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Foreword

Last year, 2015, was a milestone for sustainability with crucial and unprecedented agreements by the international community, including the Sustainable Development Goals (SDGs) and the Paris Agreement on climate change action. 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. (The second report was published in 2010 and the third in 2013.)

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.

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.

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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/
4 https://www.globalreporting.org/resourcelibrary/Carrots-And-Sticks-Promoting-Transparency-And-Sustainability.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.

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.

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**Countries and territories covered in this edition:**

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<th>North America</th>
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<th>Africa &amp; Middle East</th>
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<td></td>
<td>United Kingdom</td>
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* Denotes countries where no reporting instruments were identified.

Search the Carrots & Sticks 2016 database of reporting instruments: [www.carrotsandsticks.net](http://www.carrotsandsticks.net)
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

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<tr>
<td>Mandatory</td>
<td>35</td>
<td>58%</td>
<td>94</td>
<td>62%</td>
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<tr>
<td>Voluntary</td>
<td>25</td>
<td>42%</td>
<td>57</td>
<td>38%</td>
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<td>Total</td>
<td>60</td>
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<td>19</td>
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- 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?

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. 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.

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.

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

Source: KPMG Survey of Corporate Responsibility Reporting 2015

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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


Search the Carrots & Sticks 2016 database of reporting instruments: www.carrotsandsticks.net
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

Key:
- Voluntary
- Mandatory

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<tr>
<th>Year</th>
<th>Mandatory</th>
<th>Voluntary</th>
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<tr>
<td>2016</td>
<td>35%</td>
<td>65%</td>
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<tr>
<td>2013</td>
<td>28%</td>
<td>72%</td>
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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 Kenya11. 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 partners12.

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
Governments issue the most sustainability reporting instruments

Governments issue the most sustainability reporting instruments worldwide, according to our 2016 research: almost three fifths of the total number of instruments identified.

Governments in over 80 percent of the countries studied in this research have introduced some form of regulatory sustainability reporting instrument (some 52 of the 64 countries with reporting instruments). This is a similar percentage to 2013 when Carrots & Sticks identified 37 out of 44 countries with government regulation. Almost half of government regulations are from European countries (104 of 223).

While governments are the most common issuers of sustainability reporting instruments, this does not mean that all government instruments mandate sustainability reporting. Over a quarter (56 out of 223) of government instruments identified in 2016 are voluntary. Typical examples are national action plans, such as the Chilean Action plan on Corporate Social Responsibility 2015-2018, the Dutch National Action Plan on Business and Human Rights, and the South Korean Five Year Sustainable Development Action Plan.

It is also important to consider which part of government issues the reporting instruments (for example laws, regulations, guidelines or action plans), mindful that different governmental departments have their specific mandates and thematic focus areas. From Carrots & Sticks 2016 it appears that most of the governmental initiatives have been undertaken by departments for the environment (57), business or trade and industry (28) as well as finance or treasury (22). Among the diverse group of “others” more common examples are departments of energy, labour and health.

Growing activity from financial market regulators and stock exchanges

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 (29 percent) of all sustainability reporting instruments identified in 2016.

Financial market regulators are the second most active issuers of sustainability reporting instruments after governments. In a number of cases the instruments they issue are focused on specific actors in the financial sector, such as pension funds or banks. Examples of instruments issued by financial sector bodies include the Guidance Regarding Disclosure Related to Climate Change (2010) issued by the US Securities and Exchange Commission.

The number of reporting instruments issued by stock exchanges has almost doubled from the 23 identified in our 2013 research to 44 in 2016.

One factor to consider here is whether the stock exchange is a for-profit company or a governmental, not-for-profit organisation. Factsheets on 78 members of the World Federation of Exchanges shows that 52 exchanges are for-profit (listed or private companies) and 26 exchanges are non-
profit associations or governmental organizations. From our stocktaking, it appears that the for-profit exchanges tend to be more active in introducing ESG-related listing requirements.

Growth in stock exchange reporting instruments has been particularly high in emerging markets: in 2016, almost half the stock exchange reporting instruments identified are in emerging markets, including locations such as Hong Kong, Shanghai, Shenzhen, Singapore, Kuala Lumpur, Sao Paulo and Johannesburg. This may reflect an expectation from stock exchanges that sustainability and corporate governance standards make their markets more attractive to foreign investors, among other incentives.

Stock exchanges in emerging markets likely see further advantages in implementing sustainability reporting instruments such as promoting market stability and ensuring proper risk management in listed companies, as well as a means to encourage companies to contribute to tackling social and environmental challenges.

It is also likely that the Sustainable Stock Exchanges (SSE) Initiative has had an impact on the growth of stock exchange instruments. The initiative was launched in 2009 by the UN Conference on Trade and Development (UNCTAD), the UN Global Compact, the UN Environment Programme Finance Initiative (UNEP FI), and the Principles for Responsible Investment (PRI).

The first five members of the SSE Partner Exchanges established in 2012 were the BM&F BOVESPA (Sao Paulo, Brazil), the Egyptian Exchange, Johannesburg Stock Exchange, Borsa Istanbul and Nasdaq. The initiative has now grown to over 50 partner exchanges and model guidance for sustainability reporting has been developed, in cooperation with GRI.

See the factsheets listed by the United Nations Conference on Trade and Development (UNCTAD) at http://www.sseinitiative.org/data/fact-sheets/. The research among others indicates that very few stock exchanges in the MENA region are entirely self-regulated, signaling more active state oversight.

The Sustainable Stock Exchanges Initiative http://www.sseinitiative.org/
Almost half of reporting instruments address large listed companies

Almost 30 percent of reporting instruments apply only to large listed companies and of these almost three quarters (73 percent) are from financial market regulators and stock exchanges. A further 14 percent of all instruments apply to large companies, both listed and unlisted.

