

Promoting Corporate Sustainability Reporting

UN Conference on Sustainable Development

Rio+20

A Briefing for Participants

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Presented by: *The Corporate Sustainability Reporting Coalition*

*For more information on this proposal, please see:
www.aviva.com/earthsummit2012*

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1.0 EXECUTIVE SUMMARY

Our Coalition is collectively asking participants at Rio+20 to commit to develop a UN Agreement on sustainability reporting so that we, as investors, can help guide the world towards a sustainable future. In our view, there need only be two core elements in such an Agreement:

First, the Agreement would be a commitment by UN member states to develop regulations, codes or listing rules that encourage the integration of sustainability issues within the annual reports of all listed and large private companies.

Secondly, we suggest an opt-out for companies that elect not to prepare a sustainability report. However, these companies would be required to explain their reasons to their stakeholders. In other words, corporate sustainability disclosure would be on a “report or explain” basis.

It is now almost 20 years since the first Earth Summit. The Coalition believes that June 2012 provides a momentous opportunity to move the corporate sustainability agenda forward. Consequently, this document makes a modest, market-based proposal that we believe represents the next step towards sustainable capital markets. In our view, in the final Rio outcome document governments should call for the General Assembly to convene a multi-stakeholder process to prepare a policy framework that nation states can implement to make “report-or-explain” sustainability reporting an annual requirement for all public and large global corporations. This taskforce should have a year to complete this work and report back to the 2013 General Assembly on its recommendations for action.

Appendix 1 of this document contains a draft of an UN Agreement that we would recommend being further developed by such a taskforce. Rio+20 should secure this possibility by updating Paragraph 41 to include a commitment to launch a General Assembly process.

An intergovernmental message from such an important international process would signal to all publicly listed and large global firms that now is the time to act on sustainability. A clear message that an international agreement is ongoing will generate interest among firms which, some 20 years after the first Earth Summit highlighted its importance, have not yet evaluated how they ought to contribute to a sustainable future.

Putting sustainability at the heart of capital markets

In the 20 years since the 1992 World Commission on Environment and Development (WCED) in Rio, there have been numerous calls by the United Nations and governments for the corporate sector to adopt corporate social responsibility and voluntary reporting as crucial steps in the long-term transition to sustainable development.

Investors have a vital role to play in ensuring a sustainable future for the world. The role of capital markets is to channel capital to the most productive uses. However, if the information available is short term and thin then these characteristics will define our markets. To include sustainability in our investment decisions, we need information about the sustainability of companies in which we

invest. Today, while investors know about a company's profits and cash flows, they know little about a company's sustainability.

Appendix 2 contains the key results from a recent study of stock exchanges in this area conducted by Corporate Knights Capital. Among the key findings is that the study *"provides strong evidence that disclosure policies, including voluntary policies, enacted by regulators, governments or stock exchanges ultimately lead to actual improvements in company disclosure practices. All of the top 10 countries in our ranking were found to have some form of sustainability reporting standards in place"*.

Why we need to act now

In Rio in 1992, and again in Johannesburg in 2002, governments called on firms to report voluntarily on their sustainability programmes. Now, a number of groups, including key stock exchanges, have begun to request and use corporate sustainability reporting. This is a good start, but more can now be done.

At the moment more than 75% of the companies that Bloomberg has assessed do not publish even basic performance data on their sustainability performance. Without an International Agreement it will be decades before sustainability reporting is common practice across global markets. In the meantime, investors are unable to play the part which the international community would like us to play.

For this reason the CSRC is calling for a commitment to be made at Rio+20 to develop an International Agreement – or a convention - on corporate sustainability reporting. This UN Agreement would encourage Countries to promote reporting by companies on issues which are material to their sustainability. A UN Agreement would level the playing field and engage more companies on the path to business sustainability.

Over US\$2 trillion in the coalition

The scale of support amongst investors is extraordinary. Managers representing US\$2 trillion of ordinary people's savings have specifically come together to ask for this UN Agreement. They are backed by investor groups representing more than US\$50 trillion of assets. It is rare that such a significant grouping has come together to promote progressive sustainability measures.

Our proposals

Our idea for the next generation of corporate sustainability reporting is simple: annual corporate sustainability reporting would work in a similar manner to the now routinely published annual reports by publically traded firms.

We are proposing a "report or explain" standard. If companies claim that sustainability reporting is too costly, too time consuming or irrelevant to them, then they simply need to explain why. Stakeholders can then see for themselves the corporate board's judgement and decide for themselves how sound they think it is. This is why we believe that most successful companies will respond positively. By so doing they will encourage others to do likewise and become a force for positive change.

We recognise that it would be a mistake to apply a one-size-fits-all reporting system across diverse regions and industries. For this reason we favour implementation at a national level and a voluntary “report or explain” approach at the firm level.

The UN Agreement (see Appendix 1 for a draft) would be a commitment by UN member states to develop national regulations, voluntary codes or listing rules that encourage the integration of material sustainability issues in the annual reports of all publicly listed and large global companies. It would also establish an opt-out process for companies that elect not to prepare such a report.

