Sustainability Reporting Guidelines

Mapping & Gap Analyses for

Shanghai Stock Exchange

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In Partnership with CIDA

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Executive Summary

Worldwide upward trend in sustainability reporting

In recent years the number of companies releasing sustainability reports has continued to increase on a global level as well as in China specifically. According to KPMG, in 2008, 79% of global 250 companies published sustainability reports [1]. In China, the number of sustainability reports reached over 700 in 2010.[2]

There is a widely established expectation that companies wanting to obtain a leadership position and become competitive in the global marketplace need to effectively manage their environmental and social performance, disclosing challenges and achievements in a sustainability report. Moreover, corporate product and service innovation should aim to contribute to society's well-being. Studies show that in China, however, most companies release sustainability reports for reasons of reputation and development of government relationships, not fully taking advantage of opportunities for risk management and investor relations.

Improved report quality is required to meet stakeholder demands

There is general agreement that the quality of sustainability reports released in China needs further improvement. Stakeholders feel that current report content does not meet their needs, as many companies lack in provision of fairly balanced and material information.

On a global level, early demands for sustainability reporting came largely from civil society and special interest groups. A number of governments and regulators have subsequently developed sustainability reporting guidelines and are the key forces driving the development of sustainability reporting as a matter of corporate responsibility and good governance.

More recently, mainstream investors have begun to take note of the tangible impact of sustainability on the bottom line and are seeing potential to include environmental and social assessments in their investment analysis. A 2009 study by IFC and BSR also found that a small number of market pioneers and innovators in different segments of the Chinese capital market have started to explore ways to integrate ESG (i.e. environmental social and governance issues) factors into their investments.[3]There are still significant gaps, however, in terms of **material**, **comparable** and **credible** information on company performance for investors to be able to make informed decisions about current and future performance. It is therefore unsurprising that

[1] KPMG (2008), *International Survey of Corporate Responsibility Reporting*,
[2] Statistics by China Sustainability Report Resources Center, http://www.sustainabilityreport.cn/
[3] IFC (2009), *Sustainable Investment in China*

sustainability reporting guidelines still vary a great deal in terms of purpose, principles, focus on topics, and specific indicators, if any.

This study aims to support the Shanghai Stock Exchange (SSE) to develop a more comprehensive guideline

For this reason, IFC, the private sector investing arm of the World Bank Group, has collaborated with the Shanghai Stock Exchange (SSE) to investigate current best practice in international and Chinese sustainability reporting practices, and ultimately to develop a more comprehensive reporting guideline for listed companies. As the first step, IFC and the SSE contracted SynTao, a knowledge leader on sustainability reporting in China, to undertake a mapping and gap analyzing study.

The study included a wide literature review and interviews with a selection of key stakeholders. A general comparison was undertaken of the characteristics of 25 existing international and national frameworks related to corporate disclosure. In addition, four sample guidelines were selected for more detailed benchmarking analyses: GRI G3 Guideline, CSR-GATEs, CASS-CSR, and Singapore Exchange Guide to Sustainability Reporting. The comparisons covered main components of these frameworks, including purpose statement, guideline structure, reporting principles, and indicators. The scope of the study did not include a detailed analysis of indicators as this is still a very wide and complex field of discussion that requires a more structured and consultative approach.

Common elements for a reporting guideline are identified

A normal reporting guideline includes two parts. The first part is the general guidance and the second part is the indicator system.

General guidance explains how to prepare a sustainability report and how to use the reporting guideline. There are some substantial elements:

- Purpose of the reporting guideline and values of corporate sustainability reporting
- Overall framework of the reporting guideline
- Principles of making a sustainability report (at least two sets of principles: one for defining reporting content and another for assuring information quality)
- Reporting scope and boundary

Indicator systems often follow a triple bottom line approach (i.e. economic, environmental and social issues), though some investors may prefer using an ESG framework (i.e. environmental social and governance issues).

Within a typical triple-bottom-line framework, key performance indicators include:

- Economic issues: direct economic impact; indirect economic impact;
- Environmental issues: energy, water, waste, emissions, legal compliance;
- Social issues: recruitment, workers' rights, health and safety, training and education, non-discrimination, child labor, bribery, and community investment.

Ideally, on each issue, companies should report on their strategy, management procedure and performance. Some companies are now starting to extend this to impact disclosure.

Recommendations for SSE to further improve its Directive

Stock Exchanges are increasingly stepping in to help address the need for improved dialogue between investors and listed companies on the topic of sustainability. The Johannesburg Stock Exchange in South Africa now requires that listed companies prepare an integrated annual report, which includes coverage of sustainability performance. The U.S. Securities and Exchange Commission issued guidelines in 2010 requiring companies to weigh the impact of climate-change laws and regulations when assessing what information to include in corporate filings.

The Shanghai Stock Exchange (SSE) has followed this trend by becoming one of the first stock exchanges to issue a directive for companies to publish a sustainability report. Understandably, SSE has adopted a cautious approach by not being overly prescriptive about what companies should report. This approach has been successful in helping to generate an overwhelming response by Chinese companies to produce their first sustainability reports.

Publishing a first sustainability report can be resource intensive for a company, but, if internal capacity is built, the process can become much less costly in subsequent years. The current guideline is therefore a good starting point.