Instruments that apply to large organizations define “large” by various metrics including the number of employees (such as over 500 in the case of the EU Non-Financial Reporting Directive), equity (such as over CDN$1 billion in the Bank Act of Canada) or turnover (such as over US$160 million in the Companies Bill of India).

Around 40 percent apply to all companies

Around 40 percent of sustainability reporting instruments apply either to all companies (without distinction by size, listing or sector) or to all companies except state-owned companies.

Governments are the most active in issuing reporting instruments with the widest scope: 84 percent of instruments that cover all types of organization are issued by governments and the remainder by financial market regulators, industry regulators or other bodies.

Some initiatives support SME reporting

In many countries, reporting instruments focus initially on large companies, state-owned enterprises, the largest companies in the stock exchange and companies operating in high-impact sectors. Regulators commonly focus on the largest companies because those companies have the financial and human resources required to manage reporting and may already have experience in doing so, while smaller companies often lack the capacity to report.15

Peer pressure is also a factor. As more large companies start to report, the pressure to follow suit grows on those who do not yet do so. Furthermore, large companies in the public eye are arguably more likely to attract scrutiny of their sustainability performance than many smaller companies.

Despite this, small and medium enterprises (SMEs) play a critical role in global value chains because large companies often rely on them to supply raw materials, goods and services. There is therefore an ongoing debate around whether SMEs should account for their sustainability impacts in the same way as most large companies do.

Policy makers face a dilemma here. SMEs have limited resources to report so voluntary instruments may have limited impact. This leaves policy makers and regulators with the decision of whether or not to introduce instruments that mandate sustainability reporting by smaller companies.

Figure 7: Organizations covered by instruments, 2016

15 UNEP & Group of Friends of Paragraph 47, Evaluating National Policies on Corporate Sustainability Reporting, 2015
A handful of countries such as Chile and Spain have introduced initiatives that include support for SMEs to take on sustainability reporting based on use of the GRI Standards. In Spain, for example, the government of Catalonia with the Chamber of Commerce initiated this as part of a CSR action plan with a group of SMEs.

**Sector-specific reporting instruments target finance and heavy industries**

Our 2016 research found that around one in five instruments (75) targets specific industry sectors.

The finance and heavy industry sectors are a particular focus for policy makers and regulators. Examples of this are the extractive industries specified in the Dodd-Frank Act\(^\text{16}\) and the extractive and logging industries in the EU Accounting Directive.\(^\text{17}\)

The number of reporting instruments for companies in the financial services sector has more than doubled from 2013 to 2016. They now account for almost 40 percent of sector specific instruments. This is in part one of the consequences of the global financial crisis of 2008 onwards. For example, in the US, such reporting instruments have formed part of broader regulation targeting all listed companies, notably the Dodd-Frank Wall Street Reform and Consumer Protection Act (2010) and Regulation S-K (2010).

Two thirds (67 percent) of sustainability reporting instruments governing the financial services sector are in Asia Pacific or Europe. In Europe these include the UK Stewardship Code (2010) which targets investors, the Corporate Governance Code for Investors (2005) in Germany and the Swedish Mandatory ESG Disclosure for Pension Funds (2000). In Spain, the Spanish Sustainable Economy Law (2011) targets pension funds among others, while in Italy the Mandatory ESG Disclosure and Investment Policy (2012) also targets pension funds.


Beyond the financial sector, heavy industries worldwide are targeted for their greater sustainability impacts relative to other sectors, especially in the environment and health areas. In 2016, almost 40 percent (39) of sector-specific reporting instruments apply to heavy industries. In OECD countries this often involves disclosure requirements to set up or refine national pollutant release and transfer registers or GHG trading registries.

Geographically, around three quarters of reporting instruments governing heavy industry (including extractives such as mining and oil & gas) are found in Latin America, Asia Pacific and North American countries, such as Brazil, Canada and China. This reflects the concentrations of extractive company operations and potential impacts, and may also reflect stakeholder pressure from communities and campaigners on industry leaders and policy makers.

![Figure 8: Sector-specific instruments, 2016 vs 2013](image-url)

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\(^{16}\) [Dodd-Frank Act](https://www.gpo.gov/fdsys/pkg/PLAW-111publ203/html/PLAW-111publ203.htm)

Part 5: Do instruments require reporting in specific formats?

Regulators increasingly require sustainability information in annual reports

Governments and regulators increasingly require or encourage companies to disclose sustainability information in their annual reports, according to our 2016 research. The number of reporting instruments that require this has grown from 67 to 127 between 2013 and 2016. While this increase is in part due to a greater number of countries being studied in the 2016 research, it may also relate to greater pressure from financial institutions, notably institutional investors, for improved information about the material relevance of sustainability risks.

Reporting instruments that require disclosure in stand-alone sustainability reports have also increased but by a lower proportion. Whereas the number of instruments specifying disclosure in the annual report has increased by almost 100 percent, the number of instruments specifying disclosure in sustainability reports has increased by just over 50 percent.

Around half (45 percent) the instruments identified in 2016 require or encourage companies to disclose their sustainability information in other ways (i.e. in forms other than annual financial, integrated or stand-alone sustainability reports) or do not specify the format of disclosure. These other forms can include stand-alone disclosure of data to government such as greenhouse gas emissions, waste or employment figures, or the publication of policies or action plans on specific themes such as labor, social impact or biodiversity.

Examples of direct disclosure to governments include the Toxics Release Inventory (TRI) in the US and the European Pollutant Release and Transfer Register (E-PRTR). In both cases the data has been published electronically and provided local stakeholders with site level information, leading to reductions in facility emission levels. More recently in China, the Environmental Protection Law, revised in 2014, is expected to support efforts by local communities to obtain credible site level data on air, water and soil pollution.