Acting in all our interests

We believe that sustainability reporting is in all our interests. A healthy display of accurate data helps investors make sound choices, aids governments in their public policy and programme decisions and stimulates managers and board members to keep a sharp eye on key metrics. Furthermore, it enables civil society to understand firms’ commitments to environmental, social and governance matters.

The world now needs to move from the pioneering approach of a minority of companies to a global benchmark of best practice for all companies. The first step in this transition is to have high-quality, factually accurate and analytically clear corporate sustainability reports.

Rio +20 can provide leadership to make this happen. We urge you to support our proposals and look forward to working with you towards a genuinely sustainable future for us all.

2. AN INTERNATIONAL AGREEMENT

The Corporate Sustainability Reporting Coalition (CSRC) urges governments to agree at Rio+20 to develop a multi-stakeholder process under the General Assembly to build a “report or explain” approach on corporate sustainability reporting.

This can be accomplished by strengthening the text for greater corporate transparency in paragraph 41 alt of the Rio+20 Draft from the May informal-informal in New York. This effort builds directly on the outcome of the 1992 Rio and the 2002 Johannesburg conferences on environment and development.

We ask that governments include para 41 alt in the final outcome with four modifications. This paragraph currently reads:

“41 alt. We acknowledge the importance of corporate sustainability reporting and encourage companies, where appropriate, especially publicly listed and large companies to integrate sustainability information into their reporting cycle. We recognize the need for global best practices on sustainability reporting and in this regard we encourage industry, interested governments, as well as relevant stakeholders, [to launch a process] with the support of the UN system to develop model for best practices and facilitate actions for the integration of sustainability reporting, building upon the experience of

existing national and international reporting framework, such as the Global Reporting Initiative, and examine option for capacity building measures for developing countries.

Our proposed modifications are:

1. to change “[to launch a process]” into “to launch a General Assembly process”
2. to clarify that “companies” means (i) all public companies and corporate entities whose shares are traded on an Regulated Stock Exchange with a market capitalization greater than US\$2 billion and (ii) all private companies and corporate entities with an annual turnover greater than US\$500 million.
3. to expand the scope of “examine option” to “examine options”
4. to clarify that the phrase “for global best practices” means “for an international policy framework based on global best practices”.

In our view, there are two core elements in the next generation of corporate sustainability reporting. First, UN member states would develop national regulations, formal codes or listing rules that encourage the integration of material sustainability issues within the annual reports of all publicly listed and large global private companies. Second, in order to be flexible, it would establish an opt-out for those companies that elect not to prepare such a report. These companies would be required to explain their rationale to their shareholders, creditors and other stakeholders. In other words, corporate sustainability disclosure would be on a “report or explain” basis.

Our Coalition represents investors with assets under management of approximately US\$2 trillion. In addition, we also include professional bodies, NGOs and other highly relevant stakeholders, including *inter alia*: the Association of Chartered Certified Accountants; the Global Reporting Initiative; the UN Environment Programme Finance Initiative; the UN Conference on Trade and Development; the UN-backed Principles for Responsible Investment (with over \$30 trillion in assets under management by their members); and, the Carbon Disclosure Project (which itself acts on behalf of 551 institutional investors holding US\$71 trillion).

The Coalition has been convened by Aviva Investors. In this role, Aviva Investors has prepared this briefing note for governments to convey our strong belief that a decision to convene a multi-stakeholder taskforce under the General Assembly could be one of the significant outcomes from Rio+20. As investors, we want to play our part in ensuring a sustainable future for the world in a way that also aligns with governments’ commitments in Rio to sustainable development.

For the first time a critical mass of investors is ready and willing to work publicly with governments to speed the transition to a sustainable society. Investors need information about the sustainability aspirations and goals of firms in which they might invest. Today, while investors know a lot about a firm’s profits and cash flows, they don’t know much about a firm’s sustainability.

We want to work with governments to make sustainability reports as common and as easily accessible as annual corporate reports are now. Such information would help allocate capital in a more sustainable, responsible manner; strengthen the long-term sustainability of the financial system; and assist governments to develop national policies and programmes that are better aligned with socially important changes in the corporate world.

We hope that all stakeholders – individuals, financial institutions, governments, companies, academics and representatives of civil society – will support this idea in their own work and lend their weight to this initiative in Rio.

2.1 KEY MESSAGES FOR THE NEXT DRAFT OF PARA 24 (ZERO VERSION)

It is now almost 20 years since the first Earth Summit. The Coalition believes that June 2012 provides a momentous opportunity to move the corporate sustainability agenda forward. Consequently, this document makes a modest, market-based proposal that we believe represents the next step towards sustainable capital markets. In our view, in the final Rio outcome document governments should call for the General Assembly to convene a multi-stakeholder process to prepare a policy framework that nation states can implement to make “report-or-explain” sustainability reporting an annual requirement for all public and large global corporations. This taskforce should have a year to complete this work and report back to the 2013 General Assembly on its recommendations for action.

An intergovernmental message from such an important international process would signal to all publicly listed and large global firms that now is the time to act on sustainability. A clear message that an international agreement is ongoing will generate interest among firms which, some 20 years after the first Earth Summit highlighted its importance, have not yet evaluated how they ought to contribute to a sustainable future.

