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Canberra ACT 26001

Our ref RAH05-PJCCFSCorporate Responsibility0930-MAL.doc

30 September 2005

Dear Sir

Inquiry into corporate responsibility

Thank you for the opportunity to provide a submission to your inquiry on corporate responsibility. KPMG look forward to contributing to the development of a reporting and assurance framework which will enhance the transparency and relevance of corporate responsibility reporting and lead to greater consistency in practice in the areas of quality, content, assurance and independence. All of which will further enhance confidence in Australia's capital markets.

Our specific comments in relation to each aspect of the inquiry are attached. The key points of this submission are set out below.

1 Organisational decision-makers can have regard for the interests of non-shareholder stakeholders at two levels:

- setting frameworks; and
- performance against those frameworks.

2 It is difficult to determine the extent to which organisational decision-makers in Australia currently have regard for the interests of non-shareholder stakeholders. However, it is possible to look at the extent of public reporting of these aspects. In Australia the public reporting by organisations of these frameworks and performance is well below that of most developed countries, based on surveys of reporting by companies, although it is increasing rapidly from this low base

3 KPMG believe that apart from legislation setting minimum compliance requirements in specific areas such as environment, health and safety it would be an unreasonable burden on organisations to legislate that they should have certain levels of regard for the interests of non-shareholder stakeholders. Accordingly, we recommend that:

(a) legislation should not mandate the extent to which non-shareholder stakeholder interests drive organisational decisions;

(b) reporting entities for financial reporting purposes (Reporting Entities) be required to publicly disclose their frameworks in relation to having regard for the interests of non-shareholder stakeholders;

(c) encouragement be given to Reporting Entities to publicly report their performance in dealing with the interests of non-stakeholder shareholders against their frameworks in a clear, transparent and credible manner through:

- encouraging the ASX Corporate Governance Council to include Sustainability Reporting in the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations so that listed companies who do not issue such reports would explain why they have not done so;

- establishing an Australian framework for Sustainability Reporting for use by those Reporting Entities who elect to issue Sustainability Reports that is consistent with international equivalents; and

- establishing an Australian framework for assurance over Sustainability Reporting to ensure assurance opinions provided over Sustainability Reports meet minimum acceptable standards, consistent with international equivalents;

(d) Sustainability Reports should require the same process for approval and issue internally within Reporting Entities as is required for financial statements.

KPMG ask the Parliamentary Joint Committee on Corporations and Financial Services to consider the submissions in the context of the need for a sound framework for reporting and assurance rather than at the micro level of detailed reporting solutions and that this also be a consideration when reviewing submissions by other parties. We believe that the responses to specific questions will vary depending upon the preference for one reporting model (and there are many variations), the level of assurance in relation to that report and the basis upon which independence is established by the assurance provider.

KPMG are acutely aware of the current concerns in relation to regulatory burden and compliance costs but believe that an appropriate framework can be established which achieves the objective of enhanced reporting in the public interest, and providing benefits to those companies that embrace a reporting model appropriate to the nature, size, risk and complexity of the business and the industry in which it operates.

We look forward to further consultation and to providing further assistance as required. Please do not hesitate to contact me on 03 9288 5852 or rahogarth@kpmg.com.au

Yours sincerely

R Hogarth

Rob Hogarth
Partner

Enclosure:
Submission by KPMG to Parliamentary Joint Committee on Corporate and Financial Services on Inquiry into Corporate Responsibility

Submission by KPMG to Parliamentary Joint Committee on Corporations and Financial Services on Inquiry into Corporate Responsibility

September 2005
This report contains 25 pages

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1 Extent of existing regard for interests of non-shareholder stakeholders

1 Aspect of terms of reference

"a) The extent to which organisational decision-makers have an existing regard for the interests of stakeholders other than shareholders, and the broader community."

2 Meaning of "having regard"

In our experience, organisational decision-makers have regard for non-shareholder stakeholders at two levels:

(a) The framework level - in setting the organisation's strategy and key policies encompassing matters such as :

- the industry in which they choose to operate
- the products they choose to sell
- the basis for allocation of capital
- the culture and values set for the organisation
- governance structures

(b) The operating level - in the organisation's day-to-day dealing with non-shareholder stakeholders including customers, suppliers, employees and the community (both local and global). Key issues will vary from sector to sector and organisation to organisation but this normally embraces these major issues:

- environmental impacts of products (or services) from creation to disposal, as well as the impacts of production and distribution processes
- impacts of operations on local communities
- impacts of products or services on customers (eg. Health)
- labour conditions in the organisation and in the supply chain
- human rights

We therefore believe that "having regard" in this context means taking into account the interests of these stakeholders when making choices at both the framework and operating levels.

