Federation of European Accountants
Fédération des Experts comptables Européens

Sustainability

Environmental, Social and Governance (ESG) indicators in annual reports

An introduction to current frameworks

May 2011

Standing for trust and integrity

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FEE Sustainability Group

About FEE

FEE (Fédération des Experts-comptables Européens - Federation of European Accountants) represents 45 professional institutes of accountants and auditors from 33 European countries, including all 27 EU Member States.

In representing the profession, FEE recognises the public interest. FEE has a combined membership of more than 500.000 professional accountants working in different capacities in public practice, small and larger firms, business, public sector and education, who all contribute to a more efficient, transparent, and sustainable European economy.

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1. FEE'S CONTRIBUTION TO THE DEBATE ON ESG DISCLOSURE

1.1. Introduction

The debate around the broader disclosure of environmental, social and governance (ESG) issues is important. FEE believes it can make a difference to the most necessary transition to a sustainable economy.

This paper aims at providing information on documents prepared by various bodies and most commonly referred to when considering the identification and use of ESG indicators (also Key Performance Indicators (KPIs) and reporting principles).

A considerable number of sustainability reporting guidance documents have appeared in recent years. This demonstrates an increasing recognition of the importance of the subject. However, the multiplicity and the sometimes lack of consistency between the various guidance documents can be confusing or at least unclear for reporting organisations and stakeholders alike.

As there is no unique globally recognised standard, there is a need to find a commonly agreed methodology on how to use the various guidance documents to meet stakeholders' needs (i.e. it is about "selecting" and not "adding" information).

Before deciding on KPIs, factors crucial to the long-term continuity of businesses should be identified and considered.

In addition, FEE recommends that regardless of the guidance documents that entities opt for, there are criteria that should be met in deciding what information should be reported; relevance, materiality, consistency and reliability (all being equally important).

Furthermore, the use of these suitable criteria could address the risk of missing KPIs that are material and relevant – a potential concern in adopting a "comply or explain" approach on KPIs.

An important emerging issue linked to corporate reporting is the development of the integrated reporting framework. Whether a separate sustainability report or an integrated annual report is considered, the above mentioned recommendation on the suitable criteria should be applied.

FEE supports the increasing attention to integrated reporting as well as the further development of separate sustainability reporting. As the integrated annual report and the separate sustainability report may be targeted at different stakeholders groups, there is a demand for both.

1.2. Background to this document

FEE has closely monitored the trends in ESG disclosure among EU Member States and the application of KPIs in annual accounts and management commentary looking at the implementation of the EU Modernisation Directive 2003/51/CE[1].

FEE also participated in the EC workshops on ESG disclosures as organised by the European Commission (DG Enterprise) and submitted its thoughts on the issue as a contribution to the final workshop in February 2010[2].

One of the aims of the EU Modernisation Directive is to move towards better ESG disclosure in annual accounts, with the development of Art. 43 stating that:

"To the extent necessary for an understanding of the company's development, performance or position, the analysis shall include both financial and, where appropriate, non-financial Key Performance indicators relevant to the particular business, including information relating to environmental and employee matters".

FEE's survey on the implementation of these particular aspects of the Directive shows that there is room for improvement. The key messages and recommendations arising as a result of the survey included:

- Integrating sustainability in the business model: Sustainability should not be a separate policy but integrated in the entity's strategy and business model;

- Raising awareness and promoting best practice: The sharing of ideas and expertise is an important element in furthering progress on CSR reporting in the annual report. It is through identifying good practices across countries that real progress can continue towards better non-financial reporting;

- Identification of KPIs: Reporting on sustainability KPIs brings a new dimension to the annual report which we welcome. An entity needs to indicate how it selected (and determined the significance of) its KPIs (selection criteria);

- Assurance: Any recommendations concerning good practice and good practice examples should take the auditability and verifiability aspect into account in suggesting disclosures;

- Recommended disclosures.

The debate is continuing and is evidenced by the EC public consultation on non-financial disclosure launched in December 2010[3].

In addition, the growing trend towards "integrated reporting", bringing financial, governance, environmental and social reporting as well as management reporting into a consistent framework should be noted as it carries considerable promise and is likely to result in significant change. FEE issued a factsheet on Integrated Reporting[4].

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[1] FEE Discussion Paper "Sustainability Information in Annual Reports - Building on the Implementation of the Modernisation Directive", published in December 2008: http://www.fee.be/publications/default.asp?library_ref=4&content_ref=931

[2] FEE Position on ESG Disclosure, February 2010: http://www.fee.be/news/default.asp?content_ref=1221&library_ref=2

[3] FEE Comment Letter on the EC public consultation on disclosure of non-financial information by companies, January 2011: http://www.fee.be/publications/default.asp?content_ref=1344&library_ref=4

[4] FEE Factsheet on Integrated Reporting, January 2011: http://www.fee.be/news/default.asp?content_ref=1340&library_ref=2

There is an increasing demand for transparency from the financial market. This is highlighted, for example, by the EABIS "Sustainable Value – Research Project":

"Financial market participants coordinate their actions through dominant conventions – i.e. some norms of behaviour that determine the normality of a situation and give saliency to implementing decisions shared and diffused across the market. The current convention does not generally incorporate ESG information into company valuation. But our contention is that the myriad of initiatives that have emerged over the last few years to encourage the integration of ESG information represent endeavours towards changing the current dominant convention of valuing companies" [5].

Whilst analysis of ESG data has been undertaken since the 1990s, more recently it has been taken up by the investment community, both on the sell side by analysts and on the buy side in the form of institutional investor initiatives.