Nevertheless, this study finds that existing frameworks provide guidance that is either too vague or too broad when it comes to the issues that companies should cover, and that they too often still allow companies to tell a good story without providing rigorous and verified data on performance.

A forward-thinking framework for sustainability reporting could therefore greatly assist Chinese companies to move more rapidly towards sustainable practices that generate value for their business as well as for stakeholders. It could also provide a platform for proactive engagement between companies and investors.

The gap-analysis between the SSE Directive on CSR Reporting and the four best-practice examples in this study provide suggestions for further improvement. The short-term focus should be to standardize the SSE Directive and to enrich the document with more information about potential indicators that companies can report on. Recommendations for SSE are listed below:

- Priority should be given to certain performance indicators. SSE can comprehensively or gradually prioritize certain indicators over others, thereby strengthening the guideline over time. Some suggested indicators are: energy consumption, GHG emission, solid waste and water pollutants, occupational health & safety and product safety.

- SSE will benefit by consulting with key stakeholders when drafting the guideline. Concerns of key stakeholder groups, especially government and regulators, investors, the media and NGOs, should be considered. By this means, the guideline can be in line with government policy and the interest of mainstream investors.

- SSE may consider developing specific guidelines for pilot sectors. Some sectors, such as heavy polluting sectors and the financial sector, which are highly impacted by environmental and social factors, can have sector specific guidelines.

- SSE may consider developing a specific guideline for pilot issues. Some issues are critical for China at the current development stage. A specific guideline focusing on the energy (carbon) issue, water, or food safety would be highly supported by government and be attractive to investors. It is highly recommended to consider the carbon issue. IFC's Carbon Efficiency Index and Carbon Disclosure Project may provide valuable experiences to SSE.

- Third party audits are emerging as an invaluable component in the sustainability reporting process. An independent audit contributes to credibility of the final report; but more importantly, can help to guide companies towards particular improvements. SSE may consider recommending or requiring that companies include a third party audit of the sustainability report.

- Integrated reporting is a new trend. In future, financial reporting and sustainability reporting may become more integrated, leading to the publication of one single annual corporate report. It would be good if SSE can consider this trend when developing the new sustainability guideline.

- SSE should take measures to encourage the use of the guideline. Possible measures are: training, seminars, grading scheme of application disclosure level, mandatory third party audits, and recognition of key stakeholders.

Importantly, best practice reporting and performance frameworks, as shown by this study, emphasize **corporate strategy** and **systems for managing risks, impacts and opportunities of sustainability**. Greater disclosure about these aspects will enable stakeholders to engage with the company and create shared value, while also contributing to overall improved management and business performance.

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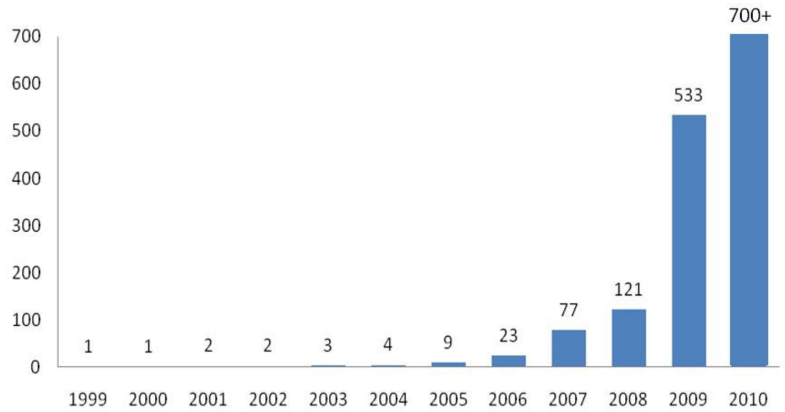
1. Background

1.1. Trends in sustainability reporting in China

Since 2006, sustainability reporting has experienced rapid growth in China. This trend reached a record high in 2010, when Chinese companies released over 700 sustainability reports. Listed companies were responsible for the release of more than three quarters of these reports, of which over 34% was published by companies listed on the Shanghai Stock Exchange (SSE). The number of sustainability reports[4] is expected to maintain its rapid growth in the next few years.

FIGURE 1 NUMBER OF CSR REPORTS IN CHINA



Source: SynTao & China Sustainability Report Resources Center[5]

1.2. Quality analysis of current sustainability reports

A sustainability report is of value to both an issuing company and society. For a company, it may strengthen the development of responsible strategy, management and performance, and reveal operational business risks and opportunities. SynTao's annual study "A Journey to

[4] Sustainability report, also known as corporate citizenship report, corporate social responsibility report, corporate environmental report, etc., will be hereinafter referred as sustainability report.

[5] China Sustainability Report Resources Center: http://www.sustainabilityreport.cn/

Discover Values" includes specific research results in the field of sustainability reporting in China, providing an assessment of the quality of these reports.

Although the number of sustainability reports in China has dramatically increased in recent years, the quality of these reports still requires great improvements. According to research carried out by SynTao in 2010 (based on a newly developed Chinese reporting assessment system), corporate reports in China do not provide sufficient information about either sustainability management or sustainability performance. In addition, the quality of information disclosed by companies is often weaker than the actual number of significant sustainability topics (e.g. carbon, water, occupational health & safety, product safety) discussed in a report.