3 Interests of stakeholders

There is an implicit assumption in the current debate that non-shareholder stakeholder interests conflict with those of shareholders which are generally accepted to be maximisation of their wealth through dividends and capital gains. Whilst this conflict appears intuitive in the sense of "do we maximise profit by minimising benefits and rewards for employees, customers, suppliers and the community" it is important to remember another force at play, often referred to as the "licence to operate".

In today's information age where information is freely available the value of an organisation's intangible assets such as reputation, brand names and trust underlie the value of their hard assets. Mining companies are enjoying commodity prices at record levels but their reserves of ore are not available to them if they don't manage their "licence to operate". A new generation of employees, and especially graduate recruits are more acutely aware of social responsibility and care about how potential employers go about their business. Consumers are increasingly punishing companies that are not socially responsible and corporate social performance is increasingly a factor in shareholders' investment decisions and in financing decisions of financial institutions.

Proving that corporate responsibility benefits shareholder value is a key objective of those who promote greater responsibility, because sceptical managers would be easily convinced of the advantages if they could be shown clear, irrefutable evidence. Such hard proof remains elusive, although there is a growing body of circumstantial evidence.

It has not yet been possible to make a strong, causal, quantitative link between corporate responsibility actions and financial indicators such as shareholder wealth. Some correlations have been shown to exist, but that does not necessarily demonstrate a causal link.

Accordingly, an organisation's responsibilities to non-shareholder stakeholders are today are only one aspect of its governance and risk management processes. The importance and investment an organisation places in these processes is discretionary based on an assessment of cost and benefits in their particular situation. The important aspect is that an organisation's reporting and communications strategy should align Sustainability performance with business performance. The benefits are not only "licence to operate" but also potentially reduction of the cost of capital.

4 Determining "the extent of having regard"

KPMG has not undertaken comprehensive surveys of the impact of non-shareholder stakeholder interests on the considerations of organisational decision-makers. We therefore do not wish to comment on the "extent of having regard" in organisational decision-making, however, we are extensively involved in reporting by organisations. Accordingly, we wish to comment on the extent and nature of reporting of Australian organisations in relation to the interests of non-shareholder stakeholders.

KPMG is involved in:

- an annual survey of sustainability reporting in Australia[1] (referred to below as the Australian Survey); and

- a triennial international survey of corporate responsibility reporting[2] (referred to below as the Global Survey).

These surveys look at not only the nature and extent of public reporting but also some of the rationale behind producing the reports for those who respond to the survey.

Sustainability Reports are a voluntary presentation about an organisation's non-financial performance in the environmental, social and economic areas. They are often also referred to as Corporate Social Responsibility (CSR) Reports or Triple Bottom Line (TBL) Reports. Whilst the terminology and content varies they share the aim of reporting on these three aspects. For convenience these reports are referred to below as Sustainability Reports.

[1] The Australian Survey refers to the study commissioned by the Department of Environment and Heritage (DEH) into Sustainability Reporting in Australia. Research is undertaken by KPMG Australia, CAER and Deni Green Consulting Services. The most recent survey has just been released and is entitled "The State of Sustainability Reporting in Australia 2005".

[2] The Global Survey refers to KPMG International's survey of corporate responsibility issued in 1993, 1996, 1999, 2002 and 2005. The 2005 survey was released in July 2005.

5 The rate of Sustainability Reporting in Australia

Whilst there has been a significant increase in the rate of Sustainability Reporting in Australia over recent years, the rate remains low relative to global reporting rates. In summary the key statistics are:

- Number of Sustainability Reports produced by the top 500 companies in Australia:
  - 2005: 119 companies (24%)
  - 2000: 65 companies (13%)
  - 1995: 6 companies (1%)

- Number of Sustainability Reports produced by the top 100 listed companies in 2005:
  - Australia: 23%
  - Japan: 81%
  - UK: 71%
  - Average (16 countries): 41%

6 Interpreting Australia's low reporting rate

Many conclusions can be extrapolated from the above statistics, however, it is clear that whilst Australia's reporting rate is low it is growing rapidly. But does this reflect a low but developing regard by organisational decision-makers for the interests of non-shareholder stakeholders?

We do not believe this conclusion can be automatically drawn.

The Australian Survey[3] asked respondents about the benefits and impediments of Sustainability Reporting, the key responses were:

Key benefits:	***% citing benefit***
• Reputation enhancement	86%
• Ability to benchmark performance	68%
• Operational and management improvements	64%
• Gain confidence of investors, insurers and financial institutions	59%
• Capacity to recruit and retain excellent staff	47%

Key impediments:	***% citing impediment***
• Cost and resource constraints	78%
• Additional resources required initially to develop a framework for measuring and reporting	54%
• Costs of external verification	41%
• Availability of indicators	37%

[3] The 2005 Australian Survey as at 15 September 2005 has not been issued publicly by DEH, we request that these figures not be quoted publicly until the survey has been released.