It is now generally accepted that the integration of ESG information into investment decisions enhances asset managers' and financial analysts' ability to evaluate risks. This is advocated, for example, by the Eurosif (the European Sustainable Investment Forum) statement that:

"the European Socially Responsible Investment (SRI) market's growth is driven by:
- *An increasing demand from institutional investors, for which responsible investment becomes a matter of risk management, particularly around the area of climate change,*
- *A further mainstreaming of Environmental, Social and Governance (ESG) considerations into traditional financial services,*
- *External pressure from NGOs and media,*
- *A growing interest from individuals, particularly wealthy individuals."* [6]

The financial crisis has emphasised the need for improved decision-making (i.e. encouraging long-term sustainable decisions) and as a consequence increases the need for better ESG information.

Although it is still early days to assess the impact of integrated reporting, it emphasises the importance of some of the key factors which are critical in responding to the crisis. In responding to the EC Green Paper on Audit Policy (in December 2010), FEE noted the importance of supporting the debate and development of "integrated reporting".

2. AN INTRODUCTION TO CURRENT FRAMEWORKS

The aim of the present section is to illustrate some of the most commonly referred to guidance documents produced by governmental and professional institutions or not-for-profit organisations, concerning the identification and use of ESG indicators and reporting principles.

The identification and selection of these documents has been based on multiple considerations, but primarily, the relevance of their content with respect to issues faced by the accountancy profession, the involvement of European accountancy national institutes in the preparation of the standard or document, their international applicability and the range of technical observations and comments at international level.

[5] EABIS "Sustainable Value – Research Project", Sept. 2009, p. 12:http://www.investorvalue.org/docs/EabisProjectFinal.pdf
[6] European Sustainable Investment Forum (Eurosif): http://ec.europa.eu/enterprise/policies/sustainable-business/files/csr/documents/stakeholder_forum/eurosif2009_en.pdf

OVERVIEW OF PRINCIPAL GUIDANCE DOCUMENTS

Guidance Document title	***Organisation***	***Date of issue***	***Length (pages)***	***Reporting general framework***	***Reporting principles / criteria***	***List of ESG indicators***	***Cross-references with other standards***
Connected Reporting Framework	A4S	December 2009	36	Yes	No	No	No
KPIs for ESG	DVFA	September 2010	17 + KPIs by subsector	No	Yes	Yes	Yes • any other performance, communication, financial or/and CSR reporting
Sustainable Value	EABIS	September 2009	30	Yes	No	Yes	Yes • EU CSR Alliance Laboratories
Sustainability Reporting Guidelines	GRI	2006 2011	44 49 +GRI Applications Levels	Yes	Yes	Yes	No[7]
Guidance on Corporate Responsibility Indicators	UNCTAD	2008	55	Yes	Yes	Yes	Yes • IFRS • GRI

[7] GRI has issued documents with links between GRI and other standard/initiatives (these are available on GRI's website)

2.1. Accounting for Sustainability (A4S) - The Prince's Accounting for Sustainability Project "Connected Reporting Framework"

Organisation

The Prince's Accounting for Sustainability Project works with businesses, investors, the public sector, accounting bodies, NGOs and academics to develop practical guidance and tools for embedding sustainability into decision-making and reporting processes.

To date, the project has involved the collaboration of more than two hundred public and private sector organisations, helping them to understand how climate change and the over-consumption of the Earth's finite natural resources will impact on their own long-term success.

Document

"Connected Reporting: A practical guide with worked examples", December 2009:
http://www.accountingforsustainability.org/files/pdf/Connected%20Reporting.pdf

Objective

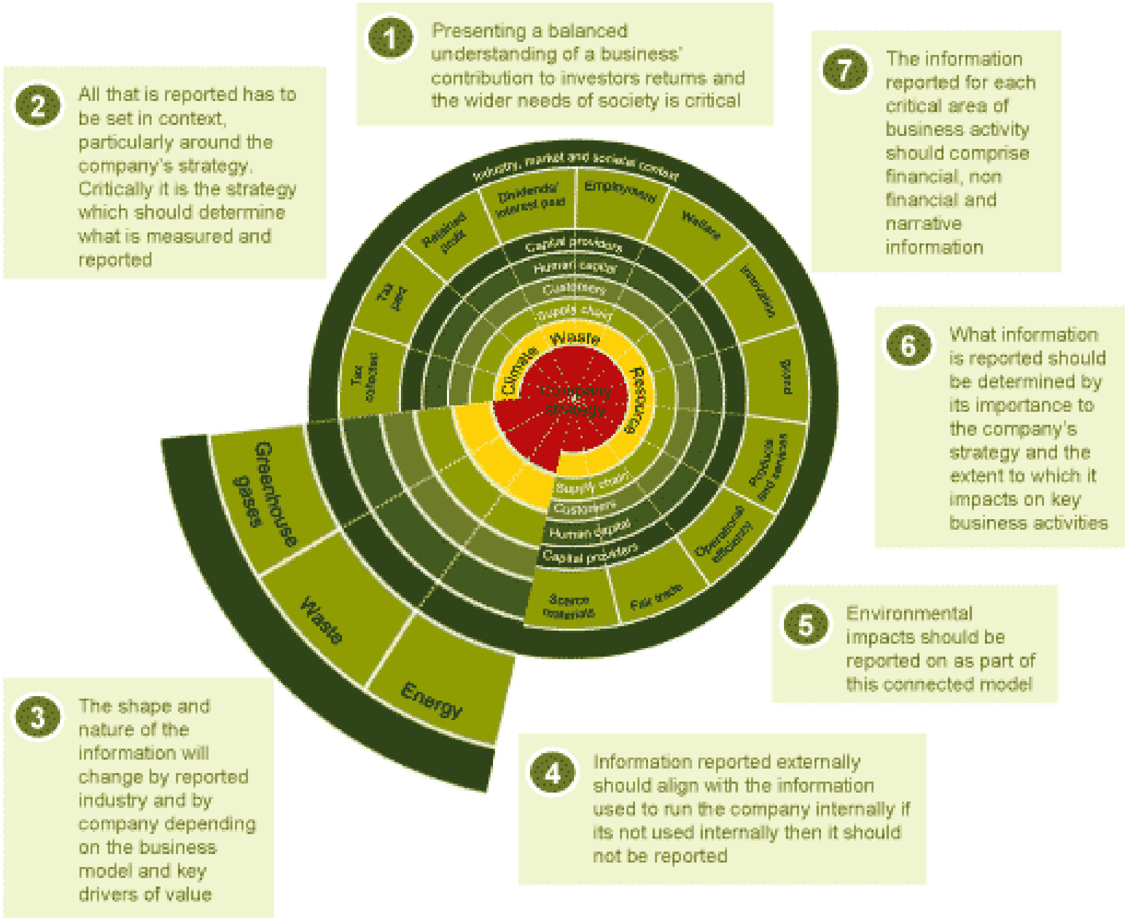
A4S believes that organisations have to communicate clearly their impacts and response to the imperative of sustainability to investors and other stakeholders and that this is most effectively achieved through the integration of environmental and social factors into mainstream reporting. The underlying principle here is that for ESG reporting to be meaningful it needs to be linked clearly to the strategy, risk assessment and performance of an organisation.