Figure 9: Format of reporting required by instruments, 2016 vs 2013

N.B. The base for this chart is the 209 instruments that specify the format of reporting that is required. Instruments that do not specify a reporting format are not shown here.
Part 6: How many reporting instruments focus on specific environmental or social factors?

A majority of instruments apply to reporting of specific environmental or social factors

Over three fifths (61 percent) of the instruments identified in our 2016 research cover reporting on specific environmental or social topics. The remaining two fifths require or encourage reporting of general sustainability information.

A large increase in instruments driving reporting of social information

The number of instruments 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. Social information covered by these instruments include human rights, health and safety, working conditions and training. Around half (46 percent) the instruments we found that focus on reporting of social information are in European countries. However, a significant number (around one quarter) are in Asia Pacific countries including Australia, Malaysia, China and Japan. The global financial crisis has strengthened public interest worldwide in equality and social issues (for example, as evidenced by the international Occupy Movement and other similar movements) as well as highlighting the importance of effective governance. Some countries have implemented national action plans to address these topics, such as Spain with its Strategy for Corporate Social Responsibility 2014-2020, introduced in response to the EU’s CSR Strategy. Other countries introducing national CSR action plans include France (under development at time of writing) and Switzerland (adopted), while some countries – such as Norway - have introduced specific action plans in response to the UN Guiding Principles on Business and Human Rights.

Given the significant social problems faced by many emerging markets, one might expect a greater focus on socially-themed reporting instruments in these countries. However, our 2016 research suggests that current reporting instruments in these countries are more likely to apply to environmental reporting or general sustainability reporting.

South Africa is one emerging economy where a special interest in the social agenda can be noted. The country has laws related to the reporting of procurement, social and labor plans, as well as employment equity reports that have to be submitted to government.

The focus of disclosure instruments in Asia tends to be influenced by regional sustainability megatrends such as urbanization and the associated pollution and public health problems. Special interest in socio-economic impacts can be seen in the introduction of laws such as the Company

Search the Carrots & Sticks 2016 database of reporting instruments: www.carrotsandsticks.net
Liability Act (2007, 2012) in Indonesia as well as the Companies Bill (2013) in India which was a world first in introducing a mandatory CSR spending requirement for companies with a certain net worth (including foreign multinationals operating in India). Also in India, the Securities & Exchange Board of India (SEBI) requires the top 500 companies listed on the country’s stock exchanges to include Business Responsibility Reports in their annual reports.

Governments are expected to develop National Action Plans (NAPs) on Business and Human Rights to respond to the UN Guiding Principles (UNGPs) unanimously endorsed at the General Assembly in 2011. To date, ten countries have developed a NAP although this number is expected to rise as pressure from stakeholders increases. These NAPs are expected to encompass a reporting element in order to address and mitigate human rights impacts in the business context. Guidance on NAPs from the UN Working Group on Business and Human Rights recommends that governments support efforts to promote transparency and encourages the use of existing reporting frameworks.18

Some instruments that apply to a specific area of social information are the direct result of public dissatisfaction over poor corporate responsibility standards in supply chains. Examples include the Dodd-Frank Act (2010, conflict minerals) and the Business Supply Chain Transparency on Trafficking and Slavery Act (2015) in the US as well as Sustainability Reporting Guidelines for Apparel and Textile Enterprises (2008) in China.

**Growth in environmental reporting instruments has slowed**

There are still more instruments that focus on environmental reporting than social reporting and this is not surprising given the longer history of environmental regulations worldwide. Environmental reporting instruments have been fueled over the past decade by many environmental trends, including the development of new GHG markets and regulations that require disclosure of reliable GHG emissions data and other climate-related information.

However, the rate of increase in environmental reporting instruments between 2013 and 2016 was less than the overall rate of increase in instruments, indicating a slight slowing.

Growth in environmental reporting instruments since 2013 has come predominantly from Europe, Asia Pacific countries and from the US, France, Spain and Australia in particular saw an increase in such instruments. Environmental disclosure requirements could increase globally following the recent Paris Agreement at the UN climate conference in Paris (COP21, December 2015) which is likely to result in a significant increase worldwide in regulations governing the disclosure of emissions of carbon and other GHGs.19

New environmental reporting instruments introduced since 2013 include measures to set up national GHG emissions registries and improve company disclosure of GHG emissions in Spain, Mexico and the UK for example. Since 2015 in France, Article 173 of the French Energy Transition Law20 among others requires listed companies to disclose risks related to the effects of climate change in the report by the chairman of the board of directors. France now also requires institutional investors to report on the climate risk exposure of their portfolios, the products that contribute to financing the transition to the low carbon economy, as well as the carbon emissions of their investment portfolios.

The green bonds market is another focus for recently-introduced environmental reporting instruments. The value of green bonds issued has grown rapidly over recent years. In the year 2007, the value of green bonds issued was only US$1 billion, whereas green bonds valued at over US$41 billion were issued in 2015.21 Issuers include development banks, municipalities and large corporations who may be expected to disclose information on financed green projects regularly, before and after the issuing of green bonds.

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18 The UNGP emphasize the importance of transparency and communication both for States and companies (Principles 3d and 21 of the UNGP). In doing so, the UNGP recognize that reporting is a key element for companies to address and mitigate human rights impacts, in which states and businesses have a role to play.


20 Source: https://www.legifrance.gouv.fr/affichTexteArticle.do?idArticle =JORFTEXT000031045547&cidTexte=LEGITEXT000031047847&categorieLien=id

A majority of reporting instruments in North America focus on specific environmental or social factors

In North America over three quarters of reporting instruments focus on a specific environmental or social factor. This is primarily driven by the US, where only 1 of 16 reporting instruments is related to general sustainability and almost two thirds (63 percent) are focused on environmental reporting.

