Recommendations for SDG Disclosures – Response to the Consultation from World Benchmarking Alliance

World Benchmarking Alliance welcomes the publication of the consultation paper: *Recommendations for SDG Disclosures*. It provides a solid set of principles and many practical insights. It is particularly helpful because it carefully and consciously builds on the work of others, including TCFD, GRI, UNGC and IIRC. This alignment is extremely helpful for the intended audiences.

The document seeks to combine high level principles as well as practical guidance. In attempting to do both, it risks scratching the surface of the "how". There has been a proliferation of frameworks, guides and options for reporting organizations. Whilst some companies have stepped up – many have not. Disclosures remain patchy and inconsistent. The vital role of the private sector in advancing the SDGs is progressing steadily, but slowly. How can this be sped up? In our assessment, it is the "how" that many reporting organizations lack the insights on. The consultation paper summarises much helpful advice on this. But it could be clearer on three areas: framing the SDGs; materiality; and disclosure options.

Framing the SDGs

The SDGs represent a supremely ambitious and transformational plan of action for people, planet and prosperity. They were not designed as a company-centric framework. Rather, they set out how our world is changing. The issues each present fundamental challenges and opportunities for forward-thinking organisations. This is not currently reflected in the document. Indeed, something about a shared aspiration to create a world where business is a force for good and long-term value creation is the norm feels lacking.

The document could be read as implying that companies have limited agency.

- The principles state that organizations have "limited control" over sustainable development. This may be correct for any single company but significantly underplays the instrumental role of the private sector as a whole.
- "Few organizations can or should aim to contribute to all 17 SDGs" may be correct advice. But the starting point must be that all organizations have *some* impact on <u>all</u> SDGs and <u>all</u> SDGs are likely to have *some* impact on <u>all</u> organizations. Choices need to be made over what to focus on and then, separately, what to disclose, when and to whom. But as a strategic framework, the SDGs are relevant as a whole. The work of the Business and Sustainable Development Commission could be referenced here.
- The statement "organisations should consider how they [contribute] through their own operations" is too limited. For many companies, significant impacts will be outside of their direct operations and through their supply and distribution chains, and product and service impacts.

Materiality

The focus on materiality is appropriate for an accounting framework. It goes to the heart of helping organizations decide what to report on. But as currently defined, it appears to perpetuate quite a narrow definition of materiality. The headline definition of material issues as those that "influence value creation" may not be interpreted by readers to mean anything beyond shareholder return. Expressions such a "multiple capitals" should be spelt out: it includes the impact of the organization on real people and the environment.

The step to "understand sustainable development issues relevant to the organization's external environment" is quite a limited and company-centric approach. It may not pick up on highly pertinent risks (e.g. human rights impacts for some sectors) as well as opportunities for the future (e.g. new markets, products). Materiality is not static: new topics are emerging, regulation is changing, investor interest is evolving. Companies that take a limited approach to "understanding" what is "relevant" today could miss the entire point of the SDGs as a blueprint for a changing world.

The definition of stakeholders is also limited. "Reasonably informed stakeholders" are included in the Principles of Materiality – but this would exclude stakeholders where the impact could still be very high (e.g. affected communities).

Disclosure Options

Materiality in reporting often applies a threshold. Issues beneath the threshold are not disclosed. But is this always necessary and helpful? For example, some topics may be of vital interest to a small number of stakeholders (e.g. a specialist ESG analyst) but not meet the defined threshold for a report. Yet if simple (cost-effective) to do so, the company would still be wise to disclose this. Recent developments from some reporters around ESG data supplements have sought to meet this need. The end goal presented of an (Integrated) "Report" misses the opportunity for other useful disclosures.

Under the section "Prepare the report" guidance on "recommended disclosures" could be considerably extended. There are a host of different options, advantages and disadvantages to weigh up in terms of purpose, business model, targets and metrics. The word "impact" is mentioned in passing – this is a vital component and the work of the Impact Management Project could be referenced here.

Finally, in enhancing the credibility of disclosures and further opportunities to align – benchmarks might be mentioned. By defining a global best practice standard, good benchmarks set out a roadmap for reporting organizations with details on the topics and metrics that reflect societal expectations for an industry. Being mindful of what benchmarks measure can therefore assist organizations in disclosing on the SDGs more effectively.

World Benchmarking Alliance, 30 October 2019