In this way A4S seeks to offer a new approach to corporate reporting and to address the growing dissatisfaction, among both preparers and users, of the narrowness, incompleteness, length and complexity of many organisations' annual report and accounts.

A connected report focused on the needs of investors and executive management should therefore identify and explain the connection between the organisation's strategic objectives, the industry, market and social context within which the business operates, the associated risks and opportunities it faces, the key resources and relationships on which it depends, and the governance, reward and remuneration structures in place. Furthermore, it should explain the connection between delivery of the business strategy and its financial and non-financial performance. The result of this process should be a more concise and balanced picture of an organisation's overall performance, which reflects the organisation's strategy and the way it is managed.

Contents

Highlights



Source: A4S – http://www.accountingforsustainability.org/output/page186.asp

The aim of the guidance is to provide organisations with a method for making the connection between strategic direction, financial performance and environmental and social considerations. It is broken down into three key steps, each of which is presented in more detail in the guidance document:

1. **Connecting business strategy and sustainability:** The identification of material sustainability issues and a description of how each of these impact on the organisation's strategic objectives.

2. **Key Performance Indicators (KPIs) and actions taken:** The evaluation of action taken to address each material sustainability issue and the identification of KPIs to measure performance.

3. **The Connected Performance Report:** A balanced assessment of progress against agreed targets and towards intended outcomes. The guidance is followed by three worked examples – for a supermarket, a property investment company and a water and wastewater company. These examples highlight different ways in which connected reporting can be applied in practice.

2.2. Deutsche Vereinigung für Finanzanalyse und Asset Management (DVFA) "KPIs for ESG"

Organisation

Founded in 1960, DVFA is the Society of Investment Professionals in Germany that currently has more then 1.100 individual members representing over 400 investment enterprises, banks, asset managers, consultants and counselling businesses.

DVFA is part of an international network of industry associations and is member of the European Federation of Financial Analysts Societies (EFFAS) – that joins together more than 17.000 investment professionals in Europe – and the Association of Certified International Investment Analysts (ACIIA) – that joins together more than 30.000 investment professionals worldwide.

Document

In September 2010, DVFA in conjunction with EFFAS, published the document "KPIs for ESG - Key Performance Indicators for Environmental, Social and Governance Issues – A Guideline for the integration of ESG into Financial Analysis and Corporate Valuation" (version 3.0): http://www.dvfa.de/files/die_dvfa/kommissionen/non_financials/application/pdf/KPIs_ESG_FINAL.pdf.

This version follows version 1.2, which was published in 2008: http://www.effas-esg.com/wp-content/uploads/2009/04/effas_kpis_for_esg_1_2_09_04_09_final.pdf.

DVFA modified the reporting framework according to comments and suggestions received after publication of version 1.2. KPIs for ESG 1.2 contained a list of General KPIs applicable to all industries and some industry-specific KPIs for some industries. From 2008 to 2010, DVFA's Committee on Non-Financials, which serves as EFFAS' laboratory for practical development of the ESG framework and is closely connected to the EFFAS Commission on ESG, prepared a series of sector-specific KPIs that represent the focal point of KPIs for ESG 3.0.

The document does not seek a perfect reporting model, since the KPIs provided for each subsector may not be "complete". Nevertheless, the document aims to provide a solid starting point for ESG disclosure.

Objective

DVFA and EFFAS as professional associations represent investment professionals. KPIs for ESG reflect requirements of economic stakeholders in general and investment professionals in particular.

The reporting principles and specific KPIs are designed as a recommendation for profit-oriented entities (particularly stock listed companies and issuers of bonds), although it is also considered suitable for other entities regardless of size, scope and legal form. It includes general guidelines for the preparation and presentation of ESG reports and minimum requirements in respect of topics and information to be disclosed.

The main assumption of DVFA reasoning is that "corporate sustainability focuses on both minimising risks arising from ESG aspects and proactively seeking to gain advantages from "translating" ESG issues into a company's product and service portfolio. As such, companies pursuing corporate sustainability reconcile long-term viability and profitability with management of ESG issues". The indicator model includes issues and themes which reflect risks and opportunities, but which need to be considered in the light of the principle of materiality.

Contents

In order that ESG data can be adopted as a basis for analysis by investment professionals, there are certain minimum requirements for the management of ESG by companies and for the quality of ESG reporting.

DVFA suggests that companies formally orient ESG reporting towards the requirements of the International Financial Reporting Standards (IFRS) prepared by the International Accounting Standards Board (IASB) or other applicable GAAPs.

