

Convergence of Global Sustainability Reporting Standards:

Need of the Hour

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Abstract

A single and uniform reporting on sustainability is the need of the hour that will communicate every domain of the performance of the reported company. At present different patterns and forms of sustainability reporting practices are followed throughout the globe. The firms involved in the practice are confusing and trying to leverage some of the standards that have been developed by groups like the Sustainability Accounting Standards Board, the Global Reporting Initiative, the International Integrated Reporting Council, the Climate Disclosure Standards Board and the Carbon Disclosure Project. These organizations that are involved in the setting of the global standards relating to sustainability reporting have expressed their intention to work jointly to develop uniform sustainability reporting standards. This initiative is expected to serve as a beacon of things to come, given the premise of adapting the International Financial Reporting Standards (IFRS) and the conceptual framework to sustainability related financial disclosures. In this context, this study considers all the present practices of sustainability report throughout the globe and tries to establish the need for convergence of the diversified practices and adopt a unified and globally accepted sustainability reporting practice. In this challenging and fast-changing sustainability reporting landscape, the most notable occurrence is the speeding up of the initiatives for converging all the existing practices of sustainability reporting into a single and uniform sustainability reporting practice. It is believed that the initiatives for converging of the reporting pattern will be directed toward the end goal of a unique and global standards for sustainability disclosure.

Key Words: Convergence, Reporting, Sustainability, Reporting Standards and Framework

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1. Introduction

Different forms of reporting on sustainability are required to be converged into a single and uniform report that will communicate every domain of the performance of the reported company. Effective sustainability reporting is considered to be a meaningful and effective medium of communicating with stakeholders about how companies are performing on the basis of their objectives. Companies that are following this practice, likely to have an advantage over their competitors and can be able to boost value for shareholders.

2. Aim of the Study

Customers, investors, governmental agencies, non-governmental organizations, researchers and business associations are in great demand of information about the sustainability performance of the companies and it is the responsibility as well as a real challenge for companies to respond efficiently and effectively in fulfilling their demands. For multinational companies doing business across countries are also facing the challenge to report information that is based on consistent data from across the organization and complied with the regularity framework.

Therefore, it is considered to be a significant challenge to the companies to make sustainability related information and reporting thereon more reliable, exhaustive and effective – for the benefit of both the external stakeholders as well as the internal management.

This study considers all the present practices of sustainability report throughout the globe and tries to establish the need for convergence of the diversified practices and adopt a unified and globally accepted sustainability reporting practice.

3. Present Practice in Corporate Reporting

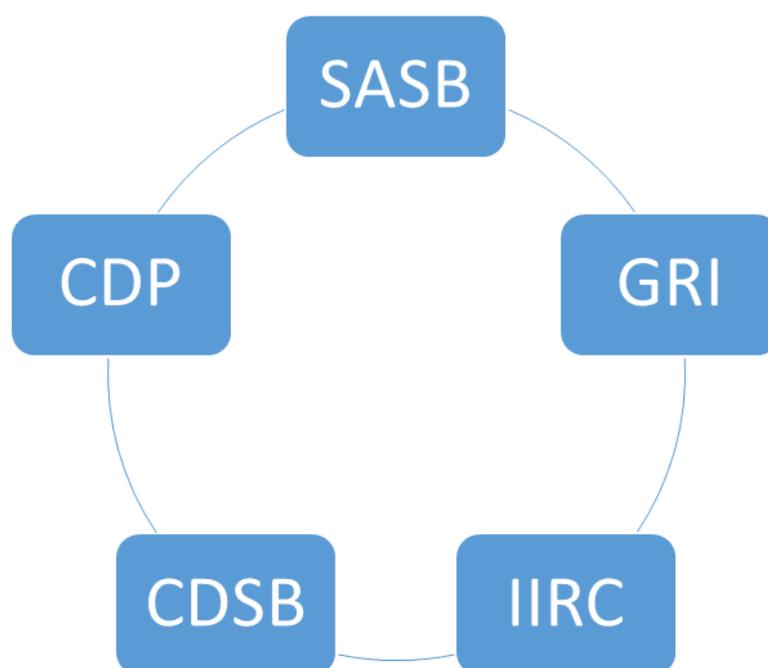
The corporate reporting practices has been going through an identity crisis throughout the globe in the past few years. There is no denying the fact that companies are having legal obligations to prepare and present an annual report describing historical financial performance and regulatory compliance to the stakeholders, more specifically to the shareholders. This task invites a significant cost to the business entity as it requires collection and production of data, preparation and presentation of financial statements and their audit. But unfortunately these