The SynTao study also shows that the credibility and readability of sustainability reports are not good enough. As a result, corporate reporting in China has not helped reporting companies “discover value" and "improve management practices". The main sustainability reporting challenges in China can be summarized into the following three categories:

- **Lack of fairly balanced information disclosure**
  Most information disclosed in sustainability reports discusses positive achievements regarding the company’s economic, environmental and social performance, such as, for instance, nominations for sustainability awards. Few companies offer full disclosure on achievements and failures regarding, for instance, whether they have met water and carbon efficiency targets. In particular, disclosure of information about corporate violation of law and regulation requires immediate improvement.

- **Lack of quantitative information**
  Quantitative data provides credibility to a narrative style of sustainability reporting, as it provides a story with essential facts, such as, for example, statistics on customer satisfaction, greenhouse gas emissions, collective contracts etc. According to the SynTao study "A Journey to Discover Values", many reports resort to storytelling, supported by pictures, to showcase the company’s sustainability performance, instead of disclosing accurate data and allowing readers themselves to create an impression of the company’s sustainability performance. As long as most information in reports is rather qualitative than quantitative, it will not be possible to evaluate companies on yearly sustainability progress, to benchmark corporate performance against competitors, or to produce industry overviews. In addition, data sets currently being disclosed often possess major flaws. For example data may not be consistent as it lacks reference to statistical standards, and sufficient explanation regarding data collection methodologies may be missing.

- **Lack of information about corporate sustainability strategy**

> In sustainability reports, full disclosure of an analysis of corporate sustainability risks and opportunities is often inadequate. Most companies focus on the economic or operational aspects of implementing sustainability practices, such as the impact of the financial crisis on business growth. Few companies provide a detailed account of a comprehensive ESG (Environmental, social and governance) analysis. Most stakeholders, especially investors, are interested to learn more about a company's sustainable management design.

There are many factors contributing to poor report quality. A lack of awareness of the business value of sustainability reporting is one of them. Another important reason is that most companies do not know which resources to utilize to increase knowledge and expertise about sustainability reporting:

First, there is no standardized domestic guideline on sustainability reporting in China that can be used by companies as reference material for adopting a sustainability reporting process. Globally accepted guidelines are still not entirely suitable for Chinese companies.

Secondly, lack of knowledge in specialized areas about environmental and social issues may add further confusion to the lack of understanding about ESG-related- disclosure, especially when quantifying environmental or social impacts.

Thirdly, high-quality disclosure of quantitative information requires the implementation of cyclical and extensive data collection and management systems. Since many Chinese companies are still struggling to build a modern business and do not have much experience with ESG data collection processes, many companies require a relatively long period of time to adopt data collection systems.

The problems mentioned above should be taken into account by SSE when developing a sustainability reporting guideline for listed companies. SSE's eventual approach to sustainability reporting will benefit from a thorough examination of existing sustainability guidelines first.

1.3. Reasons to release a sustainability report

Studies indicate that there are a variety of reasons for companies to release a sustainability report. Often-heard factors are promotion of corporate image, enhancement of external communications, encouragement of corporate social responsibility (CSR) performance, attracting investor interest, improving risk management, recruitment of staff, and stimulating corporate innovation. According to research conducted by KPMG[6], ethical and economic concerns are the main reasons for large companies to release a sustainability report, closely

[6] KPMG, International Survey of Corporate Responsibility Reporting 2008

followed by reputation and brand management, innovation and research, and increased employee satisfaction.

Chinese companies tend to focus especially on the positive impact of a sustainability report: reputation and brand management, supplier and government relationships, and cost management. The positive effect of a report on risk management or investor relations appears to be underestimated.

The SynTao study “A Journey to Discover Values” disclosed that the main reason for Chinese companies to write and release a sustainability report is to be in line with central government policies. Therefore, in China the impetus from government and supervision departments is crucial. For example, the China Stock Supervisory Committee (CSRC) requests listed companies to improve their understanding of CSR, to act on social responsibilities and to start releasing sustainability reports. Stock exchanges both in Shanghai and Shenzhen require listed companies to fulfill corporate responsibilities. The Shanghai Stock Exchange released a “CSR report writing guideline” and formulated a “sustainability report examining manuscript” for company boards. These policies and measurements have a significant impact on the development and acceptance of corporate sustainability disclosure.

1.4. Readers of sustainability reports

Company stakeholders are a sustainability report’s key audiences. They may include government, shareholders, employees, customers, local communities, and potential investors. Most companies perceive a sustainability report as an active tool to improve stakeholder communications. However, it is questioned whether and how extensively stakeholders make use of these company reports. In many cases, readers have stated concerns about the credibility of corporate disclosure if it only features good news stories and lacks reliable and comparable data.

The Global Reporting Initiative (GRI) commissioned a survey questioning over 5,000 readers and writers of sustainability reports globally between late 2009 and early 2010. The study “Readers and Reporters Survey 2010”, conducted by the international think tank SustainAbility together with Futerra and KPMG, found that many readers see reporting as a valuable tool for business decision-making. More than half of surveyed readers stated they use sustainability reports as a basis for company evaluations regarding products and services and making investment decisions. Around 40% of readers claimed that these reports have positively impacted their behavior as consumers.

