



The
Reporting
Exchange

Corporate reporting in the United States and Canada



The Reporting Exchange

In 2017, the World Business Council for Sustainable Development (WBCSD), in partnership with the Climate Disclosure Standards Board (CDSB) and Ecodesk, launched the Reporting Exchange. This free, online platform was designed to help business navigate the often-confusing world of corporate reporting.

Compared to the development of financial reporting, the evolution of non-financial reporting has been rapid and fragmented. There are many regulations, reporting frameworks and tools which influence the corporate reporting process on environmental, social and governance issues (ESG). The resulting reporting landscape has been described in recent reports by the Business and Sustainable Development Commission¹ and ACCA² as complex and overwhelming. As such, there have been calls for more harmonization and alignment.

What are the objectives of the Reporting Exchange?

The primary objective of the Reporting Exchange is to provide much-needed clarity to people who write corporate reports. The Reporting Exchange helps them understand what, where and how to report on sustainability issues while supporting clearer, more concise and better-informed sustainability reporting.

The Reporting Exchange summarizes and connects ESG reporting requirements and resources from across 60 countries and 70 sectors. Better quality reporting practices can support better internal and external decision-making on sustainability-related risks and opportunities which, in turn, can influence capital allocations by investors – making more sustainable businesses more successful.

The Reporting Exchange also provides the evidence base to help drive action towards a more harmonized, aligned and effective corporate reporting environment. The platform maps the reporting provisions on sustainability across the world's largest economies, showing how and where they link and align. The Reporting Exchange has also been designed as an open and collaborative space for the many people and organizations active in corporate reporting. It allows the latest developments, insights and good practices to be easily shared across geographic borders and sectoral boundaries. This will help accelerate harmonization and alignment of corporate ESG at a global scale.

About this report

This report provides a description of the non-financial reporting landscape in the United States and Canada using research conducted by WBCSD and the CDSB. It also includes thoughts from WBCSD member companies, our Global Network Partner, Canadian Business for Social Responsibility (CBSR) and our Knowledge Partner, Yale University, about the challenges, opportunities and next steps for corporate reporting and disclosure.

The Reporting Landscape

Company value is no-longer measured by short-term returns alone. More emphasis is now placed on managing the resources and relationships needed to deliver longer-term and sustainable financial value. As a result, companies are recognizing that non-financial capitals are a driver for long-term value.

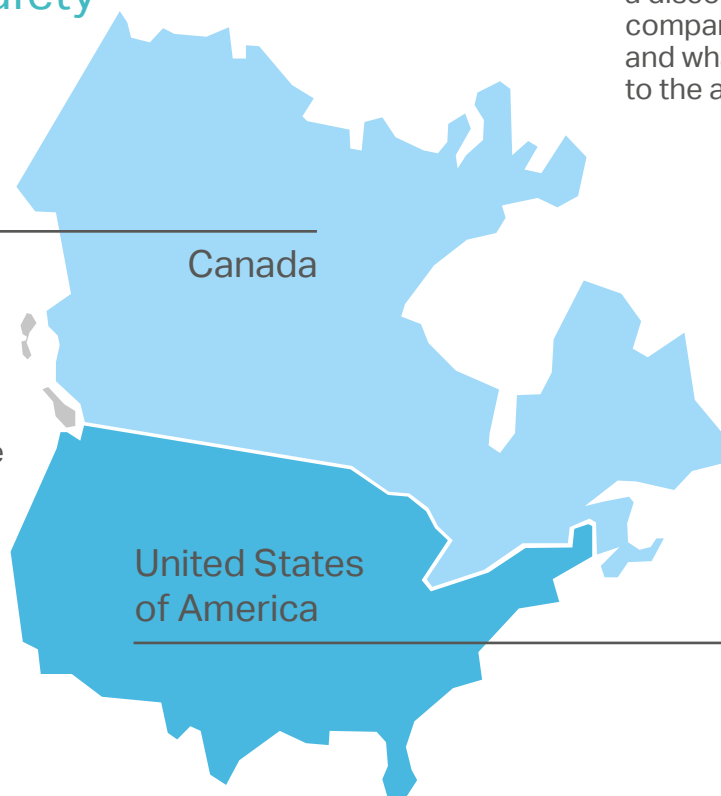
The non-financial reporting landscape is more complex than ever and managing the reporting process across a multinational organization adhering to mandatory and voluntary requirements is a daunting task. People who use corporate reports are looking for better and more material disclosures to make more informed decisions. But, because there are so many different reporting requirements and standards, people who prepare corporate reports must navigate what's often seen as a reporting minefield. In other words, the number of requirements begins to limit the effectiveness of corporate reporting.