reports remain backward looking and mostly focussed on compliance of regularity requirements. At the same time, there is a significant growth and expansion of sustainability reports. These reports are enjoying more freedom not only in their presentation and compliance and in many ways these reports afford the company an opportunity to exhibit its wider stakeholder's community the business's response to social and environmental issues. The users of the reports are provided with an elaborate and meaningful understanding of the objectives, business operations, organisational culture and social and environmental responsibility of the business entity.

In this challenging and dizzyingly fast-changing sustainability reporting landscape, another most notable occurrence is the speeding up of the initiatives for converging all the existing practices of sustainability reporting into a single and uniform sustainability reporting practice.

4. Different Players in the Convergence Process

While most of the big audit firms have been providing services for sustainability reporting for more than a decade, it is seen that smaller firms are approaching to move forward cautiously into this field. Smaller firms are to some extent confusing and trying to leverage some of the standards that have been developed by groups like the Sustainability Accounting Standards Board, the Global Reporting Initiative, the International Integrated Reporting Council, the Climate Disclosure Standards Board and the Carbon Disclosure Project. Those groups are currently working on converging their standards and frameworks, laying the groundwork for an international sustainability standards board that the International Financial Reporting Standards Foundation has proposed creating and which it would oversee alongside the International Accounting Standards Board.



4.1 Sustainability Accounting Standards Board (SASB)

The Standards of the Sustainability Accounting Standards Board (SASB) were published in 2018, following at least six years of research and extensive feedback from the existing companies involved in the preparation of the sustainability reports and also from the prospective users. SASB is continuing with the extensive research, interacting closely with professionals and corporate experts, existing and prospective investors and subject matter specialists and also monitoring existing, evolving and emerging sustainability related issues. It is trying to incorporate the required amendments to the Standards through rigorous and due diligence process which includes research based on evidence, participation of the stakeholders in a broad and balanced way, exclusive public transparency and overall independent oversight in the whole process of development of standards.

It is evident that a large number of companies across the world covering each and every sector are using SASB Standards to communicate sustainability related material financial information to the investors. SASB follows updates to the Standards using a project-based model, which enables them for focused standard-setting to effectively address key issues. In fact, the approach adopted by SASB motivates and helps them to have the ability to address the key and important issues, regulatory changes in the legal and regulatory framework and other directions and trends which affect different sectors, while still retaining the ability to pursue targeted, industry-

specific issues where appropriate. Not only that the research and market engagement provides it with insights that impact the prioritization of projects.

The SASB Foundation works in such an administrative structure, which is also found more or less similar to the administrative structure followed by other internationally recognized regulatory bodies that are also involved in the process of setting standards for disclosure of information to different stakeholders, including the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB). The SASB Foundation is also not recognised by any regulatory body of the government like the FASB, the IASB or any other financial accounting standard-setting body and does not receive any government financing.

4.2 Global Reporting Initiative (GRI)

GRI (Global Reporting Initiative) is an independent international organisation. It helps business and other organisations take responsibility to disclose the impact of their operational activities to their stakeholders by providing them with the global common language. In fact, this organisation provides the world's mostly accepted and widely used standards for sustainability reporting- the GRI Standards. It develops the GRI Standards in consultation with the businesses, existing and prospective investors, policymakers, civil society members, labour unions and other experts and promote the adoption of their standards by the business organizations throughout the world. With millions of followers over hundred countries around the globe, these standards are promoting the sustainability reporting practices by the corporates and enabling them and their stakeholders to take effective decisions and to make better understanding. This, in turn, creates economic, environmental and social benefits for everyone associated with the organisations including the society at large.