The survey found that readers want to see robust data, showing performance over time, and a clear link between sustainability and business strategy. Report readers gave the following top three reasons for companies to produce a sustainability report:

- Improves internal processes to enhance sustainability performance
- Shows accountability for sustainability performance and activities
- Demonstrates management of sustainability performance

For Chinese companies, the most influential stakeholder groups are likely to be government, investors, media and NGOs:

- **Government**

The Chinese government is keen to promote sustainable development at a corporate level. In October 2010, a government document about the next Five Year Plan emphasized that China has to restructure its economy and adopt a more resource efficient and environmentally friendly model. The central government is highly concerned about issues relating to climate change and high carbon emissions, resulting in policies that are expected to have a great impact on further development and acceptance of corporate sustainability practices.

The central government is encouraging state-owned enterprises to fulfill social responsibilities and realize sustainable development. A document released by the State-owned Asset Supervisory Administrative Commission (SASAC) in 2008 urges all central-level state-owned enterprises to focus sustainability management on the following eight issues: legal compliance and integrity, sustainable profitability, product and service quality, resource efficiency and environmental protection, technology innovation, workforce safety, workers' rights, and social welfare.

Another trend is characterized by the Chinese government's use of an economic, particularly financial institutional, approach to drive corporate sustainability development. An example of such an incentive is the Green Credit Policy, jointly launched by the Ministry of Environmental Protection, People's Bank of China, and China Banking Regulatory Commission in 2007. These types of policies promote sustainable development at a corporate level as they require commercial banks to evaluate clients' environmental risks before providing credit, thereby increasing costs for heavy polluting companies as they no longer qualify for certain bank loans.

- **Investors**

Mainstream investors have recently shown a growing interest in corporate sustainability issues. According to literature research and interviews carried out for this study, many investors have started reading sustainability reports as they aim to expand their focus to corporate non-financial issues, though different types of investors show interest in different types of issues and data. Mainstream investors generally focus on performance indicators related to long-term corporate strategy, such as product quality, customer satisfaction, market share and explanations of future business scenarios, etc. Other investors, such as funds with a socially responsible investing (SRI) focus, might have a stronger interest in clear-cut sustainability data on, for instance, labor practices and environmental performance.

Many institutional investors have declared that information presented in current sustainability reports is often of a too low quality. Interviewees explained that they especially regret the lack of quantitative and fairly balanced information disclosure. Many emphasized that disclosure on a fixed number of key performance indicators (KPIs) is critical for the future credibility of sustainability reporting. Companies should address material indicators by providing full disclosure of corporate performance results (positive and negative outcomes), including sufficient data sets, and reflecting the characteristics of the sector and company culture. Also, companies should improve their reliability, and appropriately respond to questions and remarks from the public.

In China, sustainable and responsible investment activity is still in a preliminary stage. Many investors focus on short-term returns. According to a 2009 report released by BSR and commissioned by IFC, "Sustainable Investment in China", investors show some interest in responsible investment but often complain there is not yet sufficient information available that allows them to make informed investment decisions. Most fund managers assess long-term corporate potential based on disclosure relating to corporate governance and legal compliance arrangements. However, BSR's report predicts that in the near future, when insurance companies and pension funds have properly entered the capital market, more investors will start focusing on long-term values and responsible investment will be experiencing fast growth in China. For now, sustainability reports already highlighting corporate governance arrangements may encourage investors to extend their focus to other non-financially related issues.

To date, the most extensive investor framework for assessing sustainability in the private sector is the IFC Sustainability Policy and Performance Standards. IFC's Framework has grown beyond application to IFC investments and has become a key reference for more than 60 financial institutions around the world that have signed up to the Equator Principles[7].

IFC's Sustainability Framework is implemented in conjunction with the comprehensive World Bank Group Environmental, Health and Safety (EHS) Guidelines. The framework focuses on company management systems and compliance with a wide range of performance criteria depending on material risks identified at a project and company level.[8]

IFC and the Global Reporting Initiative (GRI) published a Good Practice Note in 2010, entitled "Getting More Value out of Sustainability Reporting", which explains how

[7] See: http://www.equator-principles.com/.
[8] See http://www.ifc.org/ifcext/sustainability.nsf/Content/EnvSocStandards

companies can use the sustainability reporting process to improve their sustainability management systems and be in a better position to respond to the information needs of investors such as IFC.

- **Media, NGOs and public**

Media and NGOs can be important company stakeholders because they closely monitor corporate social and environmental performance and may pressure companies to increase performance accordingly. Based on the expert-interview results, media and NGOs show a keen interest in corporate sustainability reports, although this interest is slowly waning as disclosed information is not always useful.

Interviewees for SynTao's research "A Journey to Discover Value" have said that existing sustainability reports focus too much on format rather than content. Most reports discuss corporate achievements and fail to provide a fair representation of the company's actual sustainability performance (including both positive and negative performance results). Few companies explain in a report how to improve poor sustainability performance or how to manage challenging issues such as industrial waste and pollution. In particular, NGOs express a strong desire to receive more information about how companies manage operational risks (avoid accidents). Media interviewees expressed the hope that companies will increasingly take notice of and respond to concerns expressed by media, NGOs and the public.