Top 3 reporting subjects

1. Health and safety
2. Energy
3. Water

10 reporting resources

Most of which are mandatory guidance documents issued by the Toronto Stock Exchange or government divisions



United States of America

Canada

51 management resources

Which are typically voluntary guidance documents and standards

In the United States and Canada alone there are:

249

Reporting provisions

156

Reporting requirements

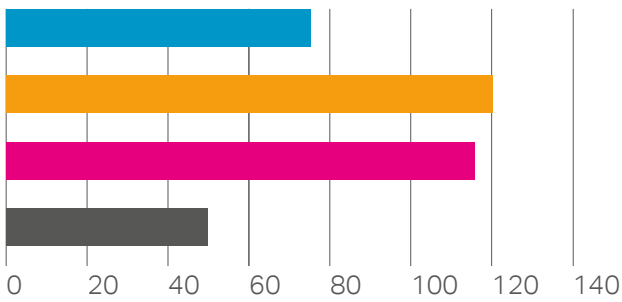
91%

of WBCSD member companies in US and Canada who produce a standalone sustainability report.

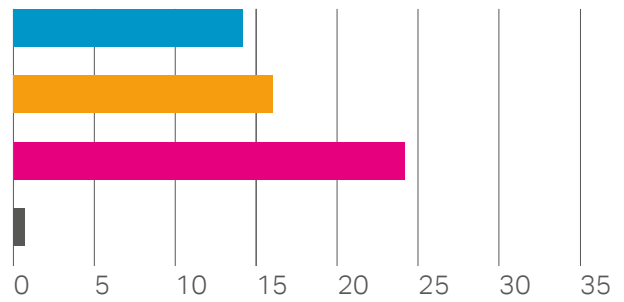
24%

of WBCSD companies in US and Canada who have no alignment between the issues highlighted as material in the sustainability report and the risks in the financial filing.³ This is important because it illustrates a disconnect between what companies say is material, and what they're disclosing to the authorities.

United States: Reporting provision focus by subject



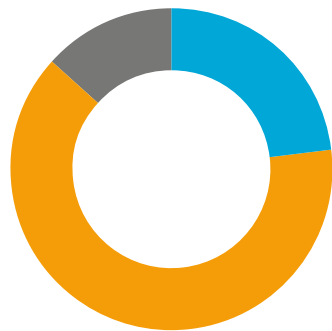
Canada: Reporting provision focus by subject



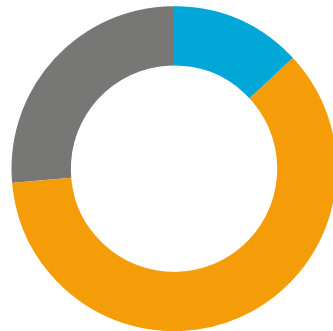
● Governance ● Social ● Environmental ● Economic

6.2% of companies in North America have integrated all 17 SDGs into their external reporting⁴

United States: Provision type



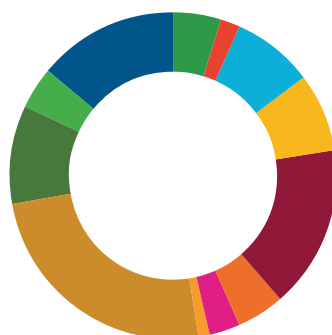
Canada: Provision type



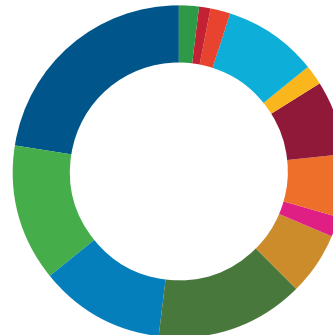
● Management Resource
● Reporting Requirement
● Reporting Resource

Reporting provisions can be grouped in reporting requirements, reporting resources and management resources

United States: SDG alignment



Canada: SDG alignment



● SDG1 ● SDG2 ● SDG3
● SDG4 ● SDG5 ● SDG6
● SDG7 ● SDG8 ● SDG9
● SDG10 ● SDG11 ● SDG12
● SDG13 ● SDG14 ● SDG15
● SDG16 ● SDG17

Reporting provisions are aligned to the relevant Sustainable Development Goals

Case study: United States

Research through the Reporting Exchange identified 211 reporting provisions for the United States.