However, the Australian results can be contrasted with the 2005 Global Survey where almost 75% of respondents stated economic reasons as the key business driver behind corporate responsibility and 50% gave ethical reasons.

2 Desired extent of regard for interests of non-shareholder stakeholders

1 Aspect of terms of reference

"b) The extent of which organisation decision-makers should have regard for the interests of stakeholders other than shareholders, and the broader community."

2 Suggested framework

KPMG believes that, apart from legislation setting minimum compliance requirements such as fair trading and environment, health and safety, that:

- the extent to which non-shareholder stakeholder interests drive organisational decisions should not be mandated - this is discussed further in this section below;
- organisations should be required to disclose their framework in relation to having regard for non-shareholder stakeholders - this is discussed further in Section 4 below; and
- encouragement should be given to organisations to publicly report their performance in relation to implementing the framework dealing with non-shareholder stakeholders - this is discussed in Section 6 below.

3 Mandating disclosure of frameworks

Sustainability Reports commonly refer to "accountability to shareholders" based on a financial relationship and "responsibility to other stakeholders" based on an obligation to do the right thing.

Directors have a fiduciary duty to act in the best interests of shareholders which derives from a direct financial relationship, being the ownership of shares in the company. The relationship with non-shareholder stakeholders is either based on contract (suppliers, customers and employees) or is an indirect impact (through the community and the environment). Directors already have obligations to those non-shareholder stakeholders with whom the organisation has a contract if a direct causal relationship can be proved.

Directors and management of organisations are already burdened with significant compliance obligations. To add to this burden an obligation to have a certain level of regard for stakeholders with whom there is no direct relationship would be unreasonable and stifle the ability of organisations to operate. As stated above, KPMG's view is that legislation should not dictate the extent to which organisational decision-makers should have regard for non-shareholder stakeholder interests, provided these stakeholders have access to information about the framework (and preferably also the performance) of the organisation in this regard.

Once informed, employees, customers, suppliers, community members as well as shareholders and financiers can then make up their own minds as to how they want to interact with an organisation.

Organisations should be free to ascertain the extent to which stakeholders are rewarding them for their contribution to the environment and social matters.

3 Current legal framework encouragement

1 Aspect of terms of reference

"c) The extent to which the current legal framework governing directors' duties encourages or discourages them from having regard for the interests of stakeholders other than shareholders, and the broader community."

2 Sundry comments

KPMG do not wish to express a view on this aspect of the terms of reference because we are not corporate lawyers. However, we point out that in both the Australian Survey and Global Survey respondents do not list legal constraints as an impediment for producing Sustainability Reports. Accordingly, we conclude that those companies that believe it is worthwhile being transparent about their interaction with non-shareholder stakeholders are not seeking legislative changes.

4 Revision to the legal framework

1 Aspect of terms of reference

"d) Whether revisions to the legal framework, particularly to the Corporations Act, are required to enable or encourage incorporated entities or directors to have regard for the interests of stakeholders other than shareholders, and the broader community. In considering this matter, the Committee will also have regard to obligations that exist in laws other than the Corporations Act."

2 Suggested revisions

The terms of reference of the Inquiry refer to "organisations" and "incorporated entities" as well as to "organisational decision-makers" and "directors". It would be unreasonable to impose obligations to non-shareholder stakeholders on incorporated entities and not have similar obligations for other organisations. It could even be argued that individuals engaging in business activities should also have the same obligations. We suggest that any such obligations be related to reporting entities under financial accounting standards[4] (referred to below as "Reporting Entities") when they produce general purpose financial statements. KPMG's view is that Reporting Entities should be required to disclose the framework for dealing with non-shareholder stakeholders.

We recommend that the framework disclosure requirements could be similar to those applying to product issuers' Product Disclosure Statement (PDS) obligations under s1013DA of the Corporations Act 2001 ("the Act"). The obligations apply together with other requirements for PDS under Part 7.9 of the Act (eg. s1013D(1)(1) require disclosure of:

> "how labour standards or environmental, social or ethical considerations are taken into account in selecting, retaining or realising an investment."

The text of these requirements is set out in Appendix 2.

The requirement could therefore be that:

> "Reporting Entities are required to disclose the framework adopted for their consideration of the interests of stakeholders other than shareholders."

The purpose of this disclosure is to enhance stakeholder's' ability to compare organisations and to deal with organisations that best match any goals they may have regarding these standards or considerations.

In addition we suggest that the ASX Corporate Governance Council be encouraged to include Sustainability Reporting in the ASX Corporate Governance Council's Principles of Good Governance and Best Practice Recommendations so that listed companies who do not issue such reports would explain why they have not done so.

[4] Australian Accounting Standard AASB 3 (Business Combinations) defines a *reporting entity* as:
An entity in respect of which it is *reasonable to expect the existence of users* who rely on the entity's general purpose financial report for information that will be useful to them for making and evaluating decisions about the allocations of resources. A reporting entity can be a single entity or a group comprising a parent and all of its subsidiaries.