The proliferation of US instruments focused on specific reporting topics may be connected to a tendency to focus on specific legal norms rather than embracing generic principles. It may also be related to controversial issues that have captured the public debate in the US, resulting for example in laws that require reporting on specific issues such as slavery (Business Supply Chain Transparency on Trafficking and Slavery Act 2015), conflict minerals (Dodd–Frank Wall Street Reform and Consumer Protection 2010) and climate change (SEC Guidance on Disclosure Related to Climate Change, 2010).

Regulation on tax disclosure increases

Companies are coming under increasing regulatory pressure to demonstrate they have responsible tax strategies in place that ensure they pay their fair share of taxes in all countries in which they operate. Sustainability ratings such as the Dow Jones Sustainability Index are adding pressure by factoring responsible taxation policies into their assessment criteria.

In recent years governments have begun to take action on promoting more transparent tax reporting, such as the UK with the UK Finance Act and the EU and Norway with the regulation for extractive and logging industries to report on payments to governments. This is being driven in part by the OECD’s promotion of “fair play” in international taxation - i.e. the disclosure of data on revenues, profit and taxes paid on a country-by-country basis.

The European Parliament in July 2015 voted in favor of measures to increase the transparency of the finances of multinational corporations. In 2016, the European Commission strengthened planned tax disclosure measures by tabling a proposal for a directive under which all companies and subsidiaries with annual turnovers of more than US$85 million would have to publish a country-by-country breakdown of profits, tax, employees and net turnover, including activities in tax havens outside the EU.

The unprecedented leak of data in the ‘Panama Papers’ shared by the International Consortium of Investigative Journalists (ICIJ) with various newspapers in April 2016 has turned the international spotlight on the use of offshore tax havens. It is likely to put further pressure on regulators to strengthen tax reporting and disclosure instruments worldwide.²²

²² http://www.ft.com/intl/cms/s/0/5ee51bf4-fda3-11e5-a31a-7930bac3f5f.html#axzz45863oD9h
Conclusion

This 10th anniversary edition of Carrots & Sticks provides an overview of the growth in reporting instruments worldwide. It looks at their voluntary or mandatory nature, who issued them and who they target, to what extent they specify reporting formats and how many address specific environmental or social themes.

What is perhaps most striking about the findings of this edition is the number and variety of sustainability reporting instruments that now exist and the number of countries in which they are applied.

This is encouraging, given that only ten years ago such instruments were the exception rather than the rule. The findings reflect a commendable effort by governments, regulators, stock exchanges and others to implement sustainability reporting policies through regulation, guidance and other instruments.

At the same time, our 2016 report also paints a picture of a rapidly growing, increasingly complex and fragmented landscape of reporting instruments. Some duplication and overlap is inevitable.

While the trend is in the right direction, an important next step is for the bodies that issue reporting instruments to focus on coordination and harmonization. That will require increased levels of collaboration and joint commitments between these bodies. More collaboration between reporting organizations would also benefit the process.

Furthermore, the wide range of themes addressed by reporting instruments raises questions of prioritization and materiality. There is a growing public expectation for organizations to be transparent on an expanding range of sustainability issues. Indeed Carrots & Sticks illustrates how public opinion can drive the reporting and regulatory agenda. Human rights and corporate tax are just two examples of topics that have recently influenced the global political agenda as a result of stronger public consciousness of these issues.

At the same time as pressure grows for companies to be more transparent on a wide range of issues, there are also calls for reporting to prioritize and focus on the topics that are most relevant and material to the creation of long-term value both for businesses and their shareholders, and for society as a whole. Reporters and regulators will need find a way to strike the right balance between what could be perceived as competing calls for comprehensiveness and focus.

While Carrots & Sticks first and foremost provides a summarized quantitative overview of the current landscape of reporting instruments, we recognize that there are unanswered questions. As our Advisory Committee noted, questions can be asked about the impact, context and drivers behind each instrument, and the sector or economy in which it is issued.

For example, how effective are these instruments? How successful is action by governments in achieving their objectives? What is the quality of the reported information that results from these instruments? How valuable is the information in terms of enhancing transparency and accountability? To what extent does the reporting bring us closer to the sustainable world envisioned by the 2030 Agenda for Sustainable Development (including the 17 SDGs)?

Such questions lie beyond the scope of this report but are important to address. We hope that Carrots & Sticks helps to lay the groundwork for a continuing and wide-ranging research agenda. We encourage other organizations and the research community to pick up the baton and build on our work.

Lastly, we hope that Carrots & Sticks inspires governments, regulators and others to continue to develop effective regulations and other instruments that support sustainability reporting as an important tool to help create the sustainable world we strive for.
Appendix 1

International initiatives on sustainability reporting

There is an increasing trend for national policy and instruments to build on or refer to existing international CSR or reporting frameworks, such as the UN Global Compact principles, ISO 26000, OECD Guidelines for Multinational Enterprises and the GRI Standards.

To date there are 42 countries in which the GRI Standards are referenced in government or market instruments.22 Examples include the preamble of the EU Directive on non-financial and diversity information21, the Legal Guide to do Business in Colombia25, the Corporate Social Responsibility Implementation Guide for Canadian Businesses26, or the reporting requirements in Sweden for state-owned enterprises.27 Often the reference to GRI standards is done along with other normative or management standards such as UNGC principles, OECD Guidelines for Multinational Enterprises and the ISO 26000 Guidance Standard on Social Responsibility.

In a globalized economy, reporting instruments that transcend national boundaries can improve the comparability of reports and the efficiency of reporting practice, and also enable the effective assurance of data. This is why robust reporting standards play a critical role to allow for external assurance. Listed below are key international initiatives, frameworks and instruments that are shaping sustainability reporting today.

European Union - Non-Financial Reporting Directive

In December 2014, the European Union adopted Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups which amends the Accounting Directive 2013/34/EU.