Of these, 154 are voluntary provisions - meaning that there's no defined obligation for companies to disclose the information or follow the guidance. Only 27% of provisions are mandatory for external reporting.

The research also shows that voluntary provisions are often more detailed than mandatory provisions and offer more flexibility for how companies can report. As such, it's easy to see how people who prepare and who use reports containing non-financial information are struggling to present material data and compare reports.

Stakeholder expectations for companies to report non-financial information are rapidly evolving. A diverse and complex set of sustainability frameworks, protocols, regulations and methodologies has emerged to help companies meet these expectations.

– Joe Monfort, DuPont

Despite being one of the world's leading economies, corporate reporting on ESG information in the United States is still limited to a relatively small number of leading companies. Many other countries are more advanced in non-financial reporting.⁵ In contrast, the US' financial reporting is much more developed - with formal processes for financial filings. The result is a 92% corporate reporting rate.⁶

The Securities and Exchange Commission (SEC) is a major actor developing financial reporting in the United States. The Division of Corporate Finance supports the Commission's mission to protect investors and "ensure that they are provided with material information in order to make informed investment decisions."⁷

The SEC has issued 11 mandatory provisions that bring disclosure of non-financial information into the mainstream report. Companies are required to publish

this type of report under the corporate, compliance or securities laws of the countries in which they operate. These provisions include both guidance and regulation, in particular the Sarbanes-Oxley Act, Pay Ratio Disclosure, S-K regulations and Securities Act Rule 408 and Exchange Act Rule 12b-20.

Our research also suggests that there is a strong focus on directing non-financial information into the mainstream annual report in the United States this is partly due to the work of the Sustainability Accounting Standards Board – which has been a major actor in developing voluntary reporting standards - issuing 65 provisions focused on reporting environmental issues.

In the US, there are 97 provisions that request information in the mainstream report - more than any other country covered by the Reporting Exchange platform. However, only 13 of these provisions are mandatory.

Focus on environmental issues and sector specific disclosure

We observed a strong focus on environmental issues than sustainability generally. For example, 55% of provisions concern environmental matters. The US Environmental Protection Agency (EPA) is a major actor responsible for 10 provisions where disclosure is required on issues such as water, waste and emissions.

By the same token, reporting on societal issues in the United States is less mature, particularly with integral business issues like human rights, health and safety and modern slavery.⁸ That said, 79% of the provisions in the United States that focus on social issues have been introduced in the last five years, suggesting that there is a shift towards disclosure on these issues.

Stronger alignment of reporting and SDGs



In terms of the Sustainable Development Goals (SDGs), our research shows that there is strong alignment between reporting provisions and promoting inclusive and sustainable economic growth, employment and decent work for all (SDG8); ensuring sustainable consumption and production patterns (SDG12) and on promoting just, peaceful and inclusive societies (SDG16).

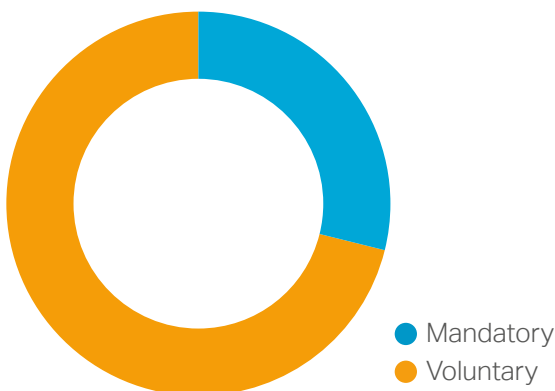
However, there are gaps in understanding business contributions and reporting on ending poverty (SDG1), zero hunger (SDG2) and on partnerships for sustainable development (SDG17), even though these are areas where business can have a significant impact.

Weaker alignment of reporting and SDGs



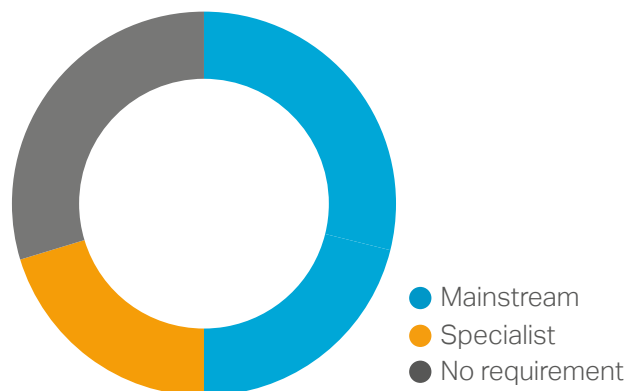
Finally, we noted a strong focus on sector-specific disclosure relative to particular sustainability topics. For example, there are 18 provisions for the petroleum and natural gas extraction industry. It is interesting to note that 16 of these are reporting requirements, nine of which are issued by the Bureau of Safety and Environmental Enforcement. They address key issues relating to the impact of drilling on sea ice movement, ice management activities and kicks occurring in the Arctic Outer Continental Shelf, the discharge of oil into navigable waters, incident reporting and accounting standards for the oil and gas industry.