The reporting process is based on the principles of relevance, transparency, continuity and recentness and the document requires that ESGs and related KPIs are expressed in a table format, in order to support comparability and transparency: while prose texts may support the reliability of quantitative ESG data for investment professionals, accessibility and usability of ESG information and data is critical and will need to consider the relevance of recent developments in the field of digital, interactive data formats such as the eXtensible Business Reporting Language (XBRL).

The singular issue or theme to be disclosed constitutes an "ESG" (e.g. GHG Emissions, or Corruption); for each ESG the document defines a specific indicator, a "KPI". Each KPI has a unique identifier code (e.g. V04-01 I – Innovation Total R&D expenses).

The KPIs for ESG 3.0 use the Stoxx Industry Classification Benchmark (ICB) which offers a classification scheme with different levels of granularity. DVFA decided to embrace the highest level of granularity – subsectors – of which the ICB features 114 (for the detailed list of ICB subsectors adopted see Appendix 1).

For each of the 114 subsectors following the Stoxx ICB, DVFA has defined a list of KPIs, each of which are presented using the following structure:

KPI	Spez.-ID	Scope	Specification
Energy Efficiency	E01-01	I	Energy consumption, total
KPI name	KPI identifier	Disclosure level: I: Entry level; II: Midlevel; III: Highlevel	KPI specification

Highlights

Version 1.2 defined from 1 to 4 KPIs for 9 topical areas within the 4 macro reporting fields of "Environmental", "Social", "Governance" and "Long-term Viability". These fields applied to all sectors and industries and constituted the elements of a standardized and comprehensive framework. The document also defined comprehensive lists of sector-specific ESGs and KPIs for 5 sectors while other sets of ESGs and KPIs for additional sectors were in process within DVFA activity.

Version 3.0 requires companies to determine which of the 114 subsectors according to ICB they qualify for. Generally the classification is focused on the leading business segment of a company, instead of accounting for all segments.

A company can choose from three different consecutive levels of ESG disclosure:

1. Entry Level (Scope I): around 10 KPIs;
2. Midlevel (Scope II): Entry level + around other from 10 to 20 KPIs;
3. High Level (Scope III): Midlevel + around from 10 or more KPIs.

Entry Level presents the minimum that KPIs companies should disclose.

The majority of KPIs are identical for all subsectors. Nevertheless, organisations are encouraged to provide additional information with regard to their specific context in order to support comprehension of the ESG. Additional information is included by means of annotations connected to KPIs.

The amount and the scope of annotations should remain minimal, since KPIs should be self-explanatory and are designed to be relatively easily combined with spreadsheet models.

Contents

2. KPIs by Subsector

Oil & Gas
...
Basic Materials
...
Industrials
...
Consumer Goods
...
Health Care
...
Consumer Services
...
Telecommunications
...
Utilities
...
Financials
...
Technology
...

2.3. European Academy of Business in Society (EABIS) "Sustainable Value"

Organisation

Founded in 2002, the European Academy of Business in Society (EABIS) is an association of enterprises, business schools and academic institutions, committed to integrating business-in-society issues into management theory and practice. From 15 founding members EABIS has grown to more than 100 organisations today.

Document

"Sustainable Value – EABIS Research Project - Corporate Responsibility, Market Valuation and Measuring the Financial and Non-Financial Performance of the Firm", September 2009: http://www.investorvalue.org/docs/EabisProjectFinal.pdf

Objective

The research project was undertaken to support the initiative the Laboratory on Corporate Social Responsibility and The Market Valuation of Non-Financial Performance. This is a cross-sectoral business-stakeholder project conducted under the umbrella of the European Alliance for CSR, an organisation formed by the EU Commission, BUSINESSEUROPE and CSR Europe in March 2006. The European Alliance for CSR is a voluntary initiative intended to improve Corporate Responsibility across the EU. Its mission is to explore and develop joint operational projects on CSR in partnership with relevant experts and stakeholders.

The document represents the final report from a two-year EABIS funded research project, the purpose of which has been to explore how the ESG performance of companies might impact on the drivers of business success, how companies explain these linkages to investors, and how the investment community treats this data. The research project has been run in conjunction with a parallel EU CSR Alliance Laboratory on “Corporate Responsibility and the market-valuation of non-financial performance”.

In particular the research sought to identify obstacles to mainstreaming ESG issues in investment decisions. The project hypothesis was that these could be overcome by developing a greater understanding within the investment community of how and to what degree ESG factors affected the creation of value.

The paper analyses business value-drivers and builds a diagrammatic framework to represent them, their inter-relationships and to identify the ESG factors.