The Directive requires public-interest entities (PIEs) in the European Union with more than 500 employees to include in their management report a non-financial statement containing information on their policies, main risks and outcomes related to as a minimum: environmental matters, social and employee aspects, respect for human rights, anticorruption and bribery issues. The Directive provides the possibility for Member States to exempt public interest entities from disclosing the required non-financial information in the management report if they have already provided this information in a separate report.

Companies in scope are offered a list of frameworks to refer to including: the Eco-Management and Audit Scheme (EMAS), and international frameworks such as the United Nations (UN) Global Compact, the Guiding Principles on Business and Human Rights implementing the UN Protect, Respect and Remedy’ Framework, the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, the International Organisation for Standardisation’s ISO 26000, the International Labour Organisation’s Tripartite Declaration of principles concerning multinational enterprises and social policy and the Global Reporting Initiative (GRI).

PIEs definition under EU law covers listed companies, banks, insurance undertakings and other companies that are so designated by Member States. In that regard, the scope of the Directive varies across the 28 EU Member States. While some Member States have defined PIEs by including only those entities covered by the Directive which are listed companies, banks and insurance undertakings, others have opted to extend the scope and include a broader list of entities such hospitals and even municipalities.

In addition the Directive on non-financial reporting stipulates that PIEs listed on an EU regulated market should provide information on their diversity policy applied to their administrative, supervisory and management bodies.

The European Commission, the initiator of the legislation, has estimated that the new rules will apply to more than 6000 companies across the European Union. The EU Member States must transpose the new rules stemming from the Directive into national law by December 2016 and we expect the first reports containing the prescribed non-financial information to be prepared for the 2017 financial year.

At the date of publication of this report, only a few Member States have transposed the Directive into national law and most of the Member States are in the process of drafting legislation bringing their national laws into compliance with the Directive.

22 According to GRI sources, as of April 28th 2016: Argentina, Australia, Austria, Bangladesh, Bolivia, Brazil, Canada, Chile, China, Colombia, Cyprus, Denmark, Ecuador, EU, Finland, Germany, Hong Kong, Iceland, India, Israel, Italy, Japan, Malaysia, Maldives, Netherlands, Nigeria, Norway, Pakistan, Philippines, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Kingdom, United States of America, Vietnam, Zimbabwe.
26 http://www.government.se/government-policy/state-owned-enterprises/goals-for-state-owned-companies/
Group Friends of Paragraph 47

The Group of Friends of Paragraph 47 is a government-led initiative formed in June 2012 following the acknowledgement of the importance of corporate sustainability reporting in Paragraph 47 of the outcome document of the United Nations Conference on Sustainable Development (Rio +20). The Group is composed of the governments of Argentina, Austria, Brazil, Chile, Colombia, Denmark, France, Norway, South Africa and Switzerland. The UN Environment Programme (UNEP) and the Global Reporting Initiative (GRI) provide support in a secretariat capacity.

The Group’s Charter was published on 7 November 2012. It reaffirms the Group’s intention to contribute to the advancement of an international culture of corporate transparency and accountability. The key points are:

- The recognition that governments have a primary role to play in moving society towards a sustainable model of development, given their access to soft and hard instruments that can positively influence corporate behavior
- The intention to bring governments and other stakeholders together to develop best practice examples of policy and regulation for promoting corporate sustainability reporting
- That corporate sustainability reporting should become a widespread practice to allow for a transparent, well-functioning market economy and for the private sector to contribute to sustainable development
- To promote the use of, and build upon, existing and widely-used sustainability reporting guidance, such as principles, indicators, and frameworks
- Developing countries and small and medium enterprises (SMEs) will be given particular attention in progressing on sustainability reporting if needed.

For information on the Group’s activities, please contact secretariat@paragraph47.org.

Sustainable Stock Exchanges Initiative

The Sustainable Stock Exchanges (SSE) initiative is a peer-to-peer learning platform for exploring how exchanges, in collaboration with investors, regulators, and companies, can enhance corporate transparency – and ultimately performance – on ESG (environmental, social and corporate governance) issues and encourage sustainable investment. The SSE is organized by the UN Conference on Trade and Development (UNCTAD), the UN Global Compact, the UN Environment Programme Finance Initiative (UNEP FI), and the Principles for Responsible Investment (PRI).

The first meeting of the SSE was opened by UN Secretary-General Ban Ki-Moon in New York City, USA in 2009.

At the SSE 2012 Global Dialogue a new dimension to the initiative was launched, with the five participating stock exchanges making a public commitment to sustainability in their markets, thereby becoming SSE Partner Exchanges. The first five SSE Partner Exchanges, BM&FBOVESPA, the Egyptian Exchange, Johannesburg Stock Exchange, Borsa Istanbul and Nasdaq, are now joined by nearly all major stock exchanges worldwide from both developed and developing countries.

In September 2015, the Sustainable Stock Exchanges Initiative (SSE) launched its Model Guidance for exchanges on sustainability reporting. At that time just under one third of stock exchanges around the world were providing guidance to issuers on reporting environmental, social and governance (ESG) information. Six months on, this number has now risen to almost 50 percent.

The SSE has launched a campaign to close the ESG guidance gap. The goal is that all World Federation of Exchanges (WFE) exchanges and SSE Partner Exchanges will provide their listed companies with guidance on sustainability reporting by end of 2016.

World Federation of Exchanges

Based on the SSE Model Guidance, the World Federation of Exchanges has created a set of recommendations to its member exchanges on how to implement their own sustainability policies. The WFE Guidance & Recommendations identify material ESG metrics which exchanges can incorporate into disclosure guidance to companies listed on their market. The metrics lay out 34 key performance indicators that are built off of the SSE guidance.

Business and SDGs: SDG Compass and the 12.6 tracker

The 2030 Agenda for Sustainable Development was adopted in September 2015. It includes the Sustainable Development Goals (SDGs): 17 goals with 169 targets covering a broad range of sustainable development issues such as ending poverty and hunger, improving health and education, making cities more sustainable, combating climate change, and protecting oceans and forests. GRI among others championed a strong private sector role in the development of the goals.