In response to the public outcry over the environmental damage, GRI was founded in Boston in the year 1997. In order to ensure companies adhere to responsible environmental conduct principles, this organisation started issuing guidelines and the objective behind the development of these guidelines was to create accountability mechanism first, which was then broadened to include social, economic and governance issues. It focuses on a future which is sustainable, which is enabled by proper and transparent information and also found open discussion about the impacts of corporate operations with adequate disclosure. This organisation is dreaming about a future in which reporting on impacts by the corporate operations on the globe- its society, environment and people will be a common style by all the

organizations in the globe. This organisation can be considered to be a catalyst for that change as it provides the most widely used sustainability disclosure standards in the globe. It also extends its helping hands to different organizations for being transparent and responsible for their impacts so that a sustainable future can be developed with the help of their guidelines. In short, GRI has created a common global language for different organizations to report their impacts.

The first version of the GRI guidelines was published in the year 2000 and at that point of time it was presented as GRI Guidelines (G1). It is considered as the first version of the global framework for sustainability reporting. In the next year, i.e., in 2001, GRI was established as an independent and non-profit seeking institution and in 2002, GRI was shifted to Amsterdam, Netherlands and the first update to the guidelines (G2) was published. With the increase in the demand for GRI reporting and the application of the guidelines by the organizations steadily grew, the guidelines were continuously expanded and improved, leading to G3 in the year 2006 and G4 in the year 2013. In the year 2016, GRI shifted their activities from providing guidelines related to sustainability to setting of the standards for sustainability reporting – popularly known as the GRI Standards. The Standards continue to be updated, upgraded and added new dimensions in it.

4.3 International Integrated Reporting Council (IIRC)

The International Integrated Reporting Council (IIRC) is basically a global platform of different companies, existing and prospective investors, standard setters of different countries, various regulators, accounting professionals, academicians and non-governmental organisations. This coalition promotes communication about creation, preservation and erosion of values as the next step in the evolution of corporate reporting.

A large number of companies are legitimately on the way to integrated reporting and have started publishing reports that largely follow the Integrated Reporting Framework. However, it is also recognised by them that there may be still some areas for improvement. Currently, there are significant information gaps in the published reports. It is also observed that the World Bank and the International Monetary Fund are calling for a greater focus on aspects such as business risk and plan for the future development in the reports and in fact, these areas are ignored in the present situation.

The concept of integrated reporting has been introduced for enhancing accountability, stewardship and trustworthiness as well as to ensure the responsibility for the information flow and transparency of business that technology has brought to the modern world. The corporates need to make more effective capital allocation decisions, which will facilitate better long-term investment returns by providing investors with the required information.

The objective of IIRC is to align capital allocation and corporate behaviour to wider goals of financial stability and sustainable development through the cycle of integrated reporting and thinking. To achieve this objective, the International Integrated Reporting Framework has been developed and it includes principles-based guidance and content elements to govern and explain the information within an integrated report. The Framework was released in 2013 following extensive consultation and testing by businesses and investors in all regions of the world from 26 countries that participated in the IIRC Pilot Programme.

4.4 Climate Disclosure Standards Board (CDSB)

The Climate Disclosure Standards Board (CDSB) is an international consortium of business and environmental non-governmental organisations. They are focussed to align and including the global available corporate reporting model with the natural capital, i.e., both the natural capital and financial capital will be an integral part of the modern business reporting. They are interested to achieve this objective by offering the corporate houses an integrated framework for reporting both the environmental information with the same and equal weightage as financial information. As a result of their initiative the investors, both existing and prospective, will be provided with decision-useful environmental information through the present corporate reporting practices. It will enhance as well as ensure the efficient allocation of different types of capital including the financial capital. Regulators will also get benefit from compliance based and user ready materials.

In fact, information about both the natural capital and the financial capital is equally important for an understanding as well as proper recognition of corporate performance. Not only that, the pattern of reporting as suggested will build trust and provide transparency needed to foster resilient capital markets. This in turn will contribute to more sustainable economic, social and environmental foundation of the corporate houses.