United States: Reporting provision by obligation



Reporting provisions can be mandatory, voluntary or comply or explain

United States: Reporting provision by channel



Reporting provisions may request disclosure in the mainstream report, sustainability report or specialist report or not have any particular requirement

Case study: Canada

Our research, conducted in 2017, identified a total of 38 reporting provisions for Canada. Of these provisions, 29 are mandatory, which means that companies are obliged to report on or respond to those specific topics through a variety of different channels.

The vast majority of the provisions (28) ask companies to disclose through some form of specialist system, i.e. directly to the authority requesting the information. This means that the amount of non-financial information that is being directed towards the mainstream annual report appears to be limited, which is important because it suggests that reporting may be primarily compliance based rather than trying to influence investor decision making.

That said, the Toronto Stock Exchange has become a key actor for disclosure in Canada and has issued five out of seven guidance documents that support disclosure in the mainstream report. These provisions are predominately governance-related and in accordance with the National Instruments 58-101 and 51-102, and require companies to disclose their corporate governance policies and practices, including details on board composition, business conduct and ethics, nominations and remuneration.

“ There are not enough sector-specific reporting guidelines and engagement is often done at a surface level.”

– Leor Rotchild, CCSR

63% of reporting provisions focus on environmental issues, including greenhouse gas emissions, other pollutants, environmental incidents and water. For example, Canadian authorities maintain both the Greenhouse Gas Emissions Reporting Program and the National Pollutant Release Inventory, which require companies who meet certain thresholds to report to the databases with their emissions, methods and verifications. Companies are also required to report on the import and production and the incidents of release of any toxic substances.

Our research suggests that the reporting landscape in Canada broadly reflects and has similar characteristics to other developed countries. There are, however, some interesting and unique reporting requirements that reflect the specific national character.

Many large Canadian institutions operate in extractive industries, so it not surprising that 13% of the provisions are specifically targeted at the coal and lignite mining sectors.⁹ These provisions include disclosing any incidents that result in death, fire or explosion and reporting obligations with respect to payments as part of anti-corruption regulation. There is guidance to adopt sustainable practices to help improve social, environmental and economic performance.

There are also arctic-specific requirements, such as the Arctic Waters Pollution Prevention Act, which requires companies who carry out activities on the mainland or on islands in the Arctic waters to disclose any operations in danger of causing any deposit of waste.

In terms of the most recent developments in corporate reporting, Canada has introduced reporting requirements that relate to health and safety regulation, greenhouse gas reporting and pollutants; particularly for the oil and gas sector. However, there seems to be a lack of reporting provisions that cover social issues.

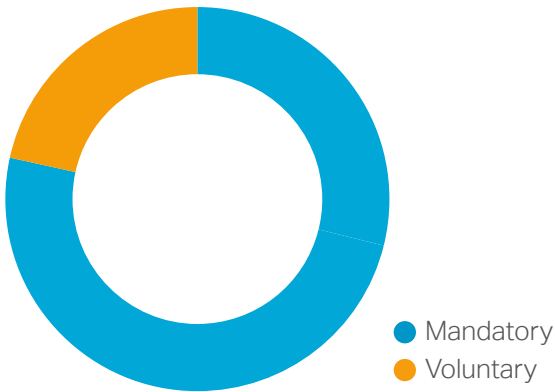
Canadian businesses also generally believe that the country's disclosure and reporting landscape will shift in the coming years. For example, over 50% of companies included in a recent KPMG survey have shown support for the Task Force on Climate-related Financial Disclosures recommendations report and are already including climate change as a financial risk.¹⁰

Stronger alignment of reporting and SDGs



There has also been strong trend for including the sustainable development goals in corporate strategy and reporting. More than 40% of companies are including the SDGs in their external reporting at varying levels, and many have sought to align their strategies and business activities with the ambitions of the SDGs.¹¹

