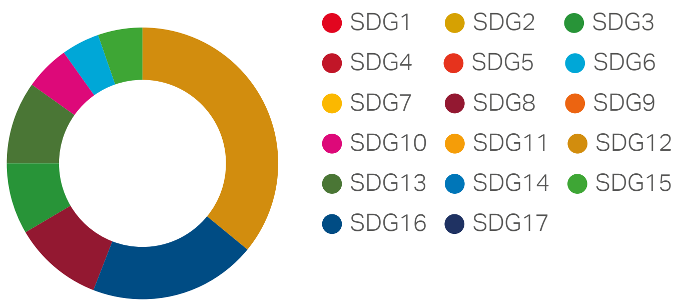
South Africa:
ESG focus



Singapore:
SDG focus



South Africa:
SDG focus



Data snapshot

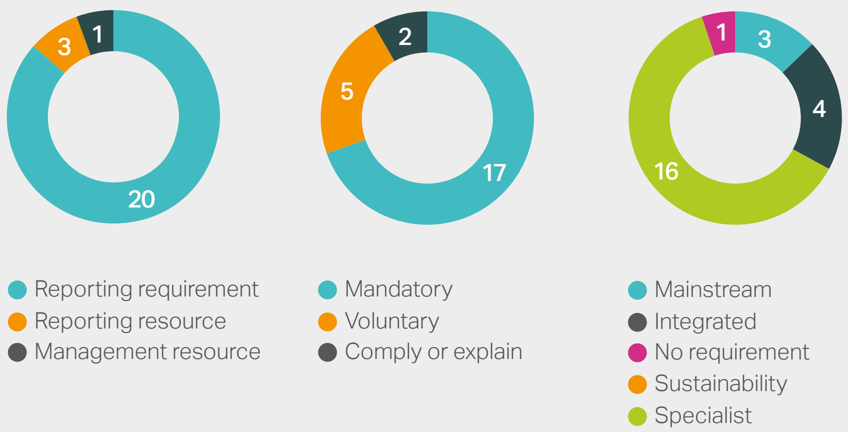
Provision type
Reporting provisions can be grouped into three distinct categories, reporting requirement, reporting resource, management resource, each of which has different ambitions within corporate sustainability and reporting.

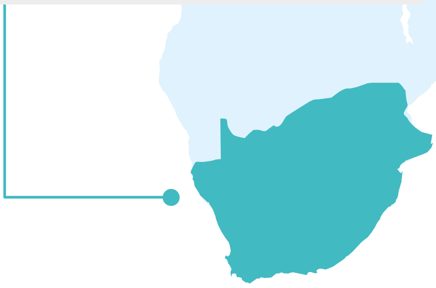
Reporting obligation
Reporting provisions may be mandatory or voluntary for companies to follow. In addition, provisions may follow a comply or explain obligation, which requires companies to disclose reasons for non-compliance.