For reporting environmental and climate change information, CDSB has provided a comprehensive framework, which is ultimately designed to assist business organisations

prepare and present environment related information in the mainstream reporting practices for the benefit of all stakeholders. With the help of this report, the investors will be able to assess the relationship between specific environmental issues and the strategies, performance and prospects of the organisation. In order to align with the recommendations of the Task Force on Climate-related Financial Disclosures and other key mainstream reporting requirement, the CDSB Framework was updated in April 2018. With the help of this revised and updated framework, a number of companies have been able to streamline their reporting cycle.

The development of the CDSB Framework has been overseen by the Technical Working Group of CDSB. This Technical Working Group consists of representatives from the largest professional accounting firms, reporting business organisations and companies as well as academic experts in this field. CDSB is hopeful to encourage analysis and decision-making by investors through the provision of robust environmental information. It is because of the fact that it recognises the dependence and impacts of economic and financial stability on natural capital.

4.5 Carbon Disclosure Project (CDP)

The role of Carbon Disclosure Project is very significant for the success of businesses throughout the globe in this century. The project is intended to help companies throughout the world by measuring, managing, disclosing and ultimately reducing their carbon gas emissions. This is the only project throughout the globe which is involved in gathering this type of climate change related data of the corporate houses and in providing the collected data to the intended users.

In fact, this Carbon Disclosure Project is a non-profit seeking initiative that runs the global disclosure system of greenhouse gas emissions for the intended users including existing and prospective investors, business houses, local bodies and states for managing their environmental impacts. It is more pertinent to state that over the past twenty years this project has developed a system that has resulted in unparalleled engagement on environmental issues throughout the globe.

A large number of companies from India have also started to recognise the problems related to climate and are committed to handle climate changes by disclosing the relevant information through this project and it is considered to be the first step towards achieving corporate climate goals. There is no denying the fact that disclosing the carbon emission related information

through a report helps a company get ahead of the curve and prepare for potential market fluctuations and policy and regulatory changes in the future.

5. Convergence- An Attempt

The above five organizations that are involved in the setting of global standards relating to sustainability reporting have expressed their intention to work jointly to develop uniform sustainability reporting standards. This attempt is mainly focused to support the stakeholder's base decisions on comparative set of relevant information and lighter the responsibility of the reporting companies concerned.

In a statement launched on 11th September, 2020 the Committee of Climate Disclosure Project (CDP), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standard Board (SASB) have expressed the urgency for reporting cohesiveness. It will be possible for them by establishing an interrelationship between sustainable performance and financial risk and return in one hand and the climate change with the global pandemic. These organisations require a comprehensive support of the stakeholders for an integrated reporting system.

Disclosure of performance about sustainability enables the stakeholders to understand a company very well and the impact of the sustainability performance on the environment and the society at large. It helps to explain as to how these issues affect the financial performance of the organisation as well as its process of value creation in long term perspective. This group also emphasised the need for well-structured data on corporate sustainability and to be made it available in public domain.

In order to improve corporate reporting on sustainable practices different efforts were taken initially. One of such efforts was the launching of toolkit by the UN Conference on Trade and Development (UNCTAD) in 2019. This effort was aimed at improving coherence between financial and sustainability reporting. In this context, it may be stated that converged sustainability reporting could help the government incorporates the contributions of the private sectors for the implementation of the sustainability development growth into voluntary national reviews. Another effort was taken in April, 2020 by the GRI and it has suggested to government capture business action on the sustainability development growths with the help of corporate reporting practices. In fact, GRI has emphasized on the understanding and reporting of the contribution of the private sector and it is required to understand and to chalk out the necessary

actions to be taken and to identify the parties responsible for taking actions in order to achieve the sustainability development growth targets in each country.