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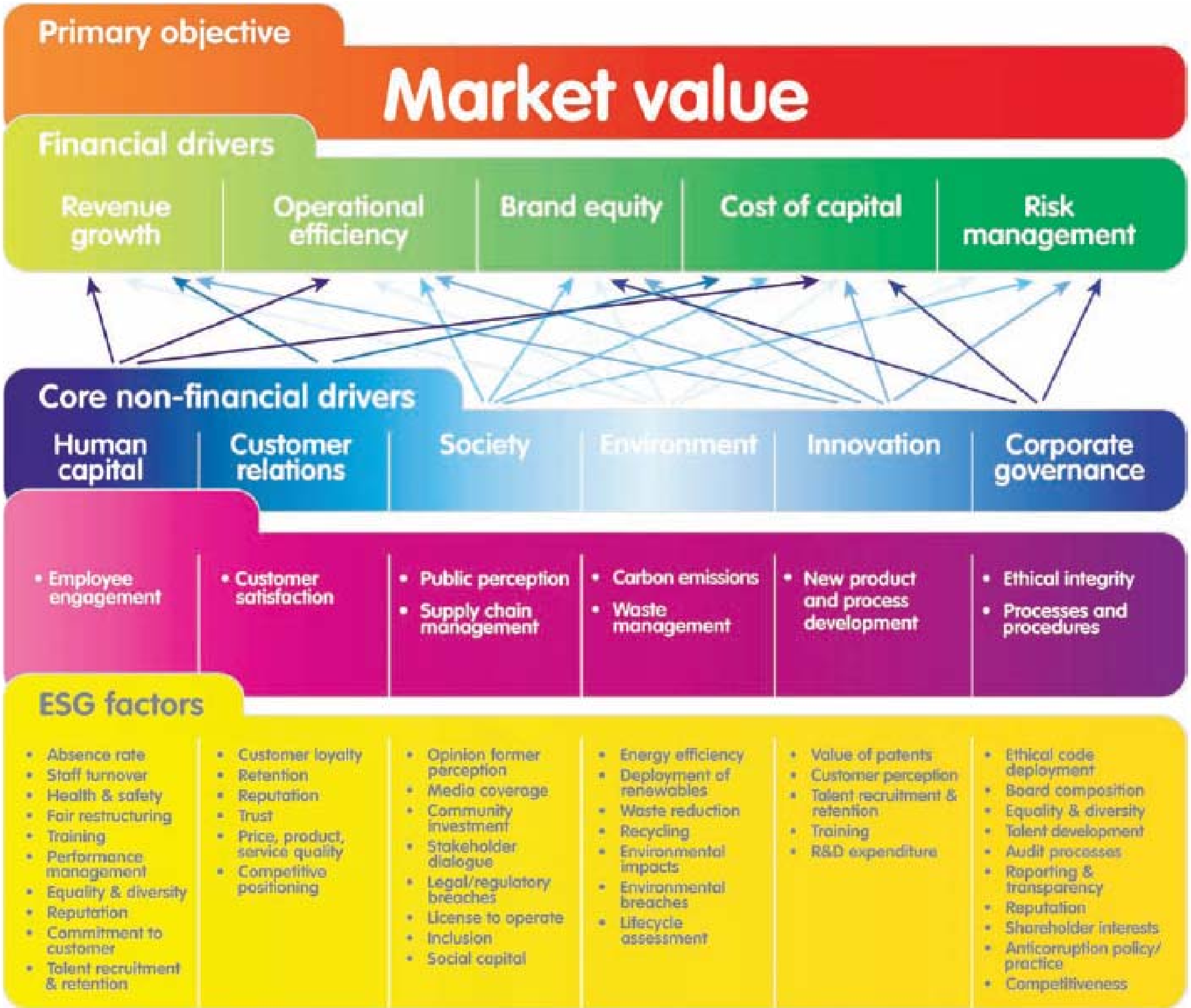
Highlights

The EU CSR Alliance Laboratory Model



Source: EABIS "Sustainable Value", EU CSR Alliance Laboratory Model, page 28.

- This guidance document provides business managers and investors with a tool to facilitate improved discussion by giving a more comprehensive picture of corporate performance.

- It identifies six main areas of core non-financial drivers, each with between 5 and 10 KPIs for organisations to select the most relevant ones for them.

2.4. Global Reporting Initiative (GRI) “Sustainability Reporting Guidelines”

Organisation

The Global Reporting Initiative (GRI) is a network-based organisation founded in 1997 that has developed its network across more than 60 countries. GRI is a leader in the sustainability field, having developed the world’s most widely used sustainability reporting framework and stated its commitment to the Framework’s continuous improvement and worldwide application.

GRI research and development activity is implemented through a multi-stakeholder consensus-seeking process, with participants drawn from different economic and social sectors to guarantee a high degree of technical quality, legitimacy and relevance.

GRI’s mission is to make sustainability reporting common practice by providing guidance and support to all organisations. The cornerstone of GRI’s Sustainability Reporting Framework is the Sustainability Reporting Guidelines, a de facto standard for sustainability reporting. Over the last decade, use of GRI’s Reporting Guidelines has grown exponentially.

Document

Sustainability Reporting Framework

- Sustainability Reporting Guidelines (version 3.0) 2006: http://www.globalreporting.org/NR/rdonlyres/ED9E9B36-AB54-4DE1-BFF2-5F735235CA44/0/G3_GuidelinesENU.pdf

- Sustainability Reporting Guidelines (version 3.1) 2011: http://www.globalreporting.org/NR/rdonlyres/660631D6-2A39-4850-9C04-57436E4768BD/0/G31GuidelinesinclTechnicalProtocolFinal.pdf

- Performance Indicators and Indicator Protocols for:

  - Economic;
  - Environmental;
  - Social Performance Labour Practices & Decent Work;
  - Social Performance: Human Rights;
  - Social Performance: Society;
  - Social Performance: Product Responsibility.

- Sector Supplements

- Protocols:

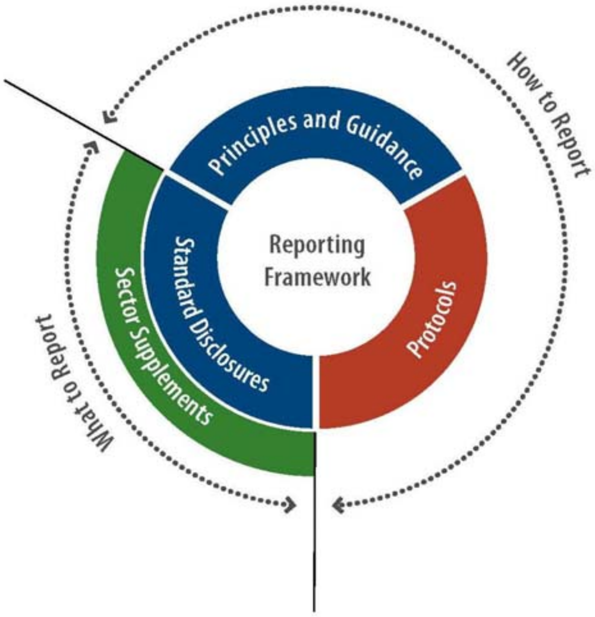
  - Technical Protocol: Applying the Report Content Principles
  - Boundary Protocol

Objective

The main objective of GRI's Reporting Framework and Guidelines is to support the development of a sustainable global economy where organisations manage their economic, environmental, social and governance performance and impacts responsibly, and report transparently. The Guidelines enable comparability among sustainability reports, presenting a balanced framework of economic, social and environmental information and also supporting the evaluation of results and impacts with regard to performance codes and standards. Therefore, the principal feature of the sustainability guidance is its flexibility and applicability to different organisations, irrespective of their size, sector and location.