5 Alternative mechanisms

1 Aspect of terms of reference

"e) Any alternative mechanisms, including voluntary measures that may enhance consideration of stakeholder interests by incorporated entities and/or their directors."

2 Suggested mechanisms

A sound framework of reporting and assurance in relation to corporate responsibility is fundamental. This does not of itself require legislative change but if developed in a robust way using an open and transparent and recognised body such as the ASX CGC will enhance the transparency and relevance of corporate responsibility reporting and lead to greater consistency in practice in the areas of quality, content, assurance and independence. All of which will further enhance confidence in Australia's capital markets.

KPMG believe that without an appropriate reporting and assurance framework users of information do not have a sound basis for making their decisions and therefore market forces are unable to effectively drive best practice behaviour.

Our suggestions are included in other sections of this submission, for completeness they are listed below.

We suggest that:

(a) the extent to which non-shareholder stakeholder interests drive organisational decisions should not be mandated by legislation;

(b) Reporting Entities be required to publicly disclose their frameworks in relation to having regard for the interests of non-shareholder stakeholders; and

(c) encouragement be given to Reporting Entities to publicly report their performance in dealing with the interests of non-stakeholder shareholders against their frameworks in a clear, transparent and credible manner through:

- encouraging the ASX Corporate Governance Council to include Sustainability Reporting in the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations so that listed companies who do not issue such reports would explain why they have not done so;

- establishing an Australian framework for Sustainability Reporting that is consistent with international equivalents for use by those Reporting Entities who elect to issue Sustainability Reports; and

- establishing an Australian framework for assurance over Sustainability Reporting that is consistent with international equivalents to ensure assurance opinions provided over Sustainability Reports meet minimum acceptable standards.

(d) Sustainability Reports should require the same process for approval and issue internally within Reporting Entities as is required for financial statements.

6 Appropriateness of reporting requirements

1 Aspect of terms of reference

"f) The appropriateness of reporting requirements associated with these issues."

2 Establishing a framework for sustainability reporting

In the same way accounting standards provide the framework for financial reporting, a framework is required for Sustainability Reporting to promote: transparency, completeness and comparability. Without such a framework reporting can be selective to disclose the desired picture.

The most commonly accepted framework for Sustainability Reporting is the Global Reporting Initiative (GRI) which has been supplemented in Australia by:

- "Triple Bottom Line Reporting in Australia" - a guide produced by the Department of Environment & Heritage in 2003; and

- "Sustainability: A Guide to Triple Bottom Line Reporting" - a guide produced by the Group of 100.

The GRI was created in 1997 as a joint effort of the Coalition for Environmentally Responsible Economies (CERES) (a US-based organisation that arose after the Exxon Valdez oil spill) and the United Nations Environment Programme (UNEP). The original focus was on environmental reporting; this was expanded in 1998 to cover social and economic issues. It issued an initial version of its Sustainability Reporting Guidelines in 1999 and revised them in 2002 (GRI 2002). GRI is now an independent organisation, based in Amsterdam.

The GRI describes itself as a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. Its Guidelines are for voluntary use by organisations for reporting on the economic, environmental, and social dimensions of their activities, products, and services.

The GRI began with a focus on environmental reporting but has slowly made progress in the economic and social spheres as well. Its first formal reporting guidelines were released in mid-2000 and have been updated most recently in 2002. They adopt an approach with a number of core indicators which are intended to be used by all organisations, supplemented by additional aspects relevant to particular organisations or sectors. The core indicators cover three areas: economic, social and environmental, with social issues grouped in three clusters: labour, human rights, broader issues. Examples are show below:

Examples of GRI core indicators		
Economic	**Environmental**	**Social**
wages, pensions and other employee benefits	energy, material and water use	diversity, employee health and safety
monies received from customers and paid to suppliers	greenhouse gas and other emissions	child labour
taxes paid and subsidies received	effluents and waste generation	bribery and corruption
	waste reduction	community relations
	fines and penalties	

The guidelines are based on 11 principles which aim to ensure that GRI-based reports provide a balanced and reasonable representation of an organisation's sustainability performance, facilitate comparability and address the issues of concern to stakeholders. The principles, many of which have analogies in financial reporting, are

- transparency of the processes, procedures and assumptions
- inclusiveness of stakeholders
- auditability
- completeness
- relevance: for report users
- sustainability context: organisations should place their performance in the broader context of ecological, social or other issues
- accuracy
- neutrality: reports should provide a balanced account of performance
- comparability to earlier reports as well as with comparable organisations
- clarity and
- timeliness.

The principle of comparability is one of the most difficult to follow, especially in the social arena, because of the shortage of meaningful quantifiable data and the diversity of key issues from company to company. As a result, GRI and other reports often make interesting reading but leave readers struggling to assess a company's performance. Some progress in this area has been made by the so called socially responsible investors and rating agencies which publish a scoring matrix which assigns ratings based on industry sector and a company's own performance.

