**Response to consultation paper**

*Recommendations for SDG Disclosures: Consultation Paper* (Adams, Picot, Druckman) August 2019

We welcome the opportunity to provide a response to your Consultation Paper on Recommendations for SDG Disclosures. The proposed Framework that you have put forward is an important development and has the potential to make a significant and positive contribution to the achievement of the UN Sustainable Development Goals (hereinafter SDGs)' and may encourage organisations to further their efforts towards more sustainable business practices and behaviours.

We will start with some general comments about the purpose of the consultation paper before providing answers to selected questions from those you asked in the paper.

The consultation paper indicates recognition of the relevance of disclosure and reporting in the endeavour to achieve a more sustainable future for everyone on this planet. The proposed Framework presented in the consultation aims to align and be compatible with other significant reporting initiatives that have been developed and highlights the contribution that can be made by the accounting profession in achieving the SDGs. We support the intention of the proposed framework to support "the communication of impact on achievement of the SDGs".

It is proposed that the framework also support the "identification of material sustainable development risks and opportunities relevant to value creation" and we raise a concern that the emphasis is given to "risks and opportunities" and "value creation". We are concerned that these terms, and the reference to "business models" elsewhere in the consultation document, may tend to encourage organisations to think in terms of business as usual. We acknowledge that footnote 7 is clear and states that "value creation is the creation of value broadly defined (i.e. beyond financial value). Creating value involves avoiding value destruction". However, we would question whether this definition should be more explicit and prominent throughout the framework. Alternatively, we ask whether it is necessary to frame the purpose of SDG disclosures in terms of risk, opportunity and value? The broad conceptualization of value should be explained upfront, as this guidance is to be read by people in the corporate environment, who may not be used to this wider thinking. Otherwise there is a risk that people may read into it purely financial value, undermining what the framework aims to achieve. Examples may be provided of non-financial values and their assessment techniques, for instance the ecosystem services literature and policy has attempted to value cultural and other natural services that cannot be monetised.

We broadly agree with the focus on management, strategy, governance and performance and targets, although the Venn diagram does not fully explain the links made between these four areas of focus. The text does not clarify why strategy sits at the centre of the diagram. Further we question whether governance would be more helpfully conceived as providing an overarching structure? We also note that the five-step process appears to suggest a linear process from management approach to strategy to governance and finally performance and targets. We question whether the feedback and feedforward aspects of this process should be presented more clearly? Although the framework is primarily concerned with external reporting process, the feedback and feedforward loop to internal organisational functioning and actions should not be understated. In this respect, we question whether the purpose of the framework should be explicitly recognised as going beyond disclosures (even though they may be the starting point)? This would facilitate the development of reflexivity within the business, facilitating adaptive and learning related to the SDGs.

The consultation paper indicates that the framework has been developed for a range of stakeholders including "all stakeholders". Footnote 1 notes that it is "governments who are signatories to the SDGs and prepare reports on progress" and so we ask whether there is a need to more fully distinguish national governments as the primary stakeholder? We suggest that it should be national (and perhaps local) governments that can make claim to be the most important recipients of SDG disclosures.

The consultation paper clarifies that the framework is developed for reporting organisations and footnote 1 clarifies that this "includes public, private and not for profit for organisations". We agree that ideally any framework relating to the SDGs should be applicable to all such organisations. We do question, however, whether or not it is possible to have a one-size fits all framework. For instance, would voluntary sector organisations require a simpler framework allowing them to focus upon what their core activities bring to the SDGs alongside their impacts? Also, given that the framework is developed for such a diversity of organisations, we question the appropriateness of separately identifying "investors" as distinct from all stakeholders who "facilitate the involvement of organisations in the achievement of the SDGs". Why are investors afforded such focus (here and elsewhere in the paper) when they are not relevant for public service and not for profit organisations?"