GRI's Reporting Framework has been developed with a systemic approach (see Appendix 2). The Guidelines provide reporting principles, disclosures of management approach and Key Performance Indicators. Sector Supplements define sector specific Indicators in tailored versions of the original Guidelines. Technical Protocols offer increased guidance around common challenges for sustainability reporting, providing process instructions for such reporting issues as defining report content and the individual scope of an organisation's report.

G3 Reporting Framework



Source: GRI Sustainability Reporting Guidelines (v 3.0), page 3.

Contents

Guidelines

GRI launched the first version of the Reporting Guidelines in 2000, and the second iteration in 2002 at the World Summit on Sustainable Development in Johannesburg. The third version of Sustainability Reporting Guidelines (G3) was released in 2006. In March 2011, GRI launched the G3.1 Guidelines, an update and completion of the Guidelines' most recent generation.

The Guidelines outline core content for reporting and are relevant to all organisations regardless of size, sector, or location. They are the foundation upon which all other GRI reporting guidance is based. Organisations can adopt the use of the Guidelines voluntarily, flexibly, and incrementally. The flexibility of the Guidelines format allows organisations to plot a path for continual improvement of their sustainability reporting practices.

Contents of the Guidelines

Part 1 – Reporting Principles and Guidance

- Principles to define report content: materiality, stakeholder inclusiveness, sustainability context, and completeness.
- Principles to define report quality: balance, comparability, accuracy, timeliness, reliability, and clarity.
- Guidance on how to set the report boundary.

Part 2 – Standard Disclosures

- Strategy and Profile
- Management Approach
- Performance Indicators
    - Economic: 9 Indicators (7 Core + 2 Additional);
    - Environmental: 30 Indicators (17 Core + 13 Additional);
    - Social Performance Labour Practices & Decent Work: 15 Indicators (10 Core + 5 Additional);
    - Social Performance: Human Rights: 11 Indicators (9 Core + 2 Additional);
    - Social Performance: Society: 10 Indicators (8 Core + 2 Additional);
    - Social Performance: Product Responsibility: 9 Indicators (4 Core + 5 Additional).

Sector Supplements

GRI has also developed specific sector supplements, since some sectors face unique needs that require specialised guidance in addition to the universally applicable original Guidelines. Sector Supplements respond to these needs and represent a complementary part of the Reporting Framework.

Sector Supplements already developed are:

- Financial Services;
- Electric Utilities;
- Mining and Metals;
- Food processing;
- NGO.

Available pilot versions of Sector Supplements are:

- Automotive;
- Logistics and Transportation;
- Public Agency;
- Telecommunications;
- Apparel and Footwear.

Sector Supplements in development are:

- Airport Operators;
- Construction & Real Estate;
- Event Organisers;
- Media;
- Oil & Gas.

Protocols:

GRI produces standalone technical protocols to assist reporters with specific areas of reporting. The Technical Protocol on report content enables reporters to produce relevant reports more easily.

- Technical Protocol – Applying the Report Content Principles;
- Boundary Protocol.

Highlights

In addition to the systemic approach that supports the adoption of the Sustainability Reporting Framework, and the recognition of the value of sector specific guidance, GRI also distinguishes “Core” Indicators from “Additional” Indicators.

- Core Indicators are those Indicators identified in the GRI Guidelines to be of interest to most stakeholders and assumed to be material unless deemed otherwise on the basis of the GRI Reporting Principles.

- Additional Indicators are those Indicators identified in the GRI Guidelines that represent emerging practice or address topics that may be material to some organisations but not generally for a majority.

It is important to note that the guidance is not focussed on Key Performance Indicators but rather seeks to provide principles to define the content, boundary and quality of the report.

2.5. United Nations Conference on Trade and Development (UNCTAD) "Guidance on Corporate Responsibility Indicators in Annual Reports" and related documents

Organisation

Established in 1964, UNCTAD promotes the development friendly integration of developing countries into the world economy. UNCTAD is the host of the *Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting* (ISAR). Through ISAR, UNCTAD assists developing countries and transition economies in implementing best international practices in accounting and corporate reporting to facilitate investment flows and sustainable economic development. The annual meetings in Geneva are regularly attended by more than 300 delegates from more than 100 UN Member States. Delegates are primarily composed of policy-makers and regulators, but also include educators, industry representatives, various national, regional and international accountancy organisations and other subject matter experts. ISAR has served for more than 25 years as a neutral international platform for consensus building, learning, and the exchange of experience.

UNCTAD's work on accounting and corporate reporting is achieved in three ways:

- By providing a forum for intergovernmental debate, supported by discussions with experts and exchanges of experience, aiming at consensus building;
- By producing research and thought leadership to inform debate;
- By implementing technical assistance tailored to the specific requirements of developing countries, and cooperating, when appropriate, with other organisations and donor countries in the delivery of technical assistance.

Document

"Guidance on Corporate Responsibility Indicators in Annual Reports", 2008:
http://www.unctad.org/en/docs/iteteb20076_en.pdf
(Also available in: Arabic, Chinese, French, Russian and Spanish)

Objective

This guidance is for voluntary reporting and is a technical aid for, among others, enterprises, investors and regulators. It aims to encourage the production of concise and comparable corporate responsibility indicators within annual financial reports.

This guidance has three aspects: development, performance and national reporting. The development aspect differentiates this guidance from the others considered here. UNCTAD states, in line with its objectives, that this work "should continue to reflect corporate contributions to the economic and social development of host countries". This emphasis on the development dimension of corporate responsibility has also been complemented by an emphasis on performance-oriented indicators.

Also different is the focus on national reporting. It was noted that national reports were more useful for stakeholders interested in specific countries; they could also aggregate national reports to a regional or global level.

While environmental issues are also recognised as an important feature of corporate responsibility, this project does not focus on environmental issues, as UNCTAD has previously conducted extensive work in this area.

The objective of this guidance discussed here, which has been developed with reference to the Global Reporting Initiative (GRI) Guidelines and the International Financial Reporting Standards (IFRS), is to provide detailed assistance on the preparation of reports using the selected indicators.

This guidance document is divided into three main chapters. Chapter I provides an overview of an enterprise's stakeholders and their information needs, detailing the users and uses of corporate responsibility reporting. Chapter II explains the selection criteria applied in the development of corporate responsibility indicators. Chapter III provides a concise overview of the selected indicators along with detailed guidance on reporting each of the selected indicators. The guidance for each indicator is organised around the following four main points:

- Background: On the selection and relevance of the indicator;
- Definitions: Any specific terms that require clarification;
- Compilation: How to calculate the indicator; and
- Presentation and disclosure: Specific notes on reporting the indicator.

In Annexes I and II of the guidance document, the reader will find additional definitions and references related to compiling and reporting the selected indicators.

Contents

Highlights

- Drawing a parallel to the existing financial reporting framework that provides principles underlying the usefulness of companies' reported information, the UNCTAD Guidance identifies 6 quality criteria that should be taken into account in selecting indicators that achieve the needs of a wide range of stakeholders:

  - Comparability;
  - Relevance and materiality;
  - Understandability; and
  - Reliability and verifiability.

- The guidance explains each of the criteria and how report preparers should apply them in the preparation of corporate responsibility indicators in annual reports.

- In addition the guidance illustrates guidance principles, constraints, selected indicators and measurement methodology in order to assist preparers in the reporting process.

- The guidance identifies specific indicators for the following areas:

  - Trade, Investment and Linkages (4 indicators);
  - Employment Creation and Labour Practices (4 indicators);
  - Technology and Human Resource Development (3 indicators);
  - Health and Safety (2 indicators);
  - Government and Community Contributions (2 indicators);
  - Corruption (1 indicator).

- As such, the guidance provides definitions for 16 indicators in addition to 5 eco-efficiency indicators (described in Annex III of the guidance document).

Related documents

"Guidance on Good Practices in Corporate Governance Disclosure", 2006:
http://www.unctad.org/en/docs/iteteb20063_en.pdf
(Also available in: Arabic, Chinese, French, Russian and Spanish)

Objective

This guidance is a voluntary technical aid for, among others, regulators and companies in developing countries and transition economies. What and how organisations disclose will depend considerably on local laws and customs. In addition, particular industries may have some industry-specific disclosure requirements. In order to facilitate the general usefulness of this document, the focus is placed on widely applicable disclosure issues that should be relevant to most enterprises.

The purpose of this guidance is to assist the preparers of enterprise reporting in producing disclosures on corporate governance which will address the major concerns of investors and other stakeholders. This work would be relevant to enterprises eager to attract investment regardless of their legal form or size. This guidance would also be useful for promoting awareness in countries and companies that are not sufficiently adhering to international good practices and are consequently failing to satisfy investors' expectations regarding corporate governance disclosures.

"A Manual for the Preparers and Users of eco-efficiency Indicators", 2004:
http://www.unctad.org/en/docs/iteipc20037_en.pdf

Objective

This manual presents the results of ISAR´s work to extend the conventional accounting model and to link environmental performance with financial performance. The precise correlation between improved environmental performance of an enterprise and its bottom line is extremely difficult to prove because of the many factors that can affect profits. However, the concept of eco-efficiency, where increased profits are achieved under conditions of declining environmental impact, demonstrates such a link. Despite the practical usefulness of eco-efficiency indicators, their construction and use are highly problematic. This manual presents a method by which environmental and financial performance indicators can be used together to measure an enterprise's progress in attaining eco-efficiency or sustainability. The manual provides detailed explanations and examples for the preparers and users of eco-efficiency indicators so that they can produce internally consistent environmental and financial information, thus improving the quality of environmental reporting and stakeholder satisfaction.

The purpose of the manual is threefold:

a. To give guidance on how to define, recognise, measure and disclose environmental and financial information as specified within the traditional accounting and reporting frameworks;
b. To improve and harmonise the methods used so that enterprises are able to report eco-efficiency indicators in a standardised format so that they are meaningful to decision makers and can be compared across enterprises;
c. To complement and support existing reporting guidelines (e.g. the Sustainability Reporting Guidelines developed by the Global Reporting Initiative).

This framework and the accompanying guidance recommend that all enterprises report their eco-efficiency at least with respect to the following environmental elements:

1. Energy use;
2. Water use;
3. Global warming contribution;
4. Contribution to ozone depletion;
5. Waste.

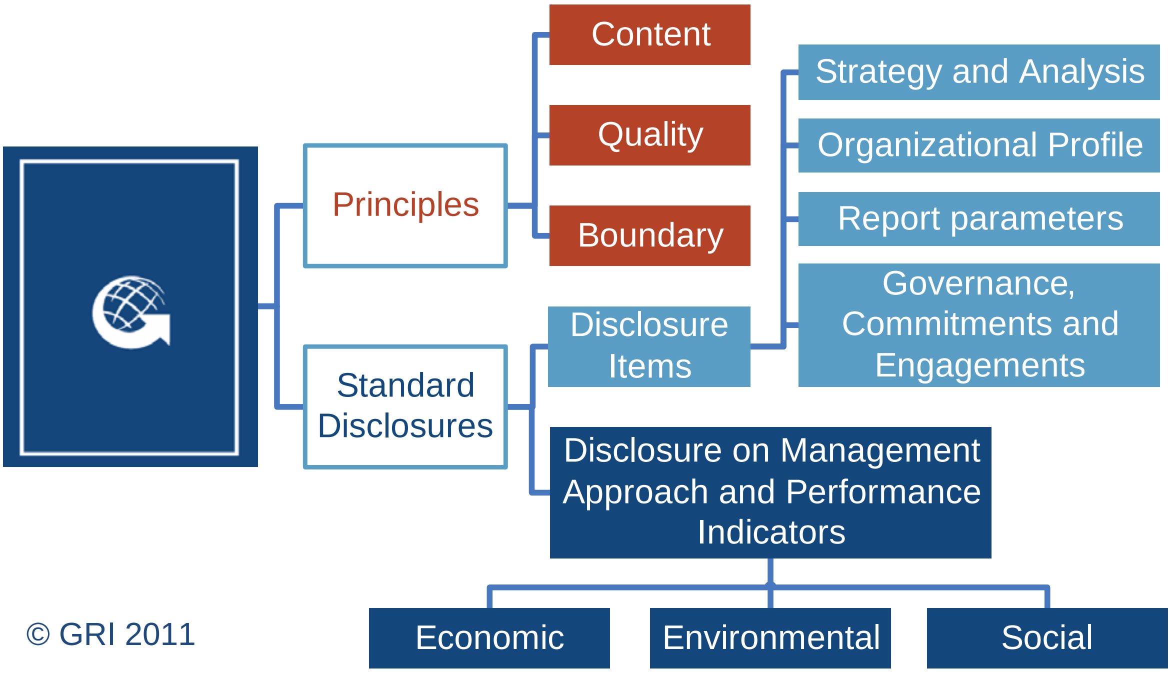
APPENDICES

APPENDIX 1: STOXX ICB SUBSECTORS FOR WHICH KPIS ARE PROVIDED IN THE DVFA DOCUMENT

Sectors	Subsectors	KPI
Oil & Gas	0533 Exploration & Production 0537 Integrated Oil & Gas 0573 Oil Equipment & Services	0577 Pipelines 0583 Renewable Energy Equipment 0587 Alternative Fuels
Basic Materials	1353 Commodity Chemicals 1357 Specialty Chemicals 1733 Forestry 1737 Paper 1753 Aluminium 1755 Nonferrous Metals	1757 Iron & Steel 1771 Coal 1773 Diamonds & Gemstones 1775 General Mining 1777 Gold Mining 1779 Platinum & Precious Metals
Industrials	2353 Building Materials & Fixtures 2357 Heavy Construction 2713 Aerospace 2717 Defense 2723 Containers & Packaging 2727 Diversified Industrials 2733 Electrical Components & Equipment 2737 Electronic Equipment 2753 Commercial Vehicles & Trucks 2757 Industrial Machinery	2771 Delivery Services 2773 Marine Transportation 2775 Railroads 2777 Transportation Services 2779 Trucking 2791 Business Support Services 2793 Business Training & Employment Agencies 2795 Financial Administration 2797 Industrial Suppliers 2799 Waste & Disposal Services
Consumer Goods	3353 Automobiles 3355 Auto Parts 3357 Tires 3533 Brewers 3535 Distillers & Vintners 3537 Soft Drinks 3573 Farming & Fishing 3577 Food Products 3722 Durable Household Products 3724 Nondurable Household Products	3726 Furnishings 3728 Home Construction 3743 Consumer Electronics 3745 Recreational Products 3747 Toys 3763 Clothing & Accessories 3765 Footwear 3767 Personal Products 3785 Tobacco
Health Care	4533 Health Care Providers 4535 Medical Equipment 4537 Medical Supplies	4573 Biotechnology 4577 Pharmaceuticals

Consumer Services	5333 Drug Retailers 5337 Food Retailers & Wholesalers 5371 Apparel Retailers 5373 Broadline Retailers 5375 Home Improvement Retailers 5377 Specialized Consumer Services 5379 Specialty Retailers 5553 Broadcasting & Entertainment	5555 Media Agencies 5557 Publishing 5751 Airlines 5752 Gambling 5753 Hotels 5755 Recreational Services 5757 Restaurants & Bars 5759 Travel & Tourism
Telecommunications	6535 Fixed Line Telecommunications	6575 Mobile Telecommunications
Utilities	7535 Conventional Electricity 7537 Alternative Electricity 7573 Gas Distribution	7575 Multiutilities 7577 Water
Financials	8355 Banks 8532 Full Line Insurance 8534 Insurance Brokers 8536 Property & Casualty Insurance 8538 Reinsurance 8575 Life Insurance 8633 Real Estate Holding & Development 8637 Real Estate Services 8671 Industrial & Office REITs 8672 Retail REITs 8673 Residential REITs	8674 Diversified REITs 8675 Specialty REITs 8676 Mortgage REITs 8677 Hotel & Lodging REITs 8771 Asset Managers 8773 Consumer Finance 8775 Specialty Finance 8777 Investment Services 8779 Mortgage Finance 8985 Equity Investment Instruments 8995 Non equity Investment Instruments
Technology	9533 Computer Services 9535 Internet 9537 Software 9572 Computer Hardware	9574 Electronic Office Equipment 9576 Semiconductors 9578 Telecommunications Equipment

APPENDIX 2: GRI DIAGRAMMATIC FRAMEWORK REPRESENTING THE SYSTEMATIC AND PROGRESSIVE APPROACH TO THE SUSTAINABILITY REPORTING



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