It is recommended that:

1 A framework be developed for Sustainability Reporting in Australia that is consistent with the GRI but better promotes transparency, completeness and comparability;

2 Sustainability Reports should require the same process for approval and issue as is required for financial statements.

3 Establishing a Sustainability Reporting Assurance Framework

It is in the public interest that Sustainability Reports have credibility. External independent verification of sustainability reports is receiving heightened attention as part of the expanded public discussion on corporate governance, transparency and accountability. The term verification is used here to describe external assurance, audits and reviews of sustainability reports.

GRI encourages the independent assurance of sustainability reports - one approach that a reporting organisation may select to enhance the credibility of its sustainability report. To address stakeholders' concerns about the credibility of reports on economic, environmental, and social performance, GRI recommends that reports include a statement of the reporting organisation's policy and current practice with regard to providing independent assurance about the full report.

The GRI 2002 Guidelines provide guidance to reporting organisations on assurance provision (ie. external verification) and related processes that enhance report quality and credibility (GRI 2002a). The GRI Guidelines give additional guidance on considerations that organisations should clarify with their assurance provider before the assurance process. These include the subject matter of the assurance and the assurance criteria and evidence. Guidance is also provided on the selection of assurance providers and on the content of the assurance statement.

The GRI has progressed with the formation of the Relationship and Harmonisation work stream of the GRI, which will assess the overall compatibility of the GRI with existing assurance standards.

The Australian Survey reported that only 34% of published Sustainability Reports were verified. In addition:

(a) there is a variety of standards under which the reports have been issued including:

- Australian Auditing Standards
- International Auditing Standards
- Standards Australia Guidelines
- A standard produced by a UK-based Institute of Social and Ethical Accountability
- In some cases none are mentioned

(b) there is no generally accepted framework in relation to independence and conflicts of interest of the verifier.

The development of Australian Sustainability Reporting verification guidelines and framework will assist in improving comparability and allowing stakeholders to make better informed decisions in relation to those reports which have been verified.

Accordingly, KPMG recommend that a framework be established for the verification of Sustainability Reports that is consistent with international equivalents.

7 Approaches from other countries

1 Aspect of terms of reference

"g) Whether regulatory, legislative or other policy approaches in other countries could be adopted or adapted for Australia."

2 Reporting standards

Enclosed as Appendix 3 is an extract of the Global Survey providing a summary of the Sustainability Reporting requirements of key countries.

We do not wish to comment on comparative legislative regimes.

Appendix 1 – Information about KPMG

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Basis of submission

Confidentiality as defined by the Terms of Reference not requested subject to footnote 3 on page 4.

Details

KPMG is one of Australia's largest audit, tax and advisory firms operating in 14 offices with 311 partners and 3602 staff. KPMG Australia is an Australian partnership and part of the KPMG International network.

A rapidly developing part of our business is our Sustainability Advisory Services practice which:

- provides assurance on Sustainability Reports
- provides advisory services to companies, producing Sustainability Reports
- assists organisations with the corporate governance aspects of stakeholder consultation and business ethics

Appendix 2 – Corporations Act Section 1013DA Disclosure

Part 7.9 Corporations Act 2001

Section 1013D(1)(l)

Subject to s1013D(1), and also s1013C(2) and 1013F, a PDS must include the following statements, and such of the following information as a person would reasonably require for the purpose of making a decision, as a retail client, whether to acquire the financial product:

> "…if the product has an investment component, the extent to which labour standards or environmental, social or ethical considerations are taken into account in the selection, retention or realisation of the investment…"

Section 1013D(2A)

For the purposes of s1013D(1)(1), products that have an investment component include superannuation products, managed investment products and investment life insurance products.

Section 1013DA

ASIC may develop guidelines that must be compiled with there a PDS makes any claim that labour standards or environmental, social or ethical considerations are taken into account in the selection, retention or realisation of the investment.

Corporations Regulations 2001

Regulation 7.9 14C Labour standards and environmental, social and ethical considerations

For s1013D(4)(c) of the Act, the more detailed information to be included in a PDS about the extent to which labour standards or environmental, social or ethical considerations are taken into account in the selection, retention or realisation of an investment is:

(a) a statement that the product issuer does, or does not, take into account labour standards for the purpose of selecting, retaining or realising the investment; and

(b) a statement that the product issues does, does not, take into account environmental, social or ethical considerations for the purpose of selecting, retaining or realising the investment; and

(c) if the PDS includes a statement that the product issuer does take into account labour standards for the purpose of selecting, retaining or realising the investment - a statement outlining:

(i) the standards that the product issuer considers to be labour standards for that purpose; and

(ii) the extent to which the product issuer takes those standards into account in the section, retention or realisation of the investments; and

(d) if the PDS includes a statement that the product issuer does take into account environmental, social or ethical considerations for the purpose of selecting, retaining or realising the investment - a statement outlining:

(i) the considerations that the product issuer regards as environmental, social or ethical considerations for that purpose; and

(ii) the extent to which the product issuer takes those considerations into account in the selection, retention or realisation of the investment.