Public awareness about CSR and corporate sustainability issues is increasing among stakeholders. Many are especially concerned about the impact of companies highly involved in people's daily life (business to consumer industries). The table below includes two top ten lists of CSR issues in China, either ranked by the general public or by CSR experts. The list might help companies to decide which sustainability topics should be included for discussion in their report.

TABLE 1 TOP 10 CSR ISSUES IN CHINA[9]

	Ranked by public		Ranked by experts
1	Water	**1**	Integrity and compliance
2	Pollutants, especially air and waste	**2**	Job creation
3	Food safety	**3**	Climate change
4	Farmland degradation and food security	**4**	Energy use
5	Real estate prices	**5**	Production and food safety

[9] Source: CASS, China CSR Benchmarking Survey 2010

6	Energy shortages	**6**	Technology innovation
7	Migrant workers	**7**	Employee career development
8	Climate change	**8**	Corporate responsibility overseas
9	Forest reduction	**9**	Charity
10	Occupational health & safety	**10**	Rational understanding and growth of CSR

2. Objectives

The Shanghai Stock Exchange (SSE) requested IFC's assistance to develop a guideline for sustainability reporting. The guideline will assist Chinese listed companies to comply with SSE's requirements to report on environmental and social issues. The guideline should take note of global best practice while being responsive to the realities of the Chinese context. The SSE guideline has potential to support the sustainable development goals of the Chinese central government.

IFC and SSE, with support from the Government of Canada, commissioned SynTao to undertake a study of existing good practice among sustainability reporting guidelines. More specifically, this project identified the following objectives:

- Perform a mapping study of global best practices of sustainability reporting guidelines focusing on company management systems and disclosure to stakeholders;

- Identify material, useful and practical elements of existing and evolving international standards as well as existing national standards;

- Analyze the gap in sustainability guidelines between China and the world, as well as the gap between SSE and other international stock exchanges;

- Propose recommendations on how China and SSE can close the sustainability reporting guideline gap with recognized good practice by creating a new reporting guideline relevant within a Chinese context;

- Propose recommendations on how SSE can develop a high quality and practical sustainability reporting guideline, including opportunities to build the capacity of Chinese listed companies.

The scope of this study did not extend to in-depth analysis of performance indicators most relevant to a Chinese reporting framework, though several examples of frequently used performance indicators are discussed in this study. Based on identification of most material sustainability issues for Chinese companies, further work can be done to identify the most widely used and applicable performance indicators for the purpose of SSE's new sustainability guideline.

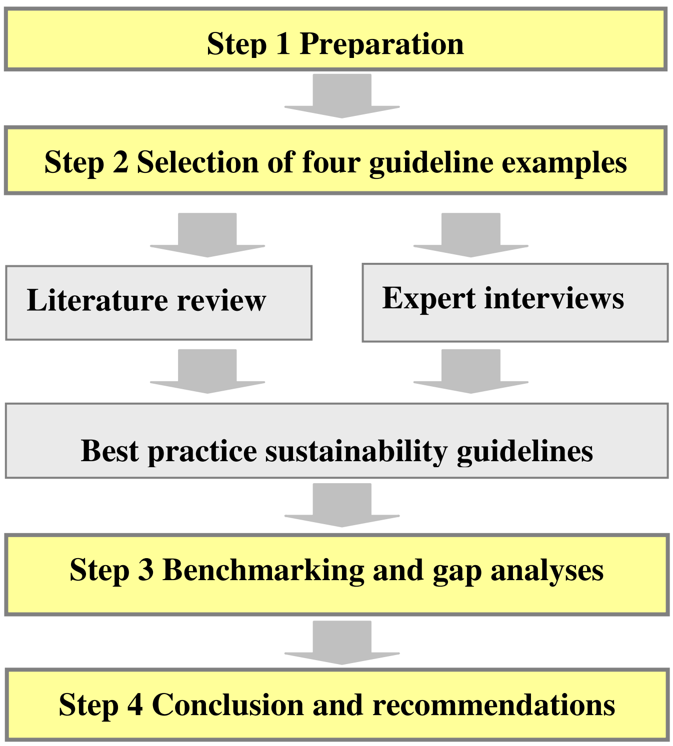
3. Methodologies

The research project carried out by SynTao focused on two aspects: (1) selection and analyses of examples of sustainability reporting guidelines to make sure best practice is considered by SSE when drafting a new guideline; and (2) benchmarking analyses of the gap in sustainability reporting guidelines to improve the understanding of the differences between China and the world as well as between SSE and other stock exchanges.

This study utilized research methodologies such as literature reviews, expert interviews, benchmarking analyses, gap analyses and case studies. Literature research included several recent reports by, among others, the Global Reporting Initiative (GRI), IFC, KPMG, UNCTAD, etc. News articles by media organizations were also included in the literature sample.

For this study, more than 10 experts were interviewed about their views on sustainability reporting. The experts included representatives from investment management firms, service providers, listed companies and NGOs.