In partnership with the UN Global Compact and the World Business Council for Sustainable Development, GRI co-created the SDG Compass: a guide to help businesses understand and contribute to the SDGs. Further, in collaboration with Tata Consultancy Services (TCS), GRI created the 12.6 Tracker, a database that governments can use to understand the status of sustainability reporting in their countries and track progress toward SDG target 12.6, on sustainability reporting.

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International frameworks and other instruments

A variety of initiatives offer organizations tools, guidance and inspiration to assist with developing their sustainability strategy and reporting.

There are several internationally-accepted sustainability frameworks and other instruments with complementarities and synergies.

Some have a comprehensive sustainability scope. Others are aimed at specific sectors, or focus on a single issue such as greenhouse gas emissions, climate change, or the impacts of business activity on forests.

We can distinguish among normative, management and reporting frameworks: The UN Global Compact principles and the OECD Guidelines provide normative frameworks to help companies shape their sustainability vision and management approach, as well as to measure their impacts. ISO 26000 is a private management standard that provides guidance for organizations on the concept and definitions of corporate social responsibility. GRI’s Sustainability Reporting Standards provide organizations with disclosure items and metrics that align with the most important international normative frameworks, allowing them to benefit from each initiatives’ complementarities and strengths.

Below we list some of the key frameworks and other instruments.

GRI

GRI is an international independent organization that has pioneered corporate sustainability reporting since 1997. GRI helps businesses, governments and other organizations understand and communicate the impact of business on critical sustainability issues such as climate change, human rights, corruption and many others. With thousands of reporters in over 90 countries, GRI provides trusted and widely used standards on sustainability reporting, enabling organizations and their stakeholders to make better decisions based on information that matters. Currently, 39 countries and regions reference GRI in their sustainability reporting policies. GRI is built upon a unique multi-stakeholder principle, which ensures the participation and expertise of diverse stakeholders in the development of its standards. GRI’s mission is to empower decision-makers everywhere, through its standards and multi-stakeholder network, to take action towards a more sustainable economy and world.

GRI is committed to continuously improving and increasing the use of the Guidelines, which are freely available to the public. GRI Standards include widely recognized international norms and normative frameworks on sustainability such as the United Nations Guiding Principles on Business and Human Rights, the ILO Conventions, the UN Global Compact Ten Principles, and the OECD Guidelines for Multinational Enterprises.

www.globalreporting.org

The International Integrated Reporting Council (IIRC)

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. The coalition is promoting communication about value creation as the next step in the evolution of corporate reporting.

In 2014, the IIRC published an international Integrated Reporting <IR> Framework. Aimed primarily at producing information for long-term investors, this framework offers guiding principles and content elements that govern the content of an integrated report.

www.theiirc.org

SASB

The Sustainability Accounting Standards Board (SASB) is a U.S. based organization incorporated in July, 2011 for the purpose of establishing industry-based sustainability standards for the recognition and disclosure of material environmental, social and governance impacts by companies traded on U.S. exchanges. SASB is also an ANSI accredited standards developer. SASB is not affiliated with FASB, GASB, IASB or any other accounting standards board.

SASB believes that every investor has the right to material information. SASB democratizes the availability of decision-useful information related to critical aspects of corporate sustainability performance and provides a basis for concerted action by companies, investors, regulators and the public in addressing environmental, social and governance issues.

http://www.sasb.org/

United Nations Global Compact (UNGC)

The UNGC is the largest policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption. The ten principles are derived from United Nations Declarations and Conventions. UNGC signatories are required to issue an annual Communication on Progress (COP), a public disclosure to stakeholders on progress made in implementing the ten principles.

Violations of the COP policy (e.g. failure to issue a COP) can result in a signatory’s status being changed to ‘non-communicating,’ and can eventually lead to expulsion.

www.unglobalcompact.org
OECD Guidelines for Multinational Enterprises

The OECD Guidelines provide recommendations for responsible business conduct in areas such as employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation. Over 40 adhering governments – representing both OECD and non-OECD member countries from all regions of the world – encourage enterprises in their countries to observe the guidelines wherever they operate.

http://www.oecd.org/daf/inv/mne/

ISO 26000

ISO 26000 is a guidance standard on how business and organizations can operate in a socially responsible way. It helps clarify what social responsibility is, helps businesses and organizations translate principles into effective actions, and shares best practice on social responsibility. It is aimed at all types of organizations regardless of activity, size or location. The standard states that an organization should, at appropriate intervals, report about its performance on social responsibility to the stakeholders affected.

ISO 26000 represents broad international collaboration; representatives from government, NGOs, industry, consumer groups and labor organizations from around the world were involved in its development.


www.iso.org/iso/home/standards/iso26000.htm

Carbon Disclosure Project (CDP)

CDP provides a global reporting system that collects information from the world’s largest organizations on their climate change risks, opportunities, strategies and performance, and the way in which they consume and affect natural resources including water and forests. By leveraging market forces including shareholders, customers and governments, CDP has incentivized thousands of companies and cities across the world’s largest economies to measure and disclose their greenhouse gas emissions, climate change risk and water strategies.

www.cdproject.net/en-US/Pages/HomePage.aspx


The Greenhouse Gas Protocol (GHG Protocol) is the most widely used international accounting tool for government and business leaders to understand, quantify, and manage greenhouse gas emissions. The GHG Protocol, a decade-long partnership between the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD), is working with businesses, governments, and environmental groups around the world to build a new generation of credible and effective programs for tackling climate change.

It provides the accounting framework for nearly every GHG standard and program in the world - from the International Standards Organization to The Climate Registry - as well as hundreds of GHG inventories prepared by individual companies.

