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# Rio +20: Corporate Sustainability Reporting

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## Summary

- Companies should be required to report on environmental, social and governance (ESG) risks and to integrate material sustainability issues within their report and accounts, or to set out an explanation if they cannot.
- Investors need to be encouraged to engage with companies to promote full ESG risk reporting, and to discuss the approach to addressing these risks in order in influence business strategy.
- Investors need to be empowered to hold companies to account on the quality of their disclosures, including through an advisory vote at the AGM.
- The Rio Conference needs to promote global support for ESG reporting from both governments and companies. This will enable business to make strategic decisions which incorporate sustainability considerations and allow potential investors to take account of these considerations.

## Results for Rio +20

Rio +20 provides a unique opportunity to call for ESG risks and issues to be integrated into company's reports and accounts. There is growing support for this proposal as recognised in the UN Zero Draft for the Conference:

"We call for a global policy framework requiring all listed and large private companies to consider sustainability issues and to integrate sustainability information within the reporting cycle." (Paragraph 24)

Aviva Investors is convening a Corporate Sustainability Reporting Coalition of more than 40 like minded organizations, including institutional investors managing in excess of \$1.6 trillion. This Coalition calls on UN member states to adopt a binding international commitment to develop national regulations which mandate the integration of material sustainability issues in the Annual Report and Accounts<sup>1</sup>; and which provides effective mechanisms for investors to hold companies to account on the quality of their disclosures, including for instance through an advisory vote at the AGM. WWF-UK supports this coalition.

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<sup>1</sup> <http://www.aviva.com/corporate-responsibility/programme-updates/13023/>

## Company Reporting

ESG risks and opportunities, and their implications for future strategies, are currently a major gap in companies' reporting. Many companies' narrative reports only make vague, generic statements on their approach to environmental and social issues. This means ESG-related business risks do not appear as integrated into the company's position and strategy. There is no accepted position, agreement or globally mandated rule requiring reporting of ESG performance. Despite the large number of company reports, the vast majority of companies fail to set out ESG risks. Aviva reports less than a quarter of the 20,000 companies examined published data of sufficient quality and consistency.<sup>1</sup>

## Investor Responsibility

Investors should be pressing for comprehensive disclosure and dialogue on material environmental, social and governance risks in order to reach informed decisions on investment and to engage effectively on business planning and strategy.

A clear, precise and strategic reporting mechanism on ESG would help investors make informed decisions around risk. Thereby supporting investors to confidently compare and differentiate companies in similar sectors. Narrative reporting encourages companies to disclose longer term strategic objectives, as well as linkages to material environmental and social risks. Moving away from reporting only on past information is crucial in a more complicated business and natural environment. As stated by Alan McGill, partner at PWC, "historic financial performance is unlikely to be sufficient for an assessment of the long term prospects of a business where the dynamic of wealth creation is changing."<sup>2</sup>

## Business Opportunity

Recent research by Goldman Sachs, amongst others, has shown that integration of ESG issues into company strategy adds to long-term share price outperformance.<sup>3</sup> In light of this evidence, strategic thinking and integration of social and environmental factors into decision making can be a source of competitive advantage for companies.

The issue of non-financial reporting has recently drawn increased attention at the European and international level. EU institutions, national governments and various initiatives involving business representatives under the UN umbrella<sup>4</sup> have been looking for mechanisms which would lead to better reporting on ESG performance from companies. At the same time, an increasing number of companies are disclosing voluntarily their ESG information. There are other interesting initiatives such as the International Integrated Reporting Committee calling for a global approach. Integrated Reporting is a new approach to corporate reporting setting out the links between an organisation's strategy, governance and financial performance and the social, environmental and economic context within which it operates.

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<sup>2</sup> CDP 2011 Global 500 Report

<sup>3</sup> See for instance Data stream, Goldman Sachs Research

<sup>4</sup> <http://www.unpri.org/principles/>