Appendix 3 – Comparative sustainability reporting regimes

Mandatory reporting

This is a summary of mandatory requirements in the countries surveyed as identified by the survey team. This may not represent a complete list.

Note:

Additional items that do not directly constitute mandatory sustainability requirements have been included for Australia in the table below (such as the Financial Services Reform Act 2001 and the ASIC Section 1013DA Disclosure Guidelines), to give a fuller picture of what is available in Australia.

Similar standards, codes and guidelines exist in some of the other countries listed below, but these have not necessarily been included. The table should therefore not be interpreted as showing that more regulatory requirements related to sustainability reporting exist in Australia than in other countries, as this is not the case nor intention.

Country / Region	Content
European Union	• The **EU Modernization Directive** (2003/51/EC) requires organizations seeking a stock market listing to disclose risks associated with capital assets and requires financial regulators to assess those risks (in line with Commission Recommendation 2001/453/EC). So far 23 countries have transposed the law to national level. • The application of the **International Accounting Standards (IAS)** at EU level (EC regulation no. 1606/2002) requires organizations to account for changes to asset values stemming from environmental factor if they are financial (eg. trading permits). • Based on article 15 of the **Integrated Pollution Prevention and Control Directive (IPPC)**, (96/16/EC), Member States are required to register emission data from large companies (so called IPPC installations) and report these data to the Commission. Monitored industrial emissions data should be made publicly available.
Australia	• **Corporations Law** (section 299 [1f]) was introduced in 1999 and requires companies that prepare a directors' report to provide details of the entity's performance in relation to environmental regulations. On 1 July, 2004, the Corporate Law Economic Reform Program (Audit Reform & Corporate Disclosure) Bill 2003 **(CLERP 9)**, extended this to the operations and financial position of the entity and its business strategies and prospects (Section 99A[1]). • **Financial Services Reform Act 2001** commenced in March 2002 and requires fund managers and financial product providers to state “the extent to which labour standards or environmental, social or ethical considerations are taken into account in the selection, retention or realization of the investment.”

Country / Region	Content
Australia (continued)	• **National Pollutant Inventory** requires industrial companies to report emissions and inventories for specific substances and fuel to regulatory authorities for inclusion in a public database. www.npi.gov.au • **ASIC Section 1013DA Disclosure Guidelines, Australian Securities and Investments Commission** - guidelines to product issuers for disclosure about labour standards or environmental, social and ethical considerations in Product Disclosure Statements (PDS). The guidelines compliment the Financial Services Reform Act mentioned above. www.asic.gov.au
Belgium	• Article 4.1.8 of **VLAREM II** stipulates that certain companies have to issue an annual environmental report (only applicable for the region of Flanders). • The **Bilan Social** requires organizations' reporting of data on the nature and the evolution of employment (eg. training).
Canada	• The **Securities Commission** requires public companies to report the current and future financial or operational effects of environmental protection requirements in an Annual Information Form. • The **Bank Act** requires banks and other financial institutions with equity of USD 1 billion or more are required to publish an annual statement describing their contributions to the Canadian economy and society.
Denmark	• The **Danish Financial Statements Act** requires reporting on intellectual capital resources and environmental aspects in the management report if it is material to providing a true and fair view of the company's financial position. • The **Green Accounts Act** requires certain listed companies to draw up green accounts and include a statement from the authorities.
Finland	• The **Finnish Accounting Act** requires companies to include material non-financial issues in their directors' report of the annual/financial report and refers to guidelines (Appendix D) for good practice.
France	• **"Law n°2001-420 related to new economic regulations (Art. 116)"** environmental and social reporting is mandatory for publicly-quoted companies. • **"La note de cadrage"** (framework memo) and **"L'étude d'impact"** (impact study). These documents accompany the 2001-420 law and are a kind of guidelines to help companies implement it.

Country / Region	Content
France (continued)	• The **CJDES Bilan Societal** is a tool for internal and external information exchange. By means of a questionnaire, companies can report on their social profile and improve performance.
Germany	• The **Bilanzrechtsreformgesetz (BilReG)** - New law that extends reporting duties of German companies to non-financial performance indicators such as environmental or employee issues.
Italy	No mandatory reporting requirements identified
Japan	• The **Law of promotion of environmentally conscious business activities** requires "specified entities", to publish an environmental report every year. • The **Pollutant Release and Transfer Register (PRTR) Law** concerns reporting of releases to the environment of specific chemical substances and promoting improvements in their management.
Norway	• The Norwegian **Accounting Act** (Regnskapsloven) requires the inclusion in the Directors' Report of several social, environmental and health and safety issues and the implementation of measures that can prevent or reduce negative impacts and trends.
South Africa	No mandatory reporting requirements identified
Spain	• The **'Resolución de 25 de marzo de 2002'** (el Insitituto de Contabilidad y Auditoría de Cuentas) states that organizations are obliged to include environmental assets, provisions, investments and expenses in their financial statements. • In addition, the **National Accounting Plan** for the Electricity Sector specifies environmental issues in more detail.
Sweden	• The (amendment to the) **Annual Accounts Act** (Årsredovisningslagen) states that certain companies have an obligation to include a brief disclosure of environmental and social information in the board of directors' report section of the annual report.
The Netherlands	• The **Environmental Protection Act** includes a section on environmental reporting for the 'largest polluters' of the country. To date, over 250 companies each publish two reports a year: one public report and one governmental report.
United Kingdom	• The **Operating and Financial Review (OFR)** will be a legal requirement for all UK listed companies to provide a narrative within their Annual Report on the company's strategies, performance, future plans and key risks which may include ethical, social, environmental, brand and reputational risks.

Country / Region	Content
United Kingdom (continued)	• The **Combined Code** as part of the Financial Services Authority's listing requirements requires organizations to report on governance and internal controls, which cover, among other things, material non-financial issues.
United States of America	• The **EEO-1 Survey** requires annual filing by the US Equal Employment Opportunity Commission regarding employment records, including the racial and gender profiles of employees. • The **Sarbanes-Oxley Act** imposed several new reporting requirements for US-listed companies to increasing corporate transparency (mainly corporate governance). • The **Securities & Exchange Commission (SEC)** Under Regulation S-K, the SEC requires "appropriate disclosure…as to the material effects that compliance with Federal, State and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, may have upon the capital expenditures, earnings and competitive position of the registrant and its subsidiaries." In addition, disclosure is required for any material estimated capital expenditures for environmental control facilities and for select legal proceedings on environmental matters. For foreign issuers in the United States, Form 20-F requires companies to "describe any environmental issues that may affect the company's utilization of the assets." • The **Toxic Release Inventory (TRI)** tells companies with more than 10 full-time employees to submit data on emissions of specified toxic chemicals to the Environmental Protection Agency. In addition, the Securities and Exchange Commission requires disclosures on legislative compliance, judicial proceedings and liabilities relating to the environment in Form K-10.

Standards codes and guidelines

The main standards and guidelines on corporate management and reporting are outlined in this table as identified by the survey team. This may not represent a complete list.

Note:

Additional items that do not directly constitute sustainability reporting guidelines have been included for Australia in the table below (such as the Australian Minerals Industry Framework for Sustainable Development "Enduring Value", and the Greenhouse Challenge Program), to give a fuller picture of what is available in Australia.

Similar standards, codes and guidelines exist in some of the other countries listed below, but these have not necessarily been included. The table should therefore not be interpreted as showing that more standards and guidelines exist in Australia than other countries, as this is not the case nor intention.

Country / Region	Standards, Codes and Guidelines
Global	• The **AA1000 guidelines** from Accountability provides guidance on how to establish a systematic stakeholder engagement process that generates the indicators, targets and reporting systems needed to ensure its effectiveness in impacting on decisions, activities and overall organizational performance. www.accountability.org.uk • The **Association of Chartered Certified Accountants (ACCA)** publishes a report on their website that gives guidance on how to report on the web. www.accaglobal.com • The **European Chemical Industry Council (CEFIC)** established the **Responsible Care Programme** as a worldwide commitment for chemical industry to improving EHS performance and communication. www.cefic.be • The **Global Reporting Initiative (GRI)** describes itself as a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. Its Guidelines are for voluntary use by organizations for reporting on the economic, environmental, and social dimensions of their activities, products, and services based on reporting principles. www.globalreporting.org • The **International Standards Organisation (ISO)** has developed an extensive range of standards. Among those that are directly related to corporate responsibility are those that refer to quality and the environment through the ISO 9000 and ISO 14000 series. • The guideline **SA8000** of Social Accountability is a uniform, auditable standard for social accountability with a third-party assurance system and is based on the Core Conventions of the International Labour Organization (ILO). www.cepaa.org

Country / Region	Standards, Codes and Guidelines
Global (continued)	• **UN Global Compact** is an initiative that facilitates a network of UN agencies, business, labour, NGOs and governments to promote companies to adhere to ten principles in the areas of human rights, labour, environment, and anti-corruption. www.globalcompact.org • The **Organisation for Economic Co-operation and Development (OECD)** issued non-binding guidelines based on 9 recommendations. www.oecd.org • The **Global Sullivan Principles of Social Responsibility** is a code of conduct to encourage participating companies and organizations working toward the common goals of human rights, social justice and economic opportunity. www.globalsullivanprinciples.org • **CERES** encourages corporate environmental responsibility in a number of ways, from encouraging companies to endorse the CERES Principles, working with endorsing companies, both on meeting their commitment and on environmental reporting through the Global Reporting Initiative, and mobilizing the network in activist projects like the Sustainable Governance Project and the Green Hotel Initiative. CERES also convenes forums for discussion among diverse groups, from the annual CERES conference to industry-specific dialogues. www.ceres.org
Europe	• **EMAS** - The EU Eco-Management and Audit Scheme (EMAS) is a management tool for companies and other organizations to evaluate, report and improve their environmental performance. The scheme has been available for participation by companies since 1995 (Council Regulation (EEC) No 1836/93 of June 29 1993) on a voluntary basis.
Australia	• **Australian Minerals Industry Framework for Sustainable Development "Enduring Value"** - Minerals Council of Australia guidelines for sustainable development requiring a commitment to public sustainability reporting on a annual basis from members, with reporting metrics self-selected from the Global Reporting Initiative (GRI) Mining and Metals Sector Supplement or self-developed. A commitment to independent verification of reports is also required. www.minerals.org.au • **Triple Bottom Line Reporting in Australia** – A guide to reporting against environmental indicators, Department of Environment and Heritage – All companies, guideline for company reporting on environmental performance, consistent with the Guidelines of the Global Reporting Initiative (GRI). www.deh.gov.au • **Greenhouse Challenge Program** - Industry members commit to preparing emissions inventories and forecasts, identifying and undertaking abatement plans and reporting progress against the action plan annually. They also agree to their progress being subject to independent verification where appropriate.

Country / Region	Standards, Codes and Guidelines
Belgium	• No standards, codes and guidelines identified
Canada	• No standards, codes and guidelines identified
Denmark	• **New guideline for Intellectual Capital Statements** is a key to knowledge management. www.videnskabsministeriet.dk • The **Social-ethical Accounts** is a guideline for private and public companies that wish to draw up a report on their social and ethical initiatives. www.bm.dk • The **Etikbasen / CSR Scorecard 2002** is a public database on the internet where companies can report on their CSR initiatives and performance. www.csr-scorecard.org • The **Social Index** is a tool for measuring a company's degree of social responsibility on a score from 0 to 100. It requires external verification and certification to use the Social Index for external reporting. www.detsocialeindeks.dk
Finland	• The **Finnish Accounting Standards Board (FASB)** issues guidelines that deal with the disclosure of environmental expenditures and environmental liabilities as a part of the legally required financial accounts to the extent that the environmental information may have material consequences on the financial position of the company.
France	• No standards, codes and guidelines identified
Germany	• No standards, codes and guidelines identified
Italy	• The **Study Group for Social Reporting (GBS)** provides organizations with social reporting standards. www.gruppobilanciosociale.org • The **Associazione Bancaria Italiana/IBS (ABI)** has guidelines for social reporting in the financial sector. www.abi.it • The **CSR-SC** project allows organizations to voluntarily participate and adopt a 'social statement' according to pre-defined guidelines and a set of indicators. www.welfare.gov.it
Japan	• **Environmental Reporting Guidelines** are issued by the Ministry of the Environment. www.env.go.jp • **Environmental Performance Indicators Guidelines for business** issued by the Ministry of the Environment. www.env.go.jp

Country / Region	Standards, Codes and Guidelines
Norway	• The **Næringslivets Hovedorganisasjon (NHO)** has recommendations from the Employers' organization, based on existing guidelines and standards. www.nho.no
South Africa	• The **King II Code on Corporate Governance 2002** is a non-legislated code on good corporate governance. It includes a comprehensive section on integrated sustainability reporting. www.iodsa.co.za
South Africa (continued)	• The launch of the Johannesburg **Securities Exchange Socially Responsible Index** requires companies in the FTSE/JSE All Share Index that choose to participate to report publicly on sustainability related issues. www.jse.co.za/sri
Spain	• No standards, codes and guidelines identified
Sweden	• The **Swedish Accounting Standards Board** (Bokföringsnämnden) provides guidelines on environmental information in the Directors' report section of the annual report (BFN U 98:2). www.bfn.se
The Netherlands	• The **Assurance Standards Committee (RJ)** provides guidelines for the integration of social and environmental activities in the financial reporting of companies. Furthermore, the RJ provided a framework for the publication of a separate report on these activities.
United Kingdom	• The **Department for Environmental, Food & Rural Affairs (DEFRA)** published general guidelines for environmental reporting on greenhouse gas emissions, on waste and on water. www.defra.gov.uk/environment/envrp/guidelines.htm • The **Public Environmental Reporting Initiative (PERI)** provides a tool for organizations to produce a balanced perspective on their environmental policies, practices and performance.
United States of America	• No standards, codes and guidelines identified