The GHG Protocol also offers developing countries an internationally-accepted management tool to help their businesses compete in the global marketplace and governments to make informed decisions about climate change.

www.ghgprotocol.org

International Labour Organization (ILO) Tripartite declaration of principles concerning multinational enterprises and social policy

The principles laid down in this universal instrument offer guidelines to multi-national enterprises, governments, and employers’ and workers’ organizations in such areas as employment, training, conditions of work and life, and industrial relations. Its provisions are reinforced by certain international labor Conventions and Recommendations which the social partners are urged to bear in mind and apply, to the greatest extent possible.

Core Labor Standards (or CLS) are the baseline standards for labor set up by the International Labor Organization (ILO). The baseline standards include: freedom of association and the right to collective bargaining; the elimination of forced and compulsory labor; the abolition of child labor; and the elimination of discrimination in the workplace. Other standards have been sought by the ILO to improve worker conditions, but these have been the central few that are widely accepted as customary international law.

UN Guiding Principles on Business and Human Rights


These guiding principles are grounded in recognition of:
(a) States’ existing obligations to respect, protect and fulfil human rights and fundamental freedoms;
(b) The role of business enterprises as specialized organs of society performing specialized functions, required to comply with all applicable laws and to respect human rights;
(c) The need for rights and obligations to be matched to appropriate and effective remedies when breached.

The principles apply to all states and to all business enterprises, both transnational and others, regardless of their size, sector, location, ownership and structure.

Communication by business enterprises on how they address their human rights impacts can range from informal engagement with affected stakeholders to formal public reporting. State encouragement of, or where appropriate requirements for, such communication are important in fostering respect for human rights by business enterprises.


PRI Reporting Framework

The United Nations-supported Principles for Responsible Investment (PRI) Initiative is an international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision making and ownership practices. The principles offer a menu of possible actions for incorporating ESG issues into investment practices across asset classes. There are some mandatory indicators which represent the minimum set of public information that signatories are required to report and disclose as of 2013.

www.unpri.org

CDSB (Climate Disclosure Standards Board)

Launched in September 2010, the Climate Change Reporting Framework adopts and relies on relevant provisions of existing standards and practices, including the Greenhouse Gas Protocol and International Financial Reporting Standards as well as reflecting regulatory and voluntary reporting and carbon trading rules. The Framework is a standards-ready tool for companies to disclose climate change-related information in mainstream financial reports.

http://www.cdsb.net/

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Appendix 2

Assurance Standards

The terms ‘assurance’, ‘external assurance’ or ‘verification’ are used interchangeably by sustainability practitioners, but definitions and interpretations may differ. As the demand for credible sustainability data increases globally, the topic of external assurance of sustainability reports gains significance. Reporters and report users are interested in how external assurance can help improve sustainability disclosure. Most assurance of sustainability reports is classified as limited (or moderate) or reasonable (or high) level of assurance.

There are a wide range of assurance providers and approaches in different regions. The main assurance providers are accountancy firms, engineering firms and other professional services firms.

Below is a brief overview of the major assurance standards.

GLOBAL

The International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information was developed by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). IFAC is the body responsible for issuing international accounting and auditing standards for the accounting profession. ISAE 3000 came into force in December 2003 and is used by accounting firms to guide their assurance engagements on sustainability reports.

www.ifac.org

AA1000 Assurance Standard (AA1000AS), 2008. Issued by the UK-based Accountability; provides a comprehensive approach to holding an organization to account for its management, performance and reporting on sustainability issues by evaluating the adherence of an organization to the Accountability Principles (AA1000APS) and the reliability of associated performance information. It was developed through a multi-stakeholder process and is designed to help ensure that reporting and assurance meets stakeholders’ needs and expectations.

www.accountability.org.uk

ISO 14064-3 Specification with guidance for the validation and verification of greenhouse gas assertions. ISO 14064-3 details principles and requirements for verifying GHG inventories, and validating or verifying GHG projects. It can be applied to entity-wide and offset project GHG quantifications. It provides requirements and guidance for those conducting GHG validations and verifications. It specifies the general requirements for selecting GHG audit team members, establishing the level of assurance, objectives, criteria and scope, determining the auditing approach, assessing GHG data, information, information systems and controls, evaluating GHG assertions, and preparing audit statements.

http://www.iso.org/iso/catalogue_detail?csnumber=38700

REGIONAL

NORTH AMERICA

SOP 03-2, Attest Engagements on Greenhouse Gas Emissions Information, 2002. In 2002 the AICPA and the Canadian Institute of Chartered Accountants (CICA) formed a joint task force on sustainability reporting. While the task force concluded in 2003 that GRI had not yet developed to a point where its criteria were suitable, it also recognized the importance of working with GRI and international standard setters to develop performance and reporting criteria. The task force took an important step in the United States by developing the first attestation engagement on environmental reporting. With the approval of the AICPA Auditing Standards Board, the task force issued Statement of Position 03-2, Attest Engagements on Greenhouse Gas Emissions Information. The AICPA also is participating in the Enhanced Business Reporting Consortium (www.ebr360.com), which is examining how to improve information for public company stakeholders.