In spite of our preceding comment, we also broadly agree with the need for a shift in investment and capital markets. Increasing scepticism around the prioritisation of shareholder wealth by organisations such as the US Business Roundtable, which recently published a more stakeholder-oriented Statement of Purpose for Organisations, supports this observation. We also agree that it is initiatives by "supra-national, government, regulatory and stock exchange", in contrast to individual investors, that have the most potential to enable such a shift in investment and capital markets. We also suggest that, in addition to the examples provided, there could be a role here for the UN Principles for Responsible Investment to which many investors have signed up.

**Responses to questions**

**1 Principles**

*Are the disclosure Principles selected appropriate to encourage both the integration of SDGs into strategy and transparency in relation to risks, opportunities and impacts?*

Table 2 is helpful in demonstrating how the selected Principles align with other frameworks and, on the whole, we consider them to be appropriate. We do, however, wish to highlight a number of issues and tensions that are apparent within the principles as currently defined:

- We agree that the principle of sustainable development context and relevance should be applied even where in conflict with other principles (page 8). We wonder whether this principle could be more clearly integrated in the steps, and/or it should be clarified that each step should be taken within considerations that stem from this principle?
- Materiality is an important principle, but it remains a contested concept within the context of SDG disclosure. We question why emphasis is awarded to "providers of finance concerning the ability of the organisation to create value" under part (a)? Consistent with our earlier comments, we question whether part (a) is necessary? An alternative basis for considering materiality can be found in the recent reporting guidance on climate change released by the EU Commission[1], which makes explicit reference to the notion of double materiality (financial and social/environmental). We also note, that within the current definition of materiality the

term 'reasonably informed stakeholders' may be open to debate and we question whether this wording is necessary? This is keeping in mind that the framework has been developed for "all stakeholders … to facilitate the involvement of organisations in achievement of the SDGs". We favour a clear definition of materiality that is consistent throughout the framework and that places "impact of the organisation on the achievement of SDGs" at its core. As such, we suggest the Framework should make explicit that organisations not only report on how business is done and what business is done but also on the impact – positive and negative - of that business on its stakeholders and in relation to the SDGs.

- We envisage potential tensions between the principles of materiality and conciseness with the principle of completeness in the disclosures made. We note that (on page 8) it is proposed that the principle of materiality "shall always be applied even where in conflict with other Principles". A general question for us is whether organisations should select their own SDGs within the overarching SDG frame? The principles of materiality and conciseness may well encourage organisations to do this, but this will tend to lead to incomplete (and potentially incomparable – see also below) disclosures. Should organisations be required then to explain why they have selected their specific SDGs and the extent to which they differ from the UN's SDGs, falling short or going beyond? How much discretion should organisations be given? What if there is a dispute among stakeholders about which SDGs are selected as relevant? How will any such dispute be settled?
- Further to this we note that the SDGs are conceived as a holistic whole. Organisations being able to select a sub-system in many ways runs counter to the aspirations of Agenda 2030. At the same time, it is also true that some goals can be in contradiction with one another (e.g. renewable energy targets in SDG 7 vs conservation targets of SDG 14/15) and, as stated in the third bullet point on page 8 of the consultation document "the sustainable development issues which led to the development of the SDGs are interdependent in ways which are impossible to predict and over which an organisation has limited control". This means that some choices regarding which SDGs are to be disclosed may need to be made but fully justified and that a precautionary approach may be taken in selection and assessment. A map providing the links between the SDGs could be useful to organisations. Some work has been done on identifying SGDs links (see for e.g. D. Le Blanc (2015) Towards integration at last? The SDGs as a network of targets, *UN Dep. Econ. Social. Aff*. (UN Department of Economic and Social Affairs) and Ntona and Morgera (2018) Connecting SDG 14 with the other SDGs through marine spatial planning, *Marine Policy* at: https://www.sciencedirect.com/science/article/pii/S0308597X17300520 )
- We also note that the principle of comparability, as defined in the proposed framework, does not refer to comparability across organisations. We have sympathy with this as there seems to us to be a danger in suggesting that the complex impacts of diverse organisations can be compared. As per our earlier discussion, however, if organisations are given free choice over relevant SDGs then how would it be possible to benchmark performance and meet the comparability principle (in its stronger sense as found in the TCFD recommendations)?