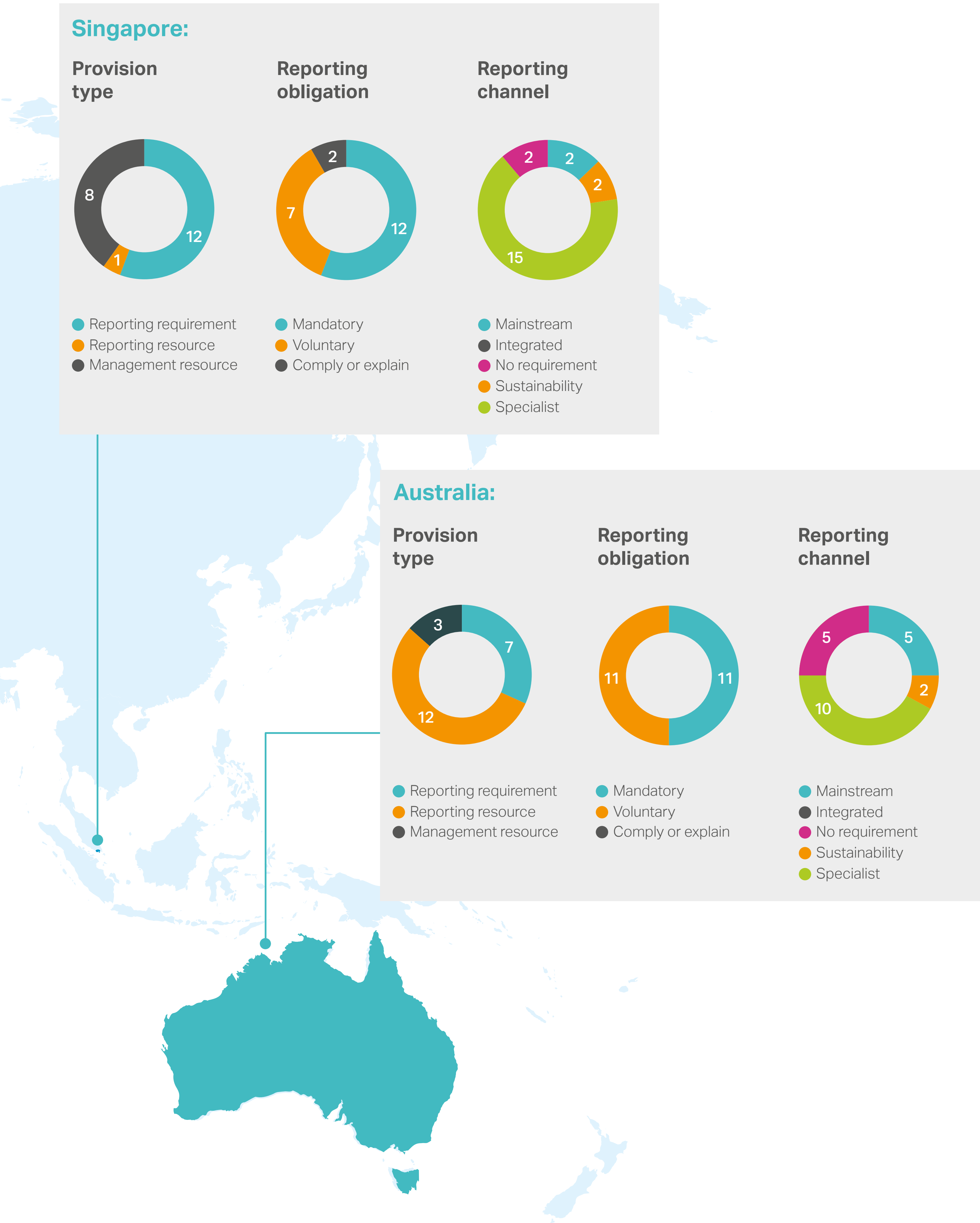
Reporting channel
Reporting provisions request disclosure of sustainability information and data through different routes and towards different audiences.

South Africa:

Provision type | **Reporting obligation** | **Reporting channel**






Singapore:
Provision type
8
12
1
Reporting obligation
2
7
12
Reporting channel
2
2
2
15
Reporting requirement
Reporting resource
Management resource
Mandatory
Voluntary
Comply or explain
Mainstream
Integrated
No requirement
Sustainability
Specialist
Australia:
Provision type
3
7
12
Reporting obligation
11
11
Reporting channel
5
5
2
10
Reporting requirement
Reporting resource
Management resource
Mandatory
Voluntary
Comply or explain
Mainstream
Integrated
No requirement
Sustainability
Specialist

A view from Sustainable Business Australia

Non-financial reporting has grown rapidly around the world. Value is now perceived much more broadly than it was in the past.

While financial value continues to dominate and financial capital remains at the heart of business and markets, it is also apparent that focusing solely on financial results produces a very narrow picture of how companies relate to the world around them.

This is particularly relevant in circumstances where governance issues arising from poor conduct or culture and a perceived lack of accountability. As a case in point, after a string of revelations surround the Commonwealth Bank of Australia in early 2018, the country's largest bank, the Australian Prudential Regulation Authority released a report into the prudential controls of the bank[21]. This report makes an overarching conclusion that "[the bank's] continued financial success dulled the senses of the institution," especially in relation to the management of non-financial risks.

The report also highlighted a number of prominent cultural deficiencies, such as a widespread sense of complacency, a reactive stance in dealing with risks, being insular and not learning from experiences and mistakes, and fostering work environments which lessened the opportunity for constructive criticism, timely decision-making and a focus on outcomes.