6. Way Forward

A series of announcements and commitments made in the past few years point out that the convergence will be taking place at three different levels, which include sustainability reporting standards and frameworks at level one; financial and non-financial reporting standards at level two and market and regularity drivers at level three. In fact, in the month of September, 2020 the five global non-profit seeking organisations whose standards (SASB, GRI, CDSB), framework (IIRC) and platform (CDP) are used for most sustainability reporting entities announced their intent to work together in order to achieve comprehensive corporate reporting. Follow up action was also taken in the month of November, 2020 with the announcement of the IIRC's and SASB's intent to merge and positioning this move as a major step towards simplifying the corporate reporting system.

More importantly, these five organisations followed through in the month of December, 2020 with a release of a prototype sustainability related financial disclosure standard and it also includes a prototype standard specific to climate related financial disclosure. This prototype standard is expected to serve as a beacon of things to come, given the premise of adapting the International Financial Reporting Standards (IFRS), and the conceptual framework to sustainability related financial disclosures.

6.1 Sustainability Reporting Standards and Framework

The sustainability reporting requirements are initially felt by the European Union. In fact, the directive of the European Union on the disclosure of non-financial and diversity information came into effect in 2018. The objectives of the European Union in issuing such directive is to ensure a clear direction towards greater business transparency and accountability on social and environmental issues. In fact, it was intended to assist the corporate houses in measuring, monitoring and managing companies' performance and their overall impact on the society. However, the European Commission has found deficiencies in this directive, which include lack of reliability, absence of comparability and presence of relevance of non-financial information provided and as a result it started a fresh process of reviewing the directive. A revised and more specific and prescriptive directive is expected within a short span of time.

6.2 Convergence of financial and non-financial (sustainability) reporting standards

In the month of September, 2020 the IFRS Foundation launched a consultation process to collect feedback from different stakeholder to know as to whether there was a need for a global sustainability reporting standard and whether the Foundation should involve in the process at all. The overwhelming response from almost 600 submissions was unsurprisingly affirmative. Taking this affirmative response into consideration, the IFRS Foundation announced that it is moving forward with its initiative to produce a definitive proposal along with a roadmap with timeline by the end of September, 2021, possibly leading to an announcement on the establishment of a sustainability standards board at the meeting of the UN Climate Change Conference.. The IFRS Foundation has duly noted the feedback it received on the need for urgency to deliver global standards, most specifically on climate change.

6.3 Convergence of Market and Regulatory Drivers

In understanding the importance of the above developments in the area of sustainability reporting, it may be recalled that the reporting on corporate sustainability remains essentially voluntary. In fact, the early proliferation of frameworks and standards is merely the reflection of the market forces working to meet the growing demand for more and better corporate sustainability information. There are those who say that only market forces, not policies, can drive change. But policies are also needed to drive change at scale.

In the United States, the speed and scale of the Biden Administration's commitments and measures to address such systemic issues as climate change, diversity or inequality of income have been nothing short of astounding. One such measure was the appointment of a senior policy advisor for climate and environment, social and governance at the Security and Exchange Commission, a new position with responsibility for advising on environmental, social and governance matters and advancing related new initiatives across the commission's offices and divisions. It stands to reason that the growing number of petitions and filings for mandatory corporate sustainability disclosures will be getting more attention and it may not be surprised to see announcements to this effect coming soon. One might also interpret recent regulations mandating climate related disclosure for all publicly listed companies such as in New Zealand and the United Kingdom as leading indicators to regulating sustainability disclosures more broadly.

It is important to understand the fact that regulating corporate disclosure is not necessarily synonymous with standardizing how these disclosures are produced. However, it is expected that the two will be dissociable in the near future, because the purpose of the regulation is not only to drive all companies to report more information, but to report information that is comparable, material, reliable, consistent, balanced and also on timely disclosure of relevant information. Only a common set of standards can deliver this desired goal.

7. Conclusion

In summary, it is to be believed that the initiatives for change of reporting pattern will only be directed toward the end goal of a unique and global standards for sustainability disclosure. It is also expected that the application of these standards will be compulsory irrespective of its size- big or small or irrespective of its nature- private or public throughout the globe. There is denying the fact that the pandemic situation has disrupted the progress of the global convergence process and as a result the exact timeline for implementation of these standards remains a difficult issue to ascertain, but if it had to expect, it would be within three to five years.

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