FIGURE 2 RESEARCH METHODOLOGY



4. Overview of sustainability reporting guidelines

4.1. Overseas sustainability reporting guidelines

An increasing number of governments are issuing requirements for sustainability reporting

Many different institutions are releasing sustainability reporting guidelines. Some of them are issued by international organizations such as the Global Reporting Initiative (GRI) or business associations such as IPIECA (the global oil and gas industry association for environmental and social issues).

Increasingly, various governments are also releasing requirements for companies to produce sustainability reports, either by using the GRI G3 guidelines or by issuing specific national guidelines. In practice, GRI's guidelines are the world's most widely used sustainability reporting framework.[10]

Developed countries in Europe appear to be leading the pack as the governments of the United Kingdom, Denmark, Sweden, Norway, and the Netherlands have released domestic sustainability reporting requirements. Japan's Ministry of Environment has also issued an environmental reporting guideline.

Furthermore, reporting guidelines are tending to shift from a voluntary approach to a mandatory approach. In 2010, the U.S. Securities and Exchange Commission issued guidelines requiring companies to weigh the impact of climate change law and regulation when deciding what information to include in corporate filings. South Africa recently issued a discussion paper on integrated reporting – outlining an approach for combining annual reporting and sustainability reporting processes and outputs – in order to address new requirements as part of the King Code of Corporate Governance Principles for South Africa 2009 (King III).

Some countries require companies to abide by the "comply or explain" principle: release a sustainability report and if you cannot, explain why. The principle grants companies some flexibility in releasing sustainability reports, while still allowing the accountability requirement to remain intact.

The International Integrated Reporting Committee (IIRC) was established in July 2010 to further explore possibilities for integrated reporting, aiming to combine corporate financial and sustainability reporting in one report. The IIRC plans to issue an international discussion paper in late 2011, making use of the current South Africa sustainability guidelines as a leading

[10] According to KPMG, 79% of the Global 250 reporting companies are using G3 for sustainability reporting purposes.

example, and include integrated reporting on the agenda of the G20 meeting in November 2011. Since 2010, the Johannesburg Stock Exchange requires listed companies to release integrated reports according to the King III code.

Stock exchanges have become more active in encouraging corporate sustainability reporting in recent years[11]

The most famous stock exchanges to stimulate sustainability reporting are Dow Jones Sustainability Indexes (DJSI) and FTSE4Good Global Index. Sustainability indexes have also been established by the Johannesburg Stock Exchange in South Africa, the Bovespa Stock Exchange in Brazil, and the Shanghai Stock Exchange in China. It is worth noting that some financial services firms are proceeding to compile specific CSR indices based on stock exchanges' sustainability indexes. As such, sustainability indexes encourage companies to improve their sustainability disclosure practices.

Most guidelines are still descriptive by nature and do not focus on performance indicators

To a large extent, existing sustainability reporting guidelines remain descriptive in style and set out a general reporting framework together with some reporting principles. Some of the guidelines provide a clear set of sustainability topics that companies should report on, including a definition of detailed performance indicators. Both types of guidance have their advantages, but the latter has proven to be of more practical value to companies aiming to release their first sustainability report.

Few sustainability guidelines combine a descriptive statement with specific performance indicators. Guidelines that include this combination are for instance the GRI G3 guidelines and the IPIECA oil and gas industry guidance on voluntary sustainability reporting.

TABLE 2: OVERSEAS GUIDELINES

Category	Guideline	Descriptive	Performance Indicators
International	GRI G3	√	√
	AA1000 Assurance Standard	√	
	ISO26000	√	
	COP of the United Nations Global Compact	√	
	Carbon Disclosure Project	√	√
Regional or	Triple Bottom Line Reporting (Australia)	√	

11 Annexes provide more information of how other stock exchanges are doing.

country-wide	Social reporting guideline (Italy)	√	
	Environmental reporting guidelines (Japan)	√	√
	Sustainability reporting guideline (Netherlands)	√	
	King Report and Code of Governance (South Africa)	√	
	Sustainability management report guidelines (Korea)	√	
	Environmental reporting guidelines (Korea)	√	
	Guidelines on environmental information in the Directors' Report section of the Annual Report (Sweden)	√	
	Guidelines for external reporting by state-owned companies (Sweden)	√	
	Environmental Reporting Guideline (UK)	√	
	Sustainability Report (Portugal)	√	
	Financial Statements Act requires CSR disclosure for large businesses (Denmark)	√	
	Aneel Guidelines for Annual Sustainability Report (Brazil)	√	
	Guide for Preparing Sustainability Reports (Chile)	√	
Exchange	Singapore Stock Exchange (Singapore)	√	
	US SEC Regulation S-K	√	
	London Stock Exchange (United Kingdom)	√	
	BVG Exchange	√	
Association	IPIECA[12]	√	√
	The Equator Principles	√	

4.2. Domestic sustainability reporting guidelines

Governments and regulators are driving sustainability reporting development in China. Most organizations involved in the development of sustainability reporting guidelines have a government-related background.

[12] Please note that there has been an interesting shift in IPIECA's approach during the last revision. They have moved to a more GRI-like approach with a focus on principles, strategy, managements systems, together with two categories of indicators (common and supplemental)

Sustainability guidelines were initially mostly descriptive in style and are now becoming more performance indicator based. New guidelines such as CSR-GATEs and CASS-CSR clearly define various indicators.