**2 Disclosures**

*Are the recommended Disclosures appropriate and complete?*

Yes, these seem about right given the boundaries of the Framework. However, we note the following:

- It is not clear what means of expression of SDGs disclosure are recommended. It is stated that they should not only be expressed in financial terms. We agree disclosures may take many forms – in financial terms, in other quantitative (non-financial) terms and qualitative expressions. However, we point out the difficulties of comparing and measuring variables that are expressed by different means and therefore argue that more thought and guidance should be given regarding the means of expression. Financial and quantitative disclosures carry connotations of accuracy and precision and we note that the GRI principle of accuracy is not included in the proposals. We accept that accuracy is a challenging principle with regard to these complex goals, but we question whether this challenge should be explicitly recognised within the organisational disclosures required? Bowen and Wittneben (2011)[1] accept that accuracy (whilst valuable) is costly but continue that one implication of this could be that there should be a move towards the disclosure of indicators of uncertainty or tolerances. We suggest that requiring organisations to disclose their confidence and uncertainty offers important information and potential for learning. We also note that reflecting on "past performance" is identified as part of Step 4 (Develop integrated thinking, connectivity and governance), but then past performance is not referred to within step 5 (Prepare the report). We ask whether more specificity is needed in relation to this? Should there be a recommended baseline? How will consistency and relevance of disclosing of past performance be disclosed and assessed.
- If there are qualitative expressions, how are they going to be compared with those expressed in quantitative and financial terms? More guidance is especially needed here. How would the principles of "reliability, completeness, balance, understandability, and **verifiability"** be met if there are different types of expression of SDGs disclosure, some of them less verifiable than others? Would different types of expression run counter to the comparability principle as well?
- In absence of a clear reference point to what the SDG disclosures constitute, it will be difficult for the users to distinguish performance. Poor performers may have the opportunity to 'window dress' by omitting certain information or providing boilerplate statements which create the appearance of good disclosures. More broadly, there is a risk that the SDGs are going to be used retrospectively to categorise prior reporting template, creating the impression of engaging with SDGs while the underlying practices remain unchanged.
- We would ask what will be the consequence for poor quality, inaccurate or misleading disclosures? Will this be restricted to market i.e. shareholder or stakeholder, reaction or will more formal responses be triggered?
- Would it be helpful if companies were required to distinguish between causation and mitigation, across the whole SDG framework? This way they would be asked explicitly to map how they are contributing to making things worse and what they are doing to address the SDGs positively.

*Are you aware of additional good practice examples?*

The three examples of good practice are interesting. It is noticeable that they are presented diagrammatically. Such diagrams hold a lot of information, but they do not necessarily explain fully the inputs and outputs, largely because they present circular pictures. The complexity of the exercise

[1] Bowen, F. and Wittneben, B. 2011. Carbon accounting: Negotiating accuracy, consistency and certainty across organisational fields, *Accounting, Auditing & Accountability Journal*, Vol. 24 No. 8, pp. 1022-1036. https://doi.org/10.1108/09513571111184742

leads to complex diagrams which might not easily be interpreted, especially by stakeholders who might be less familiar with accounting and reporting practices. They also all draw very much on the reporting being premised upon value creation and centred upon a business model. We find them reminiscent of the integrated reporting recommendations (although we note this is strongest and most explicit in the first example drawn from Adams, 2017). We question whether starting from an integrated reporting approach will be appropriate for many (especially public and not for profit) organisations. We are aware of two reports, The UN's "The Sustainable Development Goals Report 2019" and "Bristol and the SDGs: A voluntary local review of progress 2019" that are simply structured around the seventeen SDGs. We suggest that these reports are clearly aligned with the SDGs in a way that is less likely to confuse stakeholders and are less focussed upon value creation with more emphasis afforded to impact. We do note, however, that this approach may not provide sufficient visibility to the complex connections and relationships between the SDGs.