While the standards of corporate governance and reporting in Australia remain high by international standards, there is a growing need for Australia regulators, market overseers and companies to update Australia's corporate reporting landscape to address the fast emerging domestic and global issues on economic, social and environmental performance.

There is a growing imperative for companies in Australia and around the world to explicitly report on issues such as their corporate values and culture, anti-bribery and corruption policies, cyber risks and various facets of gender equality. In Australia, there is momentum for corporate disclosure on issues such as modern slavery within supply chains and corporate exposure to climate risk.

The challenge is how to embed greater value into Australian companies' sustainability disclosures.

Beyond acknowledging the material sustainability risks they face, Australian companies need to articulate the steps they are taking to address them, set targets to improve and show how they build resilience into their strategic decision-making. This will allow investors and other stakeholders to more accurately assess risk, measure performance, allocate financial capital and identify market opportunities in Australia.

In particular, the level of climate-related disclosures lags that of sustainability reporting more generally[22]. Recent analysis shows that a significant number of ASX200 companies did not measure greenhouse gas emissions, have a policy or statement on climate-related risk or a related target. Disclosure of climate-related governance and risk assessment is now a focus area for investors, activists, regulators and policymakers alike. Why? Because such information is increasingly understood as an important lens through which to assess a company's true value.

As our Australian society and economy addresses these challenges and opportunities - including that of its low-carbon transition - the need for enhanced corporate transparency is vital for identifying risk and for realizing new dimensions for growth.

Conclusion

As the risks and opportunities of ESG issues become increasingly significant, companies and investors, governments, stock exchanges and standard setters around the world are acting to ensure a more sustainable financial system. Corporate reporting is and will be a key component of this action.

The Reporting Exchange shows that there are already over 1,000 reporting requirements in 60 of the world's most important economies. But, more work is needed to improve, align and harmonize these reporting provisions within and between countries.

In Australia, corporate reporting centers on environmental issues, such as climate change and water. It's also focused on corporate governance.

Notably, there is a greater tendency for companies to disclose sustainability information and data through their mainstream reports in Australia, with the ASX playing an important role. This is because disclosing through the mainstream report brings ESG risks and opportunities to the investor community's attention – potentially affecting the allocation of capital.

In considering steps forward, there's inspiration from of South Africa and Singapore.

In tackling important social issues such as racialized inequality and HIV, South Africa has embraced the power of corporate reporting. This shows how Australia can expand its work around inequality into other areas of social sustainability such as modern slavery.

In Singapore, a carbon tax that will affect 80% of the country's GHG emissions, shows a clear intent to continue to develop its climate change strategy. More broadly, South Africa is integrating sustainability throughout their financial system, ensuring companies and investors are governed, act and report with an understanding of their ESG risks and opportunities. Climate risk is also a huge factor for reporting in Australia.

As such, and because of the TCFD, investors and governing bodies in Australia are demanding regulatory change. If climate and other important sustainability issues are going to become the corporate reporting norm in Australia, businesses, investors, regulators and standard setters must act. In doing so, Australia and its business community will foster long-term and sustainable growth.

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Acknowledgments

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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 a combined revenue of more than USD $8.5 trillion and 19 million employees.

Our global network of almost 70 national business councils gives our members unparalleled reach across the globe. WBCSD is uniquely positioned to work with member companies along and across value chains to deliver impactful business solutions to the most challenging sustainability issues. Together, we are the leading voice of business for sustainability: united by our vision of a world where more than 9 billion people are all living well and within the boundaries of our planet, by 2050. www.wbcsd.org

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About the Climate Disclosure Standards Board (CDSB)

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

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About Sustainable Business Australia

SBA was established in Australia in 1991, and is the peak body for support and advocacy for sustainable business activities in Australia. In 2014 SBA was appointed Australia's Global Partner for World Business Council for Sustainable Development (WBCSD).

SBA's members include leading Australian businesses, from all sectors, who share a commitment to economic, environmental and social development. SBA represents member companies, public sector enterprises and institutions, BINGOs and community organizations, which in turn represent 100,000 + Australian employees.
www.sba.asn.au

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

GORDON AND BETTY MOORE FOUNDATION

The Reporting Exchange is funded by the **Gordon and Betty Moore Foundation**