Most domestic sustainability guidelines feature local characteristics while also being in line with international guidelines, they often refer to the GRI G3 guidelines.

TABLE 3: DOMESTIC GUIDELINES

Category	Guideline	Descriptive	Performance Indicators
Government	SASAC Guideline on State-Owned Enterprises	√	
	MEP: Guideline on corporate environmental reporting		√
	MEP: Environmental information disclosure for listed companies	√	√
Academy	CASS-CSR	√	√
	TNC Research Center: Responsible reporting guideline for Chinese enterprise	√	√
Exchange	SSE Directive on Environmental Disclosure	√	
	SSE Directive on CSR Reporting	√	
	SZSE Directive on CSR Reporting	√	
Association	CSR-GATEs	√	√
	CSR guideline of China Federation of industrial economics	√	√
	CBRC CSR Guideline on Chinese banking sector	√	

5. Sustainability guidelines benchmarking analysis

5.1. Selection of sample sustainability guidelines

In this study, general consideration was given to a wide variety of different sustainability reporting frameworks as shown in Tables 1 and 2. Four sample guidelines are selected for detailed comparison analyses in this report:

- **GRI G3 by The Global Reporting Initiative (GRI)**

  The GRI was founded in 1997 and aims to encourage organizations to improve environmental, social and economic disclosure through sustainability reporting guidelines. The G3 was launched in 2006 and is used by companies worldwide. Several large Chinese companies, such as China Mobile, PetroChina, have adopted the G3 guidelines. In March 2011, GRI launched an update of the G3 guidelines, the G3.1.

- **CSR-GATEs by China National Textile and Apparel Council**

  CSR-GATEs was launched in June 2008 aiming to guide Chinese textile companies in the development of their CSR reports. The guideline is based on existing laws and regulations in China as well as on the GRI G3 guidelines. CSR-GATE comprises 201 performance indicators covering business operations, CSR strategy, CSR management, CSR performance and development context.

- **CASS-CSR by China Academy for Social Sciences**

  CASS-CSR was launched in December 2009 and includes a general guideline and 37 sector-specific guidelines. The document recommends organizations to adopt a sustainability reporting structure including the following six chapters: foreword, responsible management, market performance, social performance, environmental performance and closing remark.

- **SGX Guideline by Singapore Stock Exchange**

  This sustainability guideline was launched in August 2010 and particularly encourages high-environmental-impact companies and companies with close connections to consumer interests to publish sustainability reports in a timely manner. This guideline does not provide many technical details and requirements on reporting, it recommends companies to refer to the GRI G3 guidelines. The guideline is still included in this study as it is one of the few extensive guidelines released by a stock exchange.

5.2. Overall benchmarking exercise

5.2.1. Purpose statement

Sustainability reporting guidelines usually describe the purpose of sustainability reporting and they are widely recognized for improving the quality of sustainability reports. Some guidelines also mention the value of sustainability reporting for improvements in overall corporate management practices.

TABLE 4: BENCHMARKING PURPOSE STATEMENT

G3	To provide a common framework to disclose economic, environmental and social performance To evaluate and improve organizational performance through reporting
GATEs	To write a high quality report targeted at a wide variety of stakeholder audiences, evaluate and forecast corporate responsible performance To improve corporate responsible management systems
CASS	To provide a fundamental framework for reporting To use reporting as an external communications tool and an internal management tool
SGX	To answer frequently asked questions by listed companies on reporting To help listed companies to improve corporate governance arrangements and stakeholder communications

5.2.2. Guideline composition

A comprehensive sustainability guideline consists of three parts: reporting principles, a reporting framework, and performance indicators plus protocols. Some guidelines also provide further background information about the benefits of sustainability reporting for an organization or the procedures involved in report writing practices.

TABLE 5: BENCHMARKING GUIDELINE COMPOSITION

G3	Principles and guidance Standard disclosures Performance indicators Indicator protocols (definitions and methodologies)

	Sector supplements (e.g. Electric utilities, financial services, food processing, mining and metals, NGO)
GATEs	Indicator definitions Guideline manual Indicator system
CASS	Reporting principles Reporting boundary General introduction Reporting process General indicator system Sector supplement indicators
SGX	Purpose of the guide Why should listed companies report? Who should report? How should listed companies report? What should listed companies report? When should listed companies report? Where should listed companies report?

5.2.3. Reporting principles

Sustainability reporting principles help to define the content of a sustainability report and assure the quality of the information disclosed by a company. The GRI G3 framework summarize the purpose of its reporting principles in the following way: "the principles are intended to help achieve transparency - a value and a goal that underlines all aspects of sustainability reporting."

Generally, there are two groups of reporting principles: 1) how to determinate material sustainability topics and performance indicators for disclosure; 2) how to ensure quality and appropriate presentation of disclosed information.

TABLE 6: BENCHMARKING REPORTING PRINCIPLES

G3	Reporting principles to select content: materiality, stakeholder engagement, sustainability context, completeness Reporting principles to assure quality of content: balance, comparability, accuracy, timeliness, clarity, reliability
GATEs	N.A.