The measure we are proposing offers an opportunity not only to improve the long-term profitability of corporations, but also to improve returns to their investors. It should also improve the quality of the markets they are listed on and make a positive contribution to the lives of those who are affected by corporate activity.

Once the taskforce is underway, the message to the 75% of listed firms which have not yet published sustainable development data will be clear: businesses should integrate sustainable development in the daily operations and disclose their goals, targets and strategies for making their contribution to a sustainable world.

2.2 THE KEY PROCEDURAL ELEMENTS

The Coalition is asking for intergovernmental support to make corporate sustainability reporting a “report or explain” requirement for all publicly listed companies and large global firms. The Coalition also expects that the boards of directors of these enterprises will create an integrated corporate sustainability strategy through regular discussions and review of their firm’s sustainability directions.

Our proposed “report or explain” approach is light-handed and procedural, setting out the essential goals and steps needed to introduce widespread corporate sustainability reporting, and leaving operational matters to national governments.

Because of the differences in legal regimes, business law and national accounting standards, each government would specify the legal or institutional mechanisms that would be most appropriate for that country. There would not be a one-size-fits-all approach. For some countries a code may

work, while for others a change to listing rules, changes to existing company law or a separate and new statute might be more appropriate.

Our approach also does not dictate the form that sustainability reporting should take. This would be determined by corporate boards deciding for themselves what they believe to be material to a full understanding of their firm and its prospects. They and management can draw upon a considerable amount of environmental and social reporting guidance that now exists.

High-quality integrated reports from well-managed companies that now voluntarily publish sustainability reports contain an array of useful data and information which typically includes:

- Sustainability performance targets
- Recent trend data on the use of natural resources
- Levels of workforce training
- Impacts on local communities
- The sustainability of the business model
- The regulatory context
- Emissions of greenhouse gases
- Energy and material efficiencies ratios
- Details of hazardous products or processes and relevant control systems.

The next-generation approach could make the current voluntary best practice routine for all publicly listed and large global firms. The management-prepared report could have a level of external assurance.

The act of reporting on sustainability will in itself engender fuller and more constructive consideration of the long-term growth and sustainability plans of the firm at the board level. The outcome of the board's deliberations could be incorporated in the firm's report and accounts. This will ensure that hard corporate data and the board's strategy perspective would be used to inform shareholders, governments and other interested communities of sustainability direction of the firm. The main purpose of this would be to create the right kind of discussions within boardrooms, throughout the business, between the firm and investors and between the company and its communities and governments.

Importantly, this transparency initiative is a market-based mechanism that promotes enhanced self-regulation within the market. Our proposal is intended to have a light touch that is sensitive to national contexts. Individual governments would be free to choose whether to implement this in primary legislation, company law or via the listing authorities. Individual corporations would have the freedom to define their own reporting and, if they determine that it is not necessary, outline why. Governments would simply be creating an enabling environment for sustainable long-term investment and supporting corporate social responsibility.

2.3 HOW OUR APPROACH IS BOTH FLEXIBLE AND ADAPTABLE

By design, the Coalition's proposal for the publish-or-explain approach has a hybrid format, international guidance on scope, a nationally independent implementation process and a voluntary compliance approach at the firm level.

We believe that an international policy framework should adhere to two key principles:

- *Transparency* – companies should be required to integrate material sustainability issues within their report and accounts or explain why they cannot do this.
- *Accountability* – there should be effective mechanisms for investors and civil society to hold companies to account on the quality of their disclosures, including, for instance, tabling the report at the annual general meeting.

The Coalition believes it would be a mistake to attempt to create a one-size-fits-all approach specifying the key performance indicators for individual sectors or firms. This would preclude the need for boards of directors to consider the most material issues for their firm, which is one of the key benefits the investor coalition believes a report-or-explain approach would create.

We also do not think it possible to craft a standard that specifies a specific, detailed reporting template for the rich diversity of corporations around the world. Consequently, we have decided against proposing heavy-handed regulation that tries to enforce one reporting template. This is also because regulation is often slow moving, lags the market and encourages a minimum compliance mentality within the company.

Instead, we recommend requiring boards to consider the existing guidance and publish their thinking, supported by a “report or explain” provision. This existing guidance includes, but is not limited to, material from the Global Reporting Initiative, the International Integrated Reporting Committee, the OECD Guidelines for Multinational Enterprises, the Sustainability Accounting Standards Board and the Greenhouse Gas Protocol of the World Resource Institute.

What needs to change within the existing system will vary for different jurisdictions. For example, where the regional code of Corporate Governance is embedded in the listing rules, then this document could be updated, requiring the support of all the bodies that govern this code. Where it is guided by the exchange itself, then the exchange can update the code itself. Where guided by primary legislation, then this will need to be changed.

We are seeking to stimulate a substantive board discussion on the risks and opportunities to a company arising from the challenge of sustainability. We believe that the vast majority of corporate boards will provide a strategic response to this challenge. We also expect that more companies will seek to compete on the quality of their disclosure in this area.

2.4 WHY IS THIS NEEDED IN A GLOBALISED WORLD?

From our perspective, there are five features of the global economy that prompt the Coalition to call for a next generation of corporate sustainability reports.

1. Markets are driven by information. Relevant information on the long-term sustainability of business enterprises is not adequately available to investors, governments and stakeholders.
2. Our planet needs to find a new alignment of natural resource consumption, social equity and economic growth. This transformation cannot evolve without corporate executives, investors, bondholders, civil society organisations and policy makers having hard business data about the sustainable path of that enterprise.

3. We appear to have reached the limit of volunteerism: less than 25% of the world's businesses are disclosing their sustainability performance data to shareholders voluntarily. An international agreement would level the playing field and engage more companies on the journey toward business sustainability.

4. Government views on globalisation and sustainable development matter to the business community. A clearly articulated message from governments in an international context would provide appropriate leadership in the area of corporate sustainability.

5. Useful sustainability reporting guidelines are already being implemented successfully by leading companies. To gain traction, these systems need to be supported by an international policy framework.

2.5 HOW A REPORT-OR-EXPLAIN AGREEMENT WOULD ENHANCE INVESTOR DECISION-MAKING AND THE MOVEMENT TOWARDS SUSTAINABILITY

Markets are driven by information. If the information they receive is short term and thin, then these characteristics will define the markets. If the information the board and management produce is long-term and strategic, then the market can move toward a sustainable future.

We can see from the *2040 Vision for a Sustainable Economy* report – which Aviva Investors commissioned from environmental think tank “Forum for the Future” – that the capital markets currently allocate capital to corporate activity in a way that undermines sustainable development.

In our view, this need not be the case. We believe capital markets should be the primary facilitator of a global sustainable and just economy.

Sustainable development itself was first defined by the Brundtland Commission over 20 years ago as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. This is an important concept for investors because development that provides short-term benefits but creates significant costs over the long term will reduce the absolute value of long-term investment portfolios.

The Coalition believes that a systematic approach to reviewing sustainability standards, values, risks and opportunities helps ensure that each business knows what is expected of it. A systematic approach also helps define and maintain a healthy long-term organisational culture, where people have pride in their business, care for their customers and are highly motivated at their work. Understanding the potential impacts on the firm from diminishing access to raw materials is also important to the long-term health of the business. As expressed in the UN-backed Principles for Responsible Investing, “environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios”.

A significant number of buy- and sell-side firms, including the investor members of our Coalition, are integrating these issues into their valuations. This group includes signatories to the UN Principles for Responsible Investment and the institutional investors associated with the Carbon Disclosure Project. However, without consistent global environmental, social, and governance (ESG) performance reporting in all countries, the potential contribution of SRI investors toward a greening the global economy is significantly impaired.

So far, over 70 organisations have signed up to the Corporate Sustainability Reporting Coalition. They include investors with assets under management of approximately \$2 trillion, as well as financial institutions, professional bodies, NGOs and other stakeholders.

The Coalition brings together investors and other stakeholders to deliver a message to UN member states: commit to develop an international policy on corporate sustainability reporting. It includes, amongst others, organisations as diverse as the Association of Chartered Certified Accountants, the Global Reporting Initiative, the Carbon Disclosure Project, Crédit Agricole Cheuvreux, Christian Aid, Colonial First State Global Asset Management, F&C Investments, Delta Lloyd Asset Management, FTSE, Generation Asset Management, Hermes, ICAEW, Save the Children, Schroder Investment Management, UKSIF, the UN Conference on Trade and Development (UNCTAD), UNEP FI, UN PRI and WWF-UK. Please see Appendix 3 for a full list of our members at the time of publication.

For our part, we believe that companies would derive quantifiable benefits in the medium and long term from a regular review of their sustainability. Goldman Sachs, for example, has carried out analysis of the relationship between how companies address these ESG issues and the returns they generate. Based on their research, they contend that in a number of sectors there is a direct correlation between sustainable business practices and the longer-term financial success of that company.

A similar conclusion was reached by WestLB, which published a study on the materiality of extra-financial factors based on a sample of 540 European firms. It found evidence of a link between extra-financial risk, cost of capital to a firm and shareholder value. The report suggested that compiling a sustainability report was among the most important catalysts for change, contributing to accumulation of knowledge, questioning of processes and the establishment of suitable structures and practices.

This kind of non-financial reporting also helps companies to better integrate social and environmental issues into routine business operations and strategies. Recent research concluded that for companies which produced non-financial reports, “both sustainable development and employee training become a higher priority... and that corporate governance improves. Furthermore we find that companies implement more ethical practices...”¹

2.6 HOW SUSTAINABLE STOCK EXCHANGES AND SOCIALLY CONSCIOUS RATING AGENCIES FACILITATE THE MOVE TO A SUSTAINABLE FUTURE

According to the report, “*Sustainable Stock Exchanges: A Report on Progress*”, a majority of stock exchanges are committed to promoting greater corporate responsibility on sustainability issues but are restricted in the actions they can take. Written by Responsible Research, this study captures the progress on promoting corporate sustainability by surveying 27 of the largest exchange entities across the world’s markets. The survey was commissioned by Aviva Investors in 2010 as part of the Sustainable Stock Exchange Initiative, an joint undertaking by PRI, UNCTAD, Global Compact and the UNEP Finance Initiative. This report found that exchanges remain in

¹ Ioannou and Serafeim, “The Consequences of Mandatory Corporate Sustainability Reporting”, London Business School and Harvard Business School, 2011

agreement that they have a responsibility to encourage greater corporate responsibility, with 76% acknowledging this compared to 71% in 2010.

The implementation of mechanisms to promote sustainability disclosure continues to be an issue for exchanges as they have found that in an increasingly global and competitive market and with a reduced regulatory function, there are limits to the actions they can take on sustainability. More than half indicated that this remit was jointly shared with regulators and legislators (company law), with only two respondents considering that the implementation of mechanisms to promote sustainability disclosure and accountability was solely within their remit. In about a third of markets this was deemed entirely the jurisdiction of regulators and legislators, suggesting that in order to encourage greater corporate responsibility on sustainability issues, policymakers and regulators should support the introduction of guiding principles to enhance ESG disclosure by companies in their markets.

Tellingly, according to the Responsible Research Report on Progress, more than 75% of stock exchange respondents welcomed a global approach to consistent and material corporate sustainability reporting. Further, 75% of respondents favoured a “convention on corporate sustainability reporting” whereby governments are asked to consider mandating that boards of companies:

- Consider sustainability issues in strategy discussions and
- Integrate those sustainability issues that they consider to be material into their annual reporting on a ‘comply or explain’ basis.

Stock exchanges based in Singapore, Johannesburg, São Paulo, Istanbul and elsewhere have required a serious ESG commitment from their listed firms. The Sustainable Stock Exchange Initiative which Aviva Investors also launched, has been urging all stock market listing authorities to consider making it a listing requirement that companies consider how responsible and sustainable their business model is and put a forward-looking sustainability strategy to the vote at their annual general meetings.

Some stock exchanges and international rating agencies have started to act on sustainable development reporting. The number of sustainability-focused rating services continues to grow. One study by SustainAbility identified over 75 such indices. Among the better known are Dow Jones Sustainability Index, FTS4Good, Vigeo-Ethibel Sustainability Index, Maplecroft Climate Innovation Index and NASDAQ Global Sustainability Index. All these sustainable development ratings are based on firm-provided data. The quality and accuracy of these indices are then heavily dependent on the breadth, depth and quality of data published by companies.

2.7 HOW GOVERNMENT COMMITMENTS AT THE EARTH SUMMITS IN 1992 AND 2002 PROVIDE THE FOUNDATION FOR A GENERAL ASSEMBLY TASKFORCE ON SUSTAINABILITY REPORTING IN 2012

In Rio in 1992 governments adopted Agenda21 and the Rio Principles of Sustainable Development. Both these key documents include strong messages to governments and the corporate community to increase the level and scope of their sustainable development activities and reporting. For example, Agenda 21 (para 30.3) states:

“Business and industry, including transnational corporations, should recognize environmental management as among the highest corporate priorities and as a key determinant to sustainable development. Some enlightened leaders of enterprises are already implementing ‘responsible care’ and product stewardship policies and programmes, fostering openness and dialogue with employees and the public and carrying out environmental audits and assessments of compliance.”

The proposed coverage of the “report-or-explain” approach (publicly listed and globally large firms) is in line with Agenda 21 and its frequent reference to “large industrial enterprises and transnational corporations”.

Ten years later governments agreed in Johannesburg in paragraph 18 to:

“Enhance corporate environmental and social responsibility and accountability. This would include actions at all levels to:
(a) Encourage industry to improve social and environmental performance through voluntary initiatives, including environmental management systems, codes of conduct, certification and public reporting on environmental and social issues, taking into account such initiatives as the International Organization for Standardization standards and Global Reporting Initiative guidelines on sustainability reporting, bearing in mind principle 11 of the Rio Declaration on Environment and Development.”

These calls for voluntary undertakings were somewhat successful, and a process for corporate sustainability strategies and reporting initiatives expanded around the globe.

However, despite this progress, we are still a long way from the ultimate aim of transparency, comparability and relevance of corporate non-financial information. In other words, these voluntary initiatives have not been enough.

How do we know this? For the past few years, Bloomberg has added ESG issues to the financial data that we can source from their terminals. Bloomberg's terminals are in wide use by fund managers and analysts around the world. Their inclusion of ESG data enables us to analyse at a global, macro-country level the quantity and quality of non-financial data disclosed by companies. However, over 75% of the companies that Bloomberg has looked at to source ESG data to not publish even one of the data points that Bloomberg look for in their sector. We should emphasise that Bloomberg's focus was on numerical data rather than narrative reporting which is more relevant to a good corporate sustainability report.

Put more precisely, just 23.6% of the 19,641 companies that Bloomberg researched for ESG data had published any at data all. More than 75% of the surveyed firms need an additional incentive to publish even hard numerical environmental and social data.

We notice that during the negotiations on the draft text of the Rio+20 outcomes document, some national delegations argued against a binding reporting system, instead favouring voluntary

reporting based on “best practice.” However, in our view a more ambitious commitment by the governments is now necessary.

In Rio in 1992, governments invited the corporate sector to voluntarily report on their environmental activities. However, at the current rate of adoption it will be decades before corporate sustainability reporting is common practice across global markets.

Clearly, pure voluntarism has not worked. Now would be an appropriate time, using the experimental results of the first 20 years, for governments to build on this progress with a report or explain approach.

As evidence for the required change, Appendix 2 contains the key results from a recent study of stock exchanges in this area conducted by Corporate Knights Capital. Among the key findings is that the study *“provides strong evidence that disclosure policies, including voluntary policies, enacted by regulators, governments or stock exchanges ultimately lead to actual improvements in company disclosure practices. All of the top 10 countries in our ranking were found to have some form of sustainability reporting standards in place”*.

2.8 THE CONVENTION WOULD SUPPORT GOVERNMENT MINISTRIES IN IMPLEMENTING THEIR OWN DOMESTIC GREEN ECONOMY PROGRAMMES

The immediate advantage to governments of a “report or explain” sustainability report is that it can enable a better level of national sustainable development policy-making based on hard firm-level data on actual corporate sustainability aspirations and goals. With clear annual data on corporate sustainability practices and projects at their disposal, national civil servants can better implement and revise programmes for the transition to a green economy.

Ministries of food and agriculture can use the information from the corporate sustainability reports to assess how key food sectors are minimising their greenhouse gases. Environment and climate change officials can use the reported information to see how the boards of key firms understand their sectors’ sustainability impacts and responses. Civil servants in economics departments can combine macroeconomic data and trends with data on ecosystem stressors which have been identified by corporate managers, in order to align country-wide policies with green economic principles. Officials at national and regional health offices can use the reports to examine the transition in the demographics of workers, the migration of health issues and the priorities of health and safety efforts by sector and geographic region. Trade policy staff can use the corporate-generated reports to monitor the environmental and trade-related aspects of the transition to a low-carbon economy.

Corporate sustainability reporting by publicly listed and globally large firms can meaningfully complement government ministries in implementing sustainable development macro-economic programmes and in selecting sound partners for public-private partnerships. This view is increasingly being expressed by key governments and civil society organisations. The Commission of the European Union recently declared that they want “to implement worldwide sound corporate governance as well as international principles and standards on corporate social responsibility.”

2.9 BENEFIT FOR CIVIL SOCIETY ORGANISATIONS AND OTHER GROUPS

Corporate sustainability reporting makes available important social and economic information on business activities as seen by firms. With sound nationally consistent data, sustainability reports can enhance public opportunities to hold firms accountable to their declarations and nurture a stronger commitment for meaningful corporate social responsibility.

Training the next generation of citizens in sustainable development is a challenging task. Corporate sustainability reporting can also provide case study materials for national colleges and secondary schools about the intellectual and professional challenges involved in designing a transition to a more sustainable society. On a broader scale, they can provide comparative material on new directions in corporate sustainability that can be used by national media to stimulate more interest in sustainable development.

2.10 WHY WE SUPPORT INNOVATIVE GOVERNMENTS

Some governments have started to move on sustainable development reporting. For example, the governments of Argentina, China, Denmark, Ecuador, France, India, Indonesia, Malaysia, Norway, Singapore, Sweden, Spain and the United Kingdom have in recent years created laws, procedures, guidelines and standards that are in line with the core purpose of the international agreement we are proposing.

As previously mentioned, Appendix 2 contains the key results from a recent study of stock exchanges in this area conducted by Corporate Knights Capital. Among the key findings is that the study *“provides strong evidence that disclosure policies, including voluntary policies, enacted by regulators, governments or stock exchanges ultimately lead to actual improvements in company disclosure practices. All of the top 10 countries in our ranking were found to have some form of sustainability reporting standards in place”*.

2.11 OUR CALL FOR GOVERNMENT LEADERSHIP ON PARAGRAPH 41 IN RIO

We asked that governments include para 41 alt in the final outcome with four modifications.

This paragraph currently reads:

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Our proposed modifications are:

5. to change “[to launch a process]” into “to launch a General Assembly process”
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8. to clarify that the phrase “for global best practices” means “for an international policy framework based on global best practices”.

3.0 CONCLUSION

The simple step of requiring publication of sustainability information by all public and large global private companies will move the economy towards more sustainable practices, creating the right kind of discussions within boardrooms and throughout firms. We notice that during the negotiations on the draft text of the “Rio+20” outcomes document, some national delegations have argued against a binding reporting system instead favouring voluntary reporting based on “best practice”. However, in our view a more ambitious commitment by the governments is now necessary. At the present time, sustainability reporting is mainly done through voluntary commitments and at the current rate it will be decades before corporate sustainability reporting is common practice across global markets. In Rio in 1992, Governments invited the corporate sector to voluntarily report on their environmental activities; however, research indicates that currently in excess of 75%* of large companies fail to report on any sustainability issues.

As investors, we want to play our part in ensuring a sustainable future for the world in a way that also safeguards the interests of developing countries. Our coalition demonstrates that for the first time a critical mass of investors are ready and willing to do so. However, investors need information about the sustainability of companies that they own and invest in. Today, while investors know about a company’s profits and cash flows, they don’t know about a company’s sustainability. Such information would help capital to be allocated in a more sustainable, responsible manner and strengthen the long term sustainability of the financial system.

A call by the General Assembly can bring together experts from Governments, business, civil society, and other stakeholders to build the appropriate and flexible corporate public reporting tool that can best align Government aspirations for a sustainable society with sustainable business growth.

Appendix 1: Draft UN Agreement

UNITED NATIONS AGREEMENT ON CORPORATE SUSTAINABILITY REPORTING*

The Parties to this Agreement,

Reaffirming the continuing need to ensure a balance among economic development, social development and environmental protection as interdependent and mutually reinforcing pillars of sustainable development,

Recognizing that sustainable behaviour by listed public and large private companies and corporate entities is essential for enhancing and promoting wider sustainable development and advancing the green economy,

Considering, in furtherance of the above, the need to promote greater transparency by listed and large private companies and corporate entities with respect to the sustainability issues relevant to their business operations through corporate sustainability reporting,

Have agreed as follows:

Article 1

For the purposes of this Agreement, the following definitions shall apply:

1. "Party" means, unless the context otherwise indicates, a party to this Agreement and "Parties" should be interpreted accordingly.
2. "Company" means (i) all public companies and corporate entities whose shares are traded on an Regulated Stock Exchange with a market capitalization greater than US\$2 billion and (ii) all private companies and corporate entities with an annual turnover greater than US\$500 million, and "Companies" should be interpreted accordingly.
3. "Integration" means the consolidation of the most material elements of information currently reported in potentially separate reporting strands (including, for example, information contained in an organisation's financial, management, directors, governance, remuneration, health & safety, environmental management and sustainability reports) into a coherent whole.
4. "Material Sustainability Issues" means the principal sustainability trends, risks and uncertainties facing an organisation consistent with the size and complexity of its business (including, for the avoidance of doubt, governance, environmental, employee, social, community and ethical matters and issues). For these purposes, information is material if omitting or misstating it could influence the decisions that potential investors, lenders and other creditors make about the reporting entity.
5. "Regulated Stock Exchange" means any approved, designated or recognised investment exchange listed [on the UK Financial Services Authority's official website: www.fsa.gov.uk/register/exchanges.do].
6. "Relevant Guidance" means [existing] guidance and best practice protocols designed to assist Companies in the meaningful consideration, analysis and reporting of Material Sustainability Issues relevant to their business [(including, but not limited

to, guidance and best practice protocols produced by or under the Global Reporting Initiative, the International Integrated Reporting Committee, the UN Global Compact, UNCTAD, the OECD Guidelines for Multinational Enterprises, the International Labour Organization's Tripartite declaration of principles concerning multinational enterprises and social policy, the Sustainability Accounting Standards Board and the Greenhouse Gas Protocol of the World Resource Institute)].

Article 2

Each Party shall:

1. For all Companies (i) listed on a Regulated Stock Exchange and/or (ii) registered within its territory or jurisdiction, develop or promote national laws, regulations, voluntary codes, standards and/or listing rules that, subject to Article 2(2.), mandate the Integration within an annual report of a description and analysis (based on Relevant Guidance) of Material Sustainability Issues impacting on such Companies to the extent necessary for an understanding of the development, performance or position of a Company's business in relation to such issues;
2. Establish an exception to the Article 2(1.) reporting obligation for those Companies that do not wish to report on Material Sustainability Issues provided that those Companies explain in an annual report their reasons for not doing so.

Article 3

Because of the differences in legal regimes, business codes and rules and national accounting standards between the Parties, it is for each Party to determine the appropriate domestic legal or institutional mechanisms necessary to implement the requirements of this Agreement.

The provisions of this Agreement are without prejudice to any Party's national laws, regulations, codes, standards and/or listing rules which provide for a more comprehensive approach to corporate sustainability reporting and promotion.

[* = Source: *This draft UN Agreement has been prepared by the international law firm Travers Smith. It is included here as an example of an UN Agreement that would be consistent with the principles within this document. However, we would emphasise that this Agreement has not yet been subject to a broad stakeholder consultation.*]

Appendix 2: Benchmarking the World's Stock Exchanges Performance on Sustainability

Aviva Investors Commissioned Corporate Knights Capital to develop a benchmark of stock exchanges on the quantity and quality of the sustainability information available from companies listed on their exchange. They have recently published “*Trends in Sustainability Disclosure: Benchmarking the World's Composite Stock Exchanges*” (June, 2012), with the following key findings:

- “The world's most advanced composite stock exchange from an overall sustainability disclosure perspective is the Netherlands composite (Euronext Amsterdam). The top 10 are

rounded out by the composite exchanges based in Denmark, Finland, Spain, South Africa, Sweden, Norway, Italy, Brazil and France.

- Our study provides strong evidence that disclosure policies, including voluntary policies, enacted by regulators, governments or stock exchanges ultimately lead to actual improvements in company disclosure practices. All of the top 10 countries in our ranking were found to have some form of sustainability reporting standards in place.
- Only 52 mid, large and mega-cap companies, with total market capitalization of \$2 trillion, disclosed all seven first generation sustainability indicators in 2010.

TOP 10 COMPOSITE STOCK EXCHANGES BY OVERALL SUSTAINABILITY DISCLOSURE

RANK	COMPOSITE STOCK EXCHANGE	DISCLOSURE SCORE (MAXIMUM 50)	DISCLOSURE GROWTH SCORE (MAXIMUM 20)	DISCLOSURE TIMELINESS SCORE (MAXIMUM 30)	OVERALL SCORE (MAXIMUM 100)	SUSTAINABILITY REPORTING STANDARDS
1	NETHERLANDS	35.3	17.6	28.2	81.1	✓
2	DENMARK	39.7	11.2	30.0	80.9	✓
3	FINLAND	48.5	13.5	15.9	77.9	✓
4	SPAIN	44.1	16.5	16.7	77.3	✓
5	SOUTH AFRICA	41.2	20.0	14.1	75.3	✓
6	SWEDEN	30.9	14.1	27.3	72.3	✓
7	NORWAY	29.4	15.9	24.7	70.0	✓
8	ITALY	47.1	12.9	8.8	68.8	✓
9	BRAZIL	38.2	19.4	9.7	67.3	✓
10	FRANCE	45.6	8.8	12.3	66.7	✓

NB: The ranking measures sustainability disclosure during the 2006-2010 period. While this approach allows for complete 5 year trend analysis, it may obfuscate important developments that took place during the 2010-2012 time frame. Notably, recent (2012) and highly substantive efforts by the BM&FBOVESPA, the Brazilian Stock Exchange, to encourage sustainability reporting using a “comply or explain” approach are not captured in our analysis. Since our research suggests this measure is highly likely to yield tangible improvements in sustainability disclosure practices, our methodology likely under-states the performance of the Brazilian composite stock exchange, which already sits an impressive 9th in our overall ranking. Similarly, the effects of a recent (2011) and critical sustainability disclosure directive issued by the Securities and Exchange Bureau of India (SEBI) are not captured in this paper’s analysis.

- Certain countries are excelling in disclosure around certain indicators: Portugal has the world’s highest disclosure rate of water data (73%), Italy has the highest disclosure rate of employee turnover data (42%) and Denmark has the highest disclosure rate of LTIR (35%). Remarkably, Finland has the world’s highest disclosure rate on the remaining four indicators: payroll data (91%), waste (83%), energy (78%) and GHG emissions (52%).
- A great process of “catch up” is taking place on the world’s emerging markets-based stock exchanges. Four of the five exchanges with the fastest growing sustainability disclosure rates are emerging markets, with South Africa and Brazil the most notable performers; the disclosure of first generation sustainability indicators by companies trading in South Africa is increasing by 81% per year, and by 51% per year for companies trading in Brazil.
- The disclosure rate for each of the first generation indicators may be plateauing, which could be a signal for intervention by policy-makers.”

Source: Corporate Knights Capital, *Trends in Sustainability Disclosure: Benchmarking the World’s Composite Stock Exchanges*, June 2012.

Appendix 3: Members of the Corporate Sustainability Reporting Coalition

The Corporate Sustainability Reporting Coalition (CSRC) was convened by Aviva Investors in January 2011 and launched in September of the same year at the UN General Assembly private sector forum. **The CSRC represents investors with assets under management of more than US\$2 trillion**, as well as financial institutions, professional bodies, NGOs and other relevant stakeholders.

Members of the CSRC includes:

Aldersgate Group	Global Reporting Initiative
Aon Hewitt Global Investment Practice	Hermes
ACCA	ICAEW
Aviva	Illac Ltd
Aviva Investors	Institut RSE
Avaron	Kinelea
BioRegional	London Pensions Fund Authority
	Kleinwort Benson Investors
	MN-Services
BT Pension Scheme Management Limited	
CA Cheuvreux	NEI Investments
Carbon Disclosure Project	Net Balance Management Group Pty Ltd
Calvert Investment	Net Balance Foundation Limited
CBF Church of England Funds	Numai Partners
CCLA Investment Management Limited	Pax World Management LLC
Ceres	Peace Child International
Christian Aid	PGGM
Church Commissioners for England	Rabobank Pensionfund
Church of England Pensions Board	Rathbone Brothers
Church of Sweden	Save the Children
Climate Change Capital	Schroder Investment Management
Climate Disclosure Standards Board	Sparinvest Group
Colonial First State Global Asset Management	Stakeholder Forum
Corporate Knights Capital	The Co-operative Asset Management
CorporateRegister.com Limited	TD Asset Management Inc
Cyrte Investments	Traidcraft
Delta Lloyd Asset Management	Trillium Asset Management, LLC
Domini Social Investments LLC	Triodos Investment Management B.V.
EIRIS	UK Sustainable Investment and Finance Association
Enel	UNCTAD
Environment Agency Active Pension Fund	UNEP FI
Ethos Foundation	UN PRI
European Sustainable Investment Forum (Eurosif)	University of St Andrews Endowment Fund
F&C Investments	Via Gutenberg
Forum for the Future	Vigeo
Fronesys	VIP eV
FRR Fonds de réserve pour les Retraites	WWF-UK
FTSE	Z/Yen
Generation Investment Management	