Canada: Reporting provision by obligation



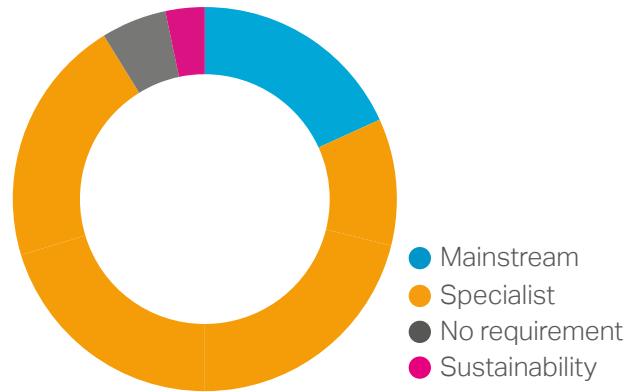
Reporting provisions can be mandatory, voluntary or comply/explain

Weaker alignment of reporting and SDGs



Finally, our assessment of the links between reporting provisions specific to Canada and the SDGs shows strong alignment with taking action to combat climate change (SDG13), protecting all life on land (SDG15) and promoting just, peaceful and inclusive societies (SDG16). We didn't see any evidence of alignment with SDG1, SDG2 or with SDG11 on making cities inclusive, safe, resilient and sustainable.

Canada: Reporting provision by channel



Reporting provisions may request disclosure in the mainstream report, sustainability report or specialist report or they may not have any particular requirement

Question and Answer

Following our research, we asked a number of US member companies, Yale University (a WBCSD Knowledge Partner) and our Global Network partner CBSR, a few questions about policy, sustainability, reporting and business practices to develop a better understanding of the corporate reporting environment in both the US and Canada.

As a preparer, what do you perceive to be the biggest challenge when producing corporate and sustainability reports? And how would you like to see disclosure developing in the future?

1. Producing decision-useful information

Reporting credible and material data against globally accepted frameworks will help report preparers manage and report against sustainability risks and opportunities. At present, WBCSD member companies cite many frameworks including; UNGC, CDP, SASB, GRI, OECD and IIRC, with 52% of North American companies choosing to report against the G4 GRI standards.¹² The challenge for companies is to decide on an appropriate framework for the chosen target audience and then about how to report non-financial information accordingly. This is a challenge because data methodologies disseminate the information in incomparable ways.

2. "Reporting fatigue"

Disclosure frameworks would benefit from harmonization and sector-specific alignment to enable effective communication - internally and externally. The reporting landscape remains complex and layered, meaning that report preparers are inundated with frameworks, and searching for alignment to present information that is useful to decision-makers can be overwhelming.

3. Ensuring internal stakeholders understand the value of voluntary sustainability disclosure

For internal stakeholders to understand the importance of sustainability disclosure, education is required across the business to ensure sustainability is considered integral to strategy - rather than a communications exercise.

4. Managing stakeholder expectations, both internal and external can also be a challenge

For some, the challenge is operational and relates to coordinating the people and processes central to the reporting process in order to ensure that suitable and validated data is collected. For example, multinational businesses who operate in a range of jurisdictions require data from a number of reporters to communicate externally. Stakeholders are becoming increasingly sophisticated in how they used the data provided to make decisions, and as a result, companies need to manage their expectations of the quality of data provided.

"Disclosure protocols should be harmonized, sector specific and enable companies to more effectively engage their stakeholders and attract investors."

– Leor Rotchild, CBSR

Future developments in disclosure

Reporting on non-financial performance is becoming a strategic driver of integrated performance, rather than a compliance exercise. Companies should be proactive in disclosing ESG information, not reactive. Business should seek to understand the financial and reputational benefits of sustainability reporting, as companies continue to integrate the information into the main financial filing.

WBCSD members suggested some developments when considering what the future of disclosure might look like:

1. Disclosure should strongly focus on risk and opportunity-based analysis to help measure the financial impacts of sustainability.
2. Similar to introduction of the Task Force on Climate-related Financial Disclosure recommendations, valuing intangible assets and the use of scenario analysis will help to shift reporting of non-financial information into the mainstream report.
3. Decision-useful metrics that measure impacts and are aligned to the SDGs. While standardization of metrics and alignment of reporting standards would be beneficial, data without a context does have limitations.
4. Improved guidance on the processes that underpin disclosure, including the alignment between materiality processes and financial and non-financial reporting.
5. With regards to the GRI framework, the move from guidelines to standards helps to stabilize the process, but with an increased focus on materiality, companies are able to include material topics that are not covered by the GRI standards.

Is the issue of “materiality” and the concept of only reporting information that is relevant to particular audiences being addressed?

For many companies, the concept of materiality is integral. For these companies, the materiality assessment informs the sustainability strategy and determines what should be reported on. Issues that are understood to be immaterial can be reported in supplementary documents or online, where interested stakeholders are able to find information and data that is specific to them. Materiality focuses on issues that are relevant to users in a specific context, however, the criteria that underlies materiality analysis is highly influenced by regulation, but at present, regulation is not serving as a strong driver and we see from WBCSD’s Reporting matters publication that 34% of WBCSD member companies in North America do not report on their materiality process and/or outcomes.¹³

In Canada, there is a gap in the number of sector specific reporting guidelines, and responsibility for stakeholder engagement is passed back and forth between industry and government. In addition, materiality assessments

made by Canadian companies are not always meaningful, and there is a tendency to default to reporting on topics and issues for which information is easily available.

On the other hand, in failing to define what is truly material, report preparers overload reports with too much information that can be less relevant.

What impact does voluntary sustainability reporting have and are there significant reporting requirements/frameworks influencing business to report on ESG issues?

WBCSD member companies based in the United States and our Global Network partner at CCSR highlighted some significant shifts that will influence the way that business reports on ESG issues.

For example, lack interest from regulators and government agencies has meant that companies in the United States have focused more on voluntary disclosure. Wider stakeholder audiences, particularly investors’, expectations are likely to encourage greater transparency in reporting, continuing the uptake of voluntary disclosure.

Interest from external stakeholders, like customers, will likely drive company efforts to put greater emphasis on environmental and social aspects of the business as well as a stronger focus on supply chain management and local communities.

In Canada, there is a similar trend – many expect that investors will become the key driver for disclosure, as they increasingly use non-financial information to make capital allocation decisions. In the longer term, this will mean disclosure of on non-financial performance may become the realm of the Chief Financial Officer.

“Investors appear to be focused on more decision-useful information and will replace governments as the primary driver on companies to disclose new metrics.”

- Todd Cort, Yale University

Glossary

- **Channels:** The route of disclosure and the communication of published information.
- **Integrated report:** An integrated report explains to providers of financial capital how an organization creates value over time. An integrated report aims to provide insight about the resources and relationships used and affected by an organization – these are collectively referred to as the “capitals”. It also seeks to explain how the organization interacts with the external environment and the capitals to create value over the short, medium and long term.
- **Mainstream report:** Annual reporting packages which organizations are required to deliver under the corporate, compliance or securities laws of the country in which they operate, providing information to existing and prospective investors about the financial position and performance of the organization. They generally contain financial, governance statements and management commentary.
- **Management resource:** Guidance aimed at helping companies embed sustainability into corporate management practice and behavior.
- **Reporting provisions:** Specify disclosure requirements of specific sustainability and non-financial information.
- **Reporting resource:** Guidance aimed at helping companies prepare the information they will report or support the reporting process.
- **Reporting requirement:** Specify disclosure requirements of specific sustainability and non-financial information.
- **Specialist system:** The route of disclosure is predefined by the provision and information must be directed to the relevant authority through online responses, questions and other forms.
- **Sustainability report:** A report published by a company or organization about the environmental and social impacts caused by its everyday activities, communicating sustainability performance and impacts.

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About the World Business Council for Sustainable Development (WBCSD)

The World Business Council for Sustainable Development (WBCSD), a CEO-led organization of some 200 forward-thinking global companies, is committed to galvanizing the global business community to create a sustainable future for business, society and the environment. Together with its members, the Council applies its respected thought leadership and effective advocacy to generate constructive solutions and take shared action. Leveraging its strong relationships with stakeholders as the leading advocate for business, the Council helps drive debate and policy change in favor of sustainable development solutions.

The WBCSD provides a forum for its member companies - who represent all business sectors, all continents and a combined revenue of more than \$8.5 trillion, 19 million employees - to share best practices on sustainable development issues and to develop innovative tools that change the status quo. The Council also benefits from a network of 70 national and regional business councils and partner organizations, a majority of which are based in developing countries. <http://www.wbcSD.org/>

About the Climate Disclosure Standards Board (CDSB)

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

About Ecodesk

Ecodesk is a leading provider of sustainable supply chain management and reporting software. Its cloud based, collaboration platform acts as a hub for collecting, aggregating, storing, organizing, analyzing, presenting and communicating key sustainability data. With its combination of in-house sustainable business and software development expertise, Ecodesk offers a supportive, partnership based approach to driving fundamental change towards sustainable business.

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