CASS	Reporting principles to select content: materiality, stakeholder engagement, completeness Reporting principles to assure quality of content: balance, comparability, accuracy, readability, verifiability
SGX	Refer to GRI reporting principles

1) Key reporting principles for defining content:

- **Materiality**
  Sustainability reports should include a discussion of all topics and performance indicators that reflect the company's significant economic, environmental, and social impacts, allowing stakeholders to perform comprehensive company assessments.

  Stakeholder engagement
- In a sustainability report, a company should explain how it identifies relevant stakeholders, how it manages their expectations and takes their interests into account.

- **Completeness**
  Sustainability reports should include a clear description of report boundaries (e.g. reporting period, definition of company and subsidiaries) determining the scope of a company's significant economic, environmental, and social impacts.

2) Key reporting principles for defining quality:

- **Fair balance**
  Sustainability reports should provide a fair reflection of corporate sustainability performance, including positive and negative outcomes.

- **Comparability**
  Sustainability reporting should be comparable across companies and industries. Yearly reports should cover a steady selection of sustainability topics and performance indicators and data should be presented according to globally accepted standards, enabling stakeholders to analyze changes in the organization's ESG performance over time, and support analysis by external parties.

- **Timeliness**
  Sustainability reporting should take place on a regular basis and information should be available in a timely fashion to stakeholders, allowing them to take informed decisions.

- **Reliability**
  Information gathered and collected as well as the processes implemented during the preparation of a sustainability report should be recorded and analyzed, enhancing the quality and traceability of information, and making external examinations possible.

5.3. Performance indicator system benchmarking

5.3.1. Performance indicator framework

A performance indicator framework often covers governance, economic, environmental and social categories. Also, indicators are included which provide quantitative or qualitative evidence of any or all of the following aspects: risk, strategy, policy, management systems, operational performance, impact, or innovation.

Several reporting guidelines are based on the "Triple Bottom Line" framework, which argues that companies should fairly balance economic, environmental and social interests. In recent years, however, because of an increasing focus of mainstream investors on sustainability issues, some guidelines follow an ESG (i.e. environmental, social, governance) based framework.

TABLE 7 BENCHMARKING REPORTING SCOPE

G3	Three categories: economy, environment and society Six aspects: Human Rights, Labor Practices, Product Responsibility, Environment, Economy, Society
GATEs	Corporate overview and economic indicators CSR strategy and policy CSR management system CSR performance Development context and CSR Reporting parameters
CASS	Responsible management Market performance Social performance Environmental performance
SGX	Legal compliance Sustainability policy Environmental and social risk management Main topics of interest and future challenges Assessment of sustainability impacts, risks or opportunities

5.3.2. Topics covered by sustainability reporting guidelines

Performance indicator frameworks touch upon a wide range of issues related to corporate sustainability. In addition, to identify potential risks to the company's operations, any issues of interest to key stakeholders should be taken into consideration. The process to identify significant performance indicators for a company to report on is often referred to as a "materiality" exercise.

The table below sets out a number of sustainability topics covered by the GRI G3 guidelines.

TABLE 8: RANGE OF TOPICS COVERED BY THE GRI G3 GUIDELINES

Category	Aspect	Issues
Economy	Economy	Economic performance, market share, indirect economic performance
Environment	Environment	Raw materials, energy, water, biodiversity, waste, product and service, legal compliance, transportation
Society	Labor practice	Recruitment, labor relationship, occupational health and safety, training and education, diversity and equal opportunity
	Human rights	Investment and procurement, non-discrimination, freedom of association, collective bargaining, child labor, forced labor, safeguard, indigenous peoples
	Society	Community, bribery, public policy, legal compliance
	Product Responsibility	Customer health and safety, product and service labeling, marketing, customer privacy, legal compliance

There are also some newly emerging sustainability topics that are important to include in a performance indicator framework.

One issue that for instance has attracted a lot of attention in recent years is climate change. The relevance of carbon efficiency within a corporate context has gained worldwide recognition. Most stakeholders, including governments and investors, have high expectations about corporate management of greenhouse gas emission and energy efficiency. The Carbon Disclosure Project (CDP), a UK-based independent not-for-profit organization, sends yearly questionnaires to listed companies worldwide and invites them to publicly disclose their carbon performance. According to research conducted by CDP, many sustainability reports already include a dedicated chapter to climate change related issues.

Another important issue to consider for a performance indicator framework is water, particularly in China. Several organizations are driving the increase of corporate water disclosure. For instance in 2010, Dow Jones Sustainability Index included water related questions in its questionnaire to 2500 listed companies. In China, the number one document issued by the central government in 2011 was about water use and hydro infrastructure.

Especially in China, food safety has also emerged as a critical issue. Many criticize the lack of transparency and disclosure in the food supply chain. It is often suggested that Chinese food companies should embrace greater transparency regarding sourcing and business operations.

5.3.3. Overview of performance indicators

Although most reporting guidelines show great similarities on a sustainability topic level, on a performance indicator level they show great varieties. There are differences in terms of numbers, structure and classification. For instance, GRI G3 recognizes two types of performance indicators: core indicators and additional indicators. Companies must report on a certain number of core indicators in order to qualify for one of the GRI reporting levels (A, B or C).

TABLE 9: PERFORMANCE INDICATOR BENCHMARKING

G3	155 indicators covering strategy, organizational profile, management, performance, etc. Indicators consist of core indicators and additional indicators[13] