KPMG et al., 2016

Carrots & Sticks

Global trends in sustainability reporting regulation and policy

KPMG

GRI

UNEP
United Nations Environment Programme

CENTRE FOR CORPORATE GOVERNANCE IN AFRICA
University of Stellenbosch Business School

2016 edition

Contents

Foreword		3
Lead authors		4
About this report		6
Executive Summary – Key findings		9
Part 1:	How many reporting instruments are in place?	10
	Reporting instruments surge over the last 3 years	
	Strong growth in Europe, Asia Pacific and Latin America	
Part 2:	Are most reporting instruments mandatory or voluntary?	12
	Mandatory instruments continue to dominate but growth in voluntary instruments is strong	
Part 3:	Which organizations are issuing the most reporting instruments?	14
	Governments issue the most sustainability reporting instruments	
	Growing activity from financial market regulators and stock exchanges	
Part 4:	Do these instruments cover all organizations or only specific types?	16
	Almost half of reporting instruments address large listed companies	
	Around 40 percent apply to all companies	
	Some initiatives support SME reporting	
	Reporting instruments target finance and heavy industries	
Part 5:	Do instruments require reporting in specific formats?	18
	Regulators increasingly require sustainability information in annual financial reports	
Part 6:	How many reporting instruments focus on specific environmental or social factors?	19
	A majority of instruments apply to reporting of specific environmental or social factors	
	A large increase in instruments driving reporting of social information	
	Growth in environmental reporting instruments has slowed	
	A majority of reporting instruments in North America focus on specific environmental or social factors	
	Regulation on tax disclosure increases	
Conclusions		22
Appendix I: International initiatives on sustainability reporting		23
Appendix II: Assurance standards		28
Acknowledgments		30
About the project partners		31
Disclaimer		32

Foreword

Last year, 2015, was a milestone for sustainability with crucial and unprecedented agreements by the international community, including the Sustainable Development Goals (SDGs)[1] and the Paris Agreement on climate change action.[2]

The year 2016 now calls for translating these achievements into action to achieve the 2030 Agenda for Sustainable Development. It also marks the tenth anniversary since the first *Carrots & Sticks* report was published in 2006.[3] (The second report was published in 2010[4] and the third in 2013).[5]

Reporting is the critical link between the big-picture ambitions and the data that shows what action has been taken to achieve those ambitions and what progress is being made. Without reporting we cannot know what is being done or how close, or how far, we are from where the world needs to be. Indeed, the SDGs include a specific goal (Goal 12.6) to encourage companies to integrate sustainability information into their reporting cycles.[6]

As sustainability reporting becomes ever more integral to global action on environmental and social problems, so too do the policies, regulations, standards and other instruments that require or encourage organizations to report. That is why we believe that the continuing publication of *Carrots & Sticks* makes a useful contribution to the efforts of governments, companies, investors and other stakeholders.

Of course, challenges remain. One of the key points our 2016 research identifies is the surge in sustainability reporting instruments in place: almost 400 instruments in 64 countries. This shows increased commitments and efforts to achieve transparency and accountability. At the same time, the large number and variety of instruments can also pose challenges for reporting organizations. Alignment and harmonization must be a key goal for governments, market regulators, stock exchanges, industry associations, standard setters and all those responsible for developing reporting instruments.

Our four organizations remain committed to supporting the continuing evolution of sustainability reporting and broader corporate disclosure, and we trust that this publication makes a positive contribution to the development of effective reporting instruments in future.

Adrian King
Global Head, Sustainability Services
Wim Bartels
Global Head, Sustainability Reporting & Assurance
KPMG International

Teresa Fogelberg
Deputy Chief Executive
GRI

Arab Hoballah
Chief of Sustainable Lifestyles, Cities & Industry
United Nations Environment Programme (UNEP)

Daniel Malan
Director
Cornis van der Lugt
Senior Research Fellow
Centre for Corporate Governance in Africa
University of Stellenbosch Business School

1 https://sustainabledevelopment.un.org/
2 http://newsroom.unfccc.int/paris-agreement/
3 http://www.unep.org/Documents.Multilingual/Default.asp?DocumentID=486&ArticleID=5365&l=en
4 https://www.globalreporting.org/resourcelibrary/Carrots-And-Sticks-Promoting-Transparency-And-Sustainbability.pdf
5 https://www.globalreporting.org/resourcelibrary/Carrots-and-Sticks.pdf
6 The SDG Target 12.6 Live Tracker developed by GRI is an online platform that allows governments and interested parties to monitor and visualize the uptake of sustainability reporting worldwide, corresponding to UN SDG Target 12.6 http://database.globalreporting.org/SDG-12-6/Global-Tracker

Lead authors

Wim Bartels

Global Head of Sustainability Reporting & Assurance, KPMG International

Wim Bartels is a partner at KPMG in the Netherlands and Global Head of Sustainability Reporting & Assurance. He has been with KPMG for over 20 years and has also worked for KPMG's Forensic & Integrity services and KPMG Audit. Mr. Bartels delivers assurance to over 40 multinational companies and regularly supports KPMG's global client engagements as a sustainability reporting and assurance expert. He represents KPMG on the Financial Stability Board's Task Force on Climate-related Financial Disclosures which was launched at the COP21 UN Climate Talks in Paris, December 2015. He has also written extensively on sustainability assurance and is the lead author of KPMG's *Survey of Corporate Responsibility Reporting*.

Teresa Fogelberg

Deputy Chief Executive, GRI

Teresa Fogelberg is Deputy Chief Executive at the GRI. Before joining the GRI leadership, Ms. Fogelberg had a top position in the Dutch government, working as the Netherlands Director for Climate Change and Industry, and served as Head of Delegation to the UN Climate Change Conference of Parties, amongst other roles during the Dutch Presidency of the COP. She has worked for development organizations including ILO and USAID and Ms. Fogelberg is also a board member of several sustainability organizations, such as WWF, SEED International, and Questionmark.

Arab Hoballah

Chief of Sustainable Lifestyles, Cities and Industry, United Nations Environment Programme (UNEP)

Arab Hoballah serves as UNEP Chief of Sustainable Lifestyles, Cities and Industry and prior to that has held various senior positions for 14 years at UNEP. An economist specialized in systemic and prospective analysis, Mr. Hoballah has spent more than 20 years advocating sustainable consumption and production, working with multiple stakeholders across cities, business, industry and civil society.

Mr. Hoballah was actively involved in Rio+20 and the Sustainable Development Goal preparation processes, resulting in the adoption of the 10 Year Framework of Programmes on Sustainable Consumption and Production and SDG 12 on this topic.

Cornelis T. van der Lugt

Senior Research Fellow, Centre for Corporate Governance in Africa, University of Stellenbosch Business School

Dr. Cornelis T. van der Lugt is Senior Research Fellow with the Centre for Corporate Governance at Stellenbosch University Business School in South Africa, and Senior Associate at BSD Consulting in Switzerland. He has over 20 years' experience working at international level in the field of sustainability standards. As a former representative of the UN Environment Programme and UN Global Compact, he was deeply involved in developing industry initiatives and guidance standards such as the GRI and ISO 26000. Reports he has co-authored include the "TEEB for Business Report" (Earthscan 2011), "Green Economy Report" (UNEP 2011) and "Making Investment Grade: The Future of Corporate Reporting" (Deloitte et. al. 2012). In 2006 he co-founded the *Carrots & Sticks* series. He continues to contribute to international research publications and he consults and educates on topics such as sustainable finance.

About this report

The project partners

Carrots & Sticks is produced jointly by KPMG International, GRI, United Nations Environment Programme (UNEP) and The Centre for Corporate Governance in Africa (at the University of Stellenbosch Business School). For more information about these organizations see page 31.

Objective of this report: an assessment of progress in sustainability reporting instruments

In this report we assess developments in sustainability reporting instruments worldwide since the publication of the last *Carrots & Sticks* report in 2013. By 'reporting instruments' we mean any instrument, mandatory or voluntary, that requires or encourages organizations to report on their sustainability performance. For more information on the instruments covered and terminology used in this report see the section **"A note on terminology"** below.

The analysis in this report is primarily quantitative and seeks to draw out key trends based on a comprehensive review of the sustainability reporting landscape in 71 countries. We have structured the report to explore the following key questions:

1. How many reporting instruments are in place?
2. Are most reporting instruments mandatory or voluntary?
3. Which organizations are issuing the most reporting instruments?
4. Do these instruments cover all organizations or only specific types?
5. Do instruments require reporting in specific formats?
6. How many reporting instruments focus on specific environmental or social factors?

Who the report is for

Feedback on previous editions of *Carrots & Sticks* suggests that policy makers in particular find this snapshot of the global regulatory landscape to be a useful tool to help them assess their current policy responses and to set future directions.

Chief Financial Officers and Chief Sustainability Officers at multi-national corporations are also key readers. For them, *Carrots & Sticks* provides an overview of the reporting instruments in place and an indication of how policy and regulation are likely to evolve across multiple jurisdictions.

The investment community is another audience, given that the report provides a sense of what investee companies are faced with in terms of reporting regulation and other sustainability disclosure instruments. As investors increasingly incorporate sustainability considerations, this report can be a useful reference point for them to identify factors they can influence for incorporation into public policy or reporting frameworks, or on which they can engage on with both investees and policy makers.

Corporate lawyers and consultants that advise their companies or clients on sustainability risks and compliance may also find this report helpful given that the growth of sustainability reporting regulation is leading to increased legal practice in this field.

Aside from these audiences, *Carrots & Sticks* is intended for anyone who takes an interest in how sustainability reporting policy and regulation is evolving worldwide.

How the research was conducted

The project partners conducted a review of the reporting landscapes in 71 countries and territories: these were the top 60 economies by GDP – including most OECD countries – plus 11 additional countries which were either included in previous editions of *Carrots & Sticks* or where relevant reporting instruments were known to be in place.[7]

The research identified key reporting instruments that either require or encourage organizations to report on or disclose information related to their sustainability performance. The initial research was based on the content of *Carrots & Sticks* 2013 and more recent information contained in GRI's global database of sustainability reporting instruments. This was reviewed and expanded by sustainability professionals at KPMG member firms, with support from GRI Regional Hubs, the UN Global Compact and the other project partners.

The results presented in this report are for the 64 countries in which the researchers were able to identify some kind of sustainability reporting instrument.

The commentary contained in this report is based on analysis of the data conducted by the project teams at the four partner organizations.

The full dataset on which this report is based is available in a searchable online database which is publicly accessible here: www.carrotsandsticks.net.

---

7 See countries GDP listing by World Bank at: http://data.worldbank.org/data-catalog/GDP-ranking-table

Countries and territories covered in this edition:

Asia Pacific	Europe	North America	Latin America	Africa & Middle East
Australia	Austria	Canada	Argentina	Algeria *
Bangladesh	Belgium	United States of America	Bolivia	Angola *
China	Cyprus		Brazil	Egypt *
Hong Kong	Czech Republic		Chile	Iran *
India	Denmark		Colombia	Iraq *
Indonesia	Finland		Ecuador	Israel
Japan	France		Mexico	Ivory Coast
Malaysia	Germany		Peru	Kazakhstan
Maldives	Greece		Venezuela	Kenya
Pakistan	Hungary			Kuwait
Philippines	Iceland			Morocco *
Singapore	Ireland			Nigeria
South Korea	Italy			Qatar
Taiwan	Lithuania			Saudi Arabia *
Thailand	Netherlands			South Africa
Vietnam	Norway			United Arab Emirates
	Poland			Zimbabwe
	Portugal			
	Romania			
	Russia			
	Spain			
	Sweden			
	Switzerland			
	Turkey			
	Ukraine			
	United Kingdom			

* Denotes countries where no reporting instruments were identified

A note on terminology

In this edition of *Carrots & Sticks* we have considered a wide range of reporting instruments that either require or encourage organizations to report, or disclose, sustainability-related information.

These instruments drive public reporting in many forms, for example in annual financial or sustainability reports, on websites, in documents submitted to a stock exchange for listing purposes, and in data published in response to questionnaires and specific regulations.

We use the terms 'reporting instruments' and 'instruments' throughout this report to describe instruments including the terms below. The use of the term 'reporting' throughout also refers to 'disclosure'.

- Regulation and policy: sustainability reporting requirements or expectations issued by governing bodies such as governments, financial regulators or stock exchanges. Such regulations may be mandatory or voluntary and in some cases may be on a 'comply or explain' basis
- Self-regulation: reporting requirements or expectations issued by organizations to apply to their own communities or memberships. These would include, for example, instruments issued by industry organizations
- Requirements, guidance or recommendations for public reporting on a single topic (e.g. greenhouse gas emissions) or by a specific sector (e.g. mining)
- Voluntary guidelines and standards for sustainability reporting
- Standards on sustainability assurance. (For an overview of major sustainability assurance standards see Appendix 2, page 28).

The history of *Carrots & Sticks*

This 2016 edition is the fourth in the series and marks the ten year anniversary of *Carrots & Sticks*. *Carrots & Sticks* was first published in 2006 to provide an overview of trends in standards for sustainability reporting. The first edition covered standards in 19 countries, largely members of the Organization for Economic Cooperation and Development (OECD).

Executive Summary – Key findings

Trends in sustainability reporting instruments

2019

		2006		2010		2013		2016	
Reporting Instruments	Mandatory	35	58%	94	62%	130	72%	248	65%
	Voluntary	25	42%	57	38%	50	28%	135	35%
	Total	**60**		**151**		**180**		**383**	
Countries & Regions		19		32		44		71 (64 with instruments)	

- There has been a surge in the number of reporting instruments identified since the last report in 2013. Our 2016 research identified almost 400 sustainability reporting instruments in 64 countries versus 180 instruments identified in 44 countries in our 2013 report. The growth of reporting instruments in Europe, Asia Pacific and Latin America has been particularly strong
- Government regulation accounts for the largest proportion of sustainability reporting instruments worldwide with governments in over 80 percent of the countries studied in this research introducing some form of regulatory sustainability reporting instrument
- Mandatory instruments dominate but growth in voluntary instruments is also strong. Around two thirds of the instruments we identified are mandatory and around one third voluntary. Around one in ten instruments adopts a 'comply or explain' approach
- The level of activity of stock exchanges and financial market regulators is noteworthy in the 2016 edition of this report, with these two groups together responsible for almost one third of all sustainability reporting instruments identified
- Almost one third of reporting instruments apply exclusively to large listed companies and of these around three quarters have been introduced by financial market regulators and stock exchanges. The remaining two thirds apply either to all companies or to other types of companies such as state-owned
- While most reporting instruments cover all sectors (cross-sectoral scope), those that target specific sectors address the finance and heavy industry sectors in particular. The number of reporting instruments for companies in the financial services sector has more than doubled from 2013 to 2016 and they now account for almost 40 percent of sector specific instruments
- Governments and regulators increasingly require or encourage companies to disclose sustainability information in their annual reports
- There has been a large increase in instruments driving reporting of social information. The number of instruments we identified that focus on reporting of social information has almost doubled since 2013, growing faster than instruments that focus on the reporting of environmental information
- Regulation on tax disclosure has increased as companies come under increasing pressure to demonstrate they pay their fair share of taxes in all countries in which they operate.

Part 1: How many reporting instruments are in place?

Figure 1: Countries with reporting instruments

Reporting instruments surge over the last 3 years

Over the last three years, the total number of instruments that require or encourage organizations to report information about their sustainability performance has grown rapidly and significantly worldwide.

Our research found that sustainability reporting instruments are now in place in most of the world's biggest economies: 64 of the 71 countries researched in 2016 have some kind of sustainability reporting instrument in place. Our 2016 research identified almost 400 (383) sustainability reporting instruments in 64 countries versus 180 instruments identified in 44 countries in our 2013 report.

There is a clear underlying trend of an increasing volume of reporting instruments: an average of 6.0 instruments per country studied in 2016 versus 4.1 per country in 2013. This upward trend is supported by the fact that most (around 70 percent) of the new instruments identified in our 2016 research are in countries that were also covered in 2013. This suggests that more complex and modernizing markets increasingly expect businesses to report information not only on their financial performance but also on material aspects of their non-financial performance.

The key drivers behind this growth include regulatory growth particularly in Europe, Asia Pacific and Latin America, the rise of 'comply or explain' reporting approaches and increasing activity by financial market regulators and stock exchanges.

These trends are discussed in more detail in the subsequent sections.

Strong growth in Europe, Asia Pacific and Latin America

Europe continues to have a clear lead among the regions in terms of the overall number of instruments in place. This is to be expected given the high number of countries within the region and given that sustainability reporting and associated instruments are more mature in Europe than in many other regions.

The number of reporting instruments in European countries has continued to grow significantly since 2013. Our research identified 155 instruments in 2016 compared with 80 in 2013. Some of these new instruments relate to the transposition of the EU Non-Financial Reporting Directive as EU member states put in place or prepare for national implementation measures[8]. The directive requires large companies to disclose information on policies, risks and outcomes related to environmental matters, social and employee-related aspects, respect for human rights, anti-corruption and bribery issues, as well as diversity.[9]

New EU reporting instruments have also been introduced that focus on climate change mitigation (e.g. energy efficiency and greenhouse gas (GHG) emissions trading) as well as new initiatives related to business and the protection of human rights in global supply chains.

Reporting instruments in Latin America also grew quickly with the number of instruments issued by governments and financial regulators more than doubling between 2013 and 2016. Our researchers identified new instruments in Argentina and Brazil, among others.

Asia Pacific has also shown strong growth with the number of identified sustainability reporting instruments increasing by about 75 percent since 2013. Many of these instruments (31 out of 108) are new reporting rules introduced by financial market regulators. In fact, in Asia Pacific, stock exchanges and financial or industry regulators are now responsible for a greater number of reporting instruments than governments – they account for 50 percent of instruments compared to 45 percent of instruments from governments. In 2013 the reverse was true and the majority of instruments (58 percent) were issued by governments.

The growth trend in Asia Pacific echoes the findings of KPMG's 2015 Survey of Corporate Responsibility Reporting which reported that many Asia Pacific countries have high rates of sustainability reporting driven by regulation. These countries include India, Indonesia, Malaysia and South Korea.[10]

Figure 2: Rate of sustainability reporting among the 100 largest companies per country

Source: KPMG Survey of Corporate Responsibility Reporting 2015

[8] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0095

[9] 'Public-interest entities' as defined by Art. 2 of the 2013 Accounting Directive (Directive 2013/34/EU of 26 June 2013) with over 500 employees: listed companies, credit institutions, insurance undertakings, and others defined by EU Member States as public-interest entities

[10] KPMG International. (2015). Currents of Change: The KPMG Survey of Corporate Responsibility Reporting 2015 www.kpmg.com/crreporting

Part 2: Are most reporting instruments mandatory or voluntary?

Mandatory instruments dominate but growth in voluntary instruments is strong

The majority of instruments identified in this research, around two thirds of the total, are mandatory. Around one third are voluntary.

While over 100 (115) new mandatory instruments have been introduced, the proportion of instruments that are mandatory versus voluntary has dropped to 65 percent of the total in 2016, compared with 72 percent in 2013. In earlier editions of *Carrots & Sticks* during the 2000s the trend has been for the proportion of mandatory instruments to increase.

In many countries, early voluntary efforts by companies to measure and report on their corporate responsibility or sustainability performance have been followed by increasing mandatory disclosure requirements introduced through government regulation. This is especially the case in OECD countries, where new reporting requirements have been introduced through laws such as company acts, and accounting regulations, as well as instruments that address reporting on specific themes such as corporate governance or environmental pollutants.

Noteworthy in Europe has been the emergence of mandatory requirements from governments or the EU Commission that require reporting not only on specific environmental or social issues but also on broad-based non-financial performance. One example is the historical evolution from the EU Accounts Modernization Directive (2003) to the EU Non-Financial Reporting Directive (2014).

Figure 3: Mandatory vs voluntary instruments, 2016 vs 2013

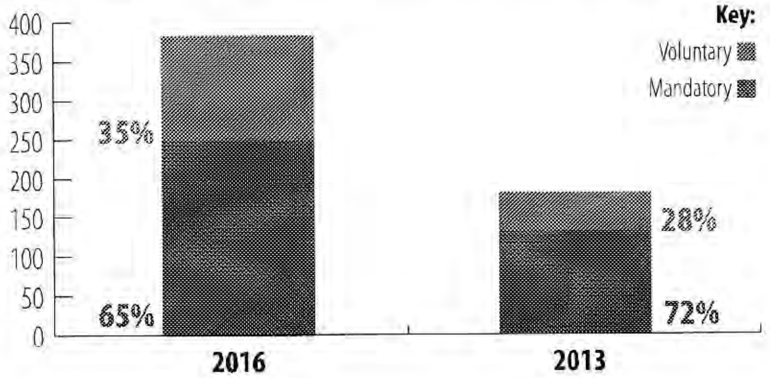
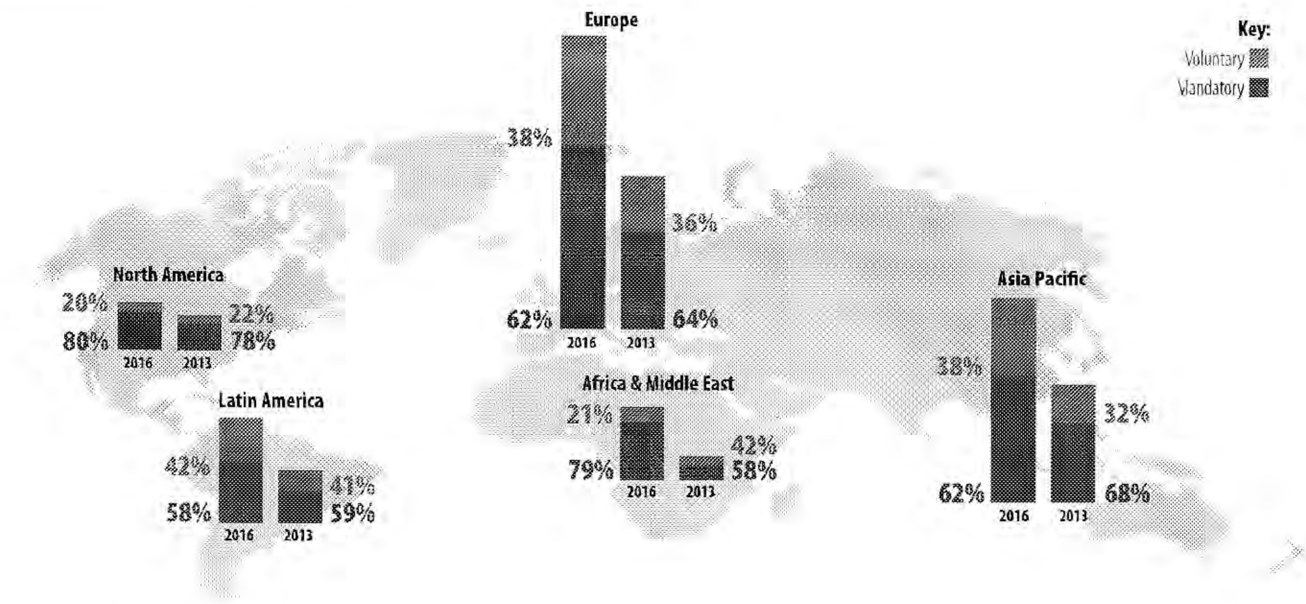


Figure 4: Mandatory vs voluntary instruments by region



Around one in ten instruments adopts a 'comply or explain' approach

Some 38 reporting instruments – around one in ten – adopts a 'comply or explain' approach. This approach can be taken by both mandatory and voluntary reporting instruments.