COUNTRY LEVEL

AUSTRALIA

Standard DR03422: General Guidelines on the Verification, Validation and Assurance of Environmental and Sustainability Reports, 2003. Issued by Standards Australia. Work on this standard was carried out by the joint Standards Australia and Standards New Zealand Committee QR–011 Environmental Management Systems.

www.standards.org.au

DR03422, 2008. Issued as an Interim Standard for a period of two years, after which AS/NZ 55911 (Int): 2005 came into effect which was then updated in 2008. Australian Auditing Standards (for accounting firms) can be applied to the audit and review of sustainability reports. AUS102.44 states that ‘Australian Auditing and Assurance Standards, while developed primarily in the context of financial report audits, are to be applied, and adapted as necessary, to all audits of financial and non-financial information, to all other assurance engagements, and to all audit related services.’

www.auasb.gov.au
BRAZIL

NBC TO 3000. Approved by The Federal Accounting Council (CFC), through resolution No. 1.160/09, the norm provides for assurance engagements other than audit and review of historical financial information.

http://50.97.105.38/~cfcor495/wordpress/wp-content/uploads/2013/01/NBC_TO_Asegura%C3%A7%C3%A3o.pdf

CHINA

No. 3101 Assurance Engagements other than Audits or Reviews of Historical Financial Information (CAS3101), 2006. Issued by the Ministry of Finance, CICPA CAS3101 is one of the China Standards on Other Assurance Engagements, which are included in the China Certified Public Accountant Practicing Standards. CAS3101 follows the ISAE3000 very closely in terms of principles and procedures. The main distinction is that CAS3101 requires two sign-offs by a certified practitioner of CICPA in addition to the firm’s seal while ISAE3000 requires only the name of the firm or practitioner to be stated on the assurance statement.

www.mof.gov.cn

China Sustainability Reporting Verification Rules and Instructions (CSR–VRAI), 2008. Issued by the China National Textile and Apparel Council. The rules and instructions provide the measuring principles and verification procedure for the quality of the CSR reports of textile and apparel enterprises. It has become the standard of independent verification carried out by third party assurance service providers, to assess whether the CSR reports have met the requirements of CSC9000T China Social Compliance for Textile & Apparel Industry Principles and Guidelines.

www.csc9000.org.cn/PDF/2008_ConfirmationCriterion.pdf

FRANCE

Order of 13 May 2013 defining the conditions under which the Independent Third Party, accredited by the French accreditiation body, performs its verification engagement related to companies’ transparency obligations on social and environmental matters on their annual Management Report (Article L.225-102-1 of the French Commercial Code and Decree n°2012-557 of 24 April 2012). The Independent Third Party’s internal methodology, which is verified by the French accreditiation body, must comply with the Order of 13 May 2013, and is mainly designed to comply with ISAE 3000 and French professional standards.

ITALY

Research Document n. 190: limited assurance report on social or sustainability report. This document is issued by ASSIREVI (the Italian Association of Internal Auditors) and represents a model for limited assurance of reporting on social or sustainability information.

JAPAN

Practical Guidelines for the Assurance of Sustainability Information, 2007. The guidelines were issued by the Japanese Association of Assurance Organizations for Sustainability. The guidelines set out specific steps and procedures to be followed in assurance engagements of sustainability information. The guidelines are broadly consistent with ISAE3000. Members of the Japanese Association of Assurance Organizations for Sustainability include not only accounting firms but also some certification bodies. The guidelines have helped narrow the gap between accounting firms’ assurance procedures and those of certification bodies.

http://www.j-sus.org/index.htm

www.j-sus.org/english.html

NETHERLANDS

Standard COS 3810N Assurance Engagements relating to Sustainability Reports, 2007. Issued by The Royal Dutch Institute for Registered Accountants (NIVRA). The standard is designed to comply with ISAE 3000 while incorporating the principles of AA1000AS and drawing on the GRI Guidelines.

The standard is applicable to all engagements agreed after 1 July 2007.

www.nba.nl

SPAIN

ICJCE Action Guide, 2008. Developed by the Institute of Chartered Accountants of Spain, this guide establishes the procedures that an auditor should follow for verifying sustainability reports.

www.icjce.es

SWEDEN


www.far.se
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KPMG
KPMG is one of the pioneers of sustainability consulting – some KPMG member firms first offered sustainability services over 20 years ago. This gives KPMG’s network in-depth experience. Today our network of member firms offer climate change and sustainability services in around 60 countries, closely connected through our Global Center of Excellence. KPMG professionals help clients to develop future-fit business strategies and support them with building long-term value in a rapidly changing world.
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GRI
GRI is an international independent organization that has pioneered corporate sustainability reporting since 1997. GRI helps businesses, governments and other organizations understand and communicate the impact of business on critical sustainability issues such as climate change, human rights, corruption and many others. With thousands of reporters in over 90 countries, GRI provides the world’s most trusted and widely used standards on sustainability reporting, enabling organizations and their stakeholders to make better decisions based on information that matters. Currently, 38 countries and regions reference GRI in their policies. GRI is built upon a unique multi-stakeholder principle, which ensures the participation and expertise of diverse stakeholders in the development of its standards. GRI’s mission is to empower decision-makers everywhere, through its standards and multi-stakeholder network, to take action towards a more sustainable economy and world.
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United Nations Environment Programme (UNEP)
Since 1975, the UNEP Division of Technology, Industry and Economics (DTIE) provides solutions to decision-makers and helps change the business environment by offering platforms for dialogue and cooperation, innovative policy options, pilot projects and creative market mechanisms. UNEP/DTIE assists in sustainability reporting activities that enhance the quantity of companies reporting globally, and improve the quality and usefulness of the information being disclosed. UNEP has worked for many years with governments, NGOs, industry associations and companies to promote sustainability reporting and the implementation of voluntary commitments by the private sector toward enhancing sustainable development.
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Centre for Corporate Governance in Africa
The Centre for Corporate Governance in Africa at the University of Stellenbosch Business School conducts multi-disciplinary research and offers educational and development activities to improve the effectiveness of corporate governance in African organisations. The Centre focuses on: the development of the compliance and performance aspects of directors’ attitudes, knowledge and skills; and the link between corporate governance, business ethics and total organisational performance. The purpose of the Centre is to improve the effectiveness of corporate governance within African organisations, predominantly in the private sector. Its vision is to be the leading provider of research and educational services on the African continent in the area of corporate governance. The Centre’s mission is to develop both the compliance and the performance aspects of directors’ attitudes, knowledge and skills, as well as the link between corporate governance, business ethics and total organisational performance.
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