There is also a question whether the six capitals from integrated reporting further complicate the SDG disclosure arena. One challenge that we foresee is that this proposed Framework adds to an existing reporting arena that is already extremely varied and messy. One of the authors of this response has recently submitted a paper to the *Journal of Accounting Economics and Law* exploring this problem in depth, and in which she and her co-author argue that there is an urgent need to tidy up this growing area of non-financial reporting (see attached with this response). The UN's SDG Agenda suggests that the SDG framework will stimulate action on five key themes (people, planet, property, peace and partnerships) and perhaps these themes are more easily aligned to the SDGs than are the six capitals identified within integrated reporting.

**3 Enhancing the credibility of Disclosures**

*Are there additional sources of assurance evidence that could be included?*

We do not have a response to this question.

*Do you foresee issues in the supply of assurance? Why?*

One issue is that assurance standards for non-financial information are yet to be as well developed as in the financial reporting arena, i.e. assurance per se may not be enough to enhance the credibility of disclosure. This is due to a lack of clear/universally adopted reporting standards, ambiguous assurance guidelines, and under-developed or non-existent firm-specific internal sustainability reporting systems, as well as unclear materiality thresholds (material for whom?), among others. See for example Ballou et al. (2018[2]) and Michelon et al. (2019[3]).

We would also note that, thus far, much of SDG assurance has been of limited scope and those assurances undertaken are as "limited" assurance engagements. We question whether such engagements provide sufficient credibility? If not, then will more "reasonable" levels of engagement be considered to be prohibitively costly.

[2] Ballou, B., Chen, P-C., Grenier, J.H. & Heitger, D.L. 2018. Corporate social responsibility assurance and reporting quality: Evidence from restatements, *Journal of Accounting and Public Policy*, 37(2), 167-188, https://doi.org/10.1016/j.jaccpubpol.2018.02.001

[3] Michelon, Patten, D.M. & Romi, A.M. 2019 Creating Legitimacy for Sustainability Assurance Practices: Evidence from Sustainability Restatements, *European Accounting Review*, 28(2), 395-422
DOI: 10.1080/09638180.2018.1469424

Some of the assurance suggestions such as evidence gathering are clearly essential. Interestingly, these suggestions reflect a similar approach adopted in the recent GC100 Guidance for Directors on their duty to promote the success of the company under section 172 of the Companies Act 2006. That document advises company directors to keep minutes and evidence of information sharing between the board, management and stakeholders. One potential challenge that might arise will be the filing or storing of what may grow to be vast amounts of information. Larger organisations will more likely have the technology to cope with such a challenge, but smaller organisations could face difficulties.

The proposal for an organisation to be able to appoint a panel of independent experts and representatives of key stakeholders as an assurance mechanism is interesting. We anticipate the usual debates arising here about who can be considered independent and who are identifiable as 'key' stakeholders. How much discretion should be granted to the organisations? We would add that organisations should retain evidence of meetings, deliberations, and decisions made with stakeholders to show that they have engaged with them properly.

*Are there alternatives to assurance that could be included to enhance credibility of reporting?*

Ought there to be an external verification body to adjudicate in any dispute about the reports presented? If stakeholder engagement is a continuous process, should one expect that performance and targets are also presented to, and discussed with, stakeholders?

**4 Alignment**

*Are there further opportunities for aligning existing frameworks?*

We noted above the relevance of section 172 Companies Act 2006 applicable in the UK. Recent secondary legislation has given rise to the requirement for a section 172 statement to be provided by large companies in the strategic report or their directors' report. The statement will show how board directors have fulfilled their duty to have regard to a number of stakeholder interests when promoting the success of the company. There could be some overlap in the reporting on SDGs.

**5 Other matters**

*Are there additional matters which should be addressed prior to finalisation?*

We do not have any additional matters to highlight.

In conclusion, we welcome this proposed Framework for organisations to be able to report on their impact on the SDGs. We urge that the Framework be developed in a way that does not create further clutter in the non-financial reporting territory but that helps organisations to present a clear picture of their relationship with sustainability.

Yours sincerely,

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