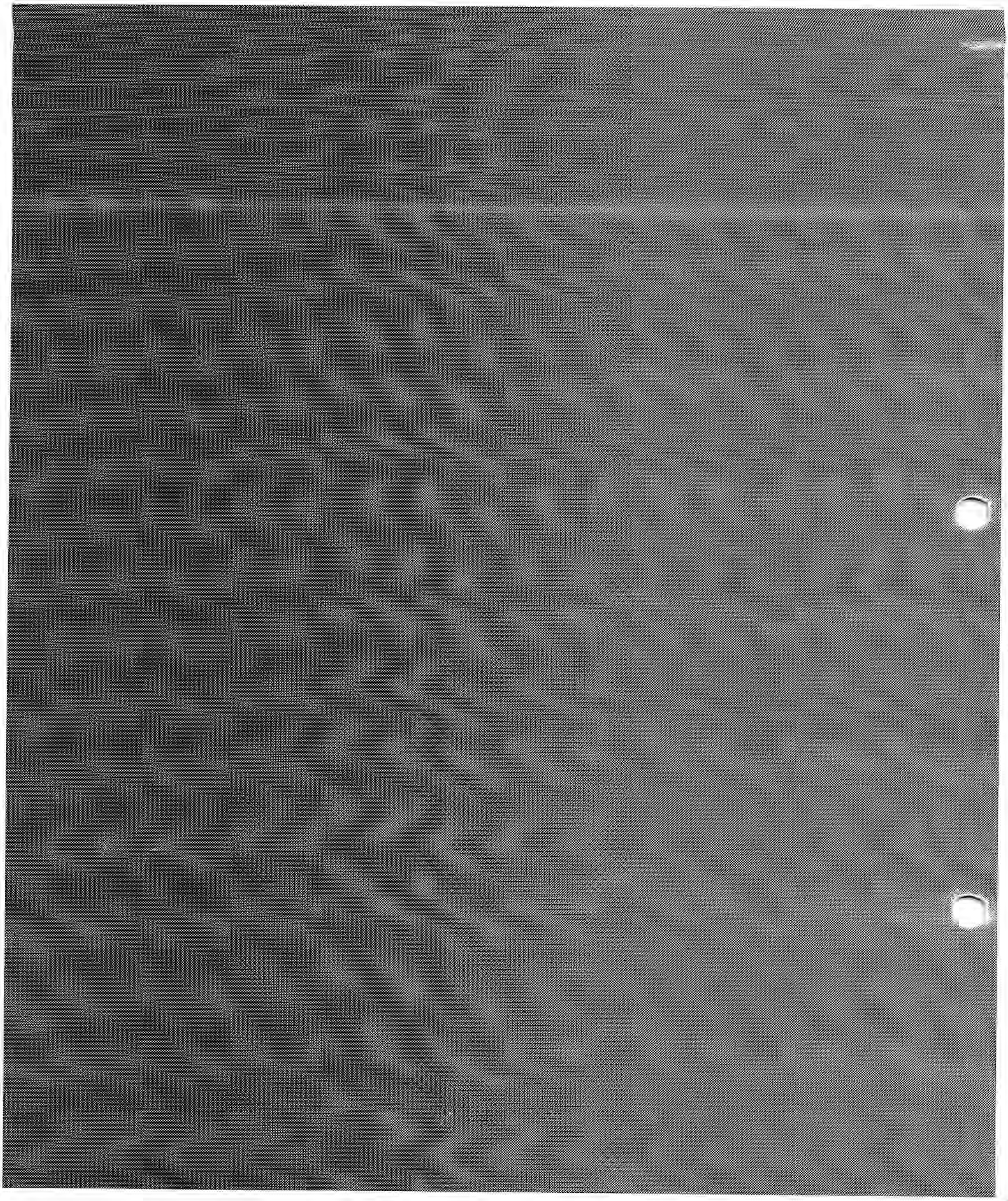
The prevalence of 'comply or explain' approaches is spread quite evenly between Europe, Latin America and Asia Pacific. In Africa, it has also been introduced in South Africa and Kenya[11].

Stock exchanges and financial market or industry regulators seem to be the most likely to employ the 'comply or explain' approach. Over half (21 out of 38) the 'comply or explain' instruments identified in 2016 were introduced by these types of organizations. The 'comply or explain' approach was debated at the 2012 Rio+20 United Nations Conference on Sustainable Development in the context of an event titled "Report or Explain Campaign Forum" convened by GRI and its partners[12].

In some countries the 'comply or explain' approach, even when applied to voluntary instruments, can result in a high level of sustainability reporting, due to peer pressure. The system in China illustrates the close interrelation between voluntary and mandatory approaches. In this case, industry regulatory bodies and local governments follow the regulatory approach of central government, while state-owned enterprises act as 'pilots' to set an example to others. Eventually, private companies follow suit by complying with supposedly voluntary initiatives. Key regulators in this Chinese approach include the China Securities Regulatory Commission as well as the State-owned Assets Supervision and Administration Commission.

[11] In South Africa the King Code on Corporate Governance (King III) and Johannesburg Stock Exchange introduced an "apply or explain" approach in 2009, one followed by regulators in for example the UK, Denmark and Sweden.

[12] https://www.globalreporting.org/network/report-or-explain/Pages/default.aspx



KPMG

GRI

UNEP
United Nations Environment Programme

CENTRE FOR
CORPORATE GOVERNANCE
IN AFRICA
University of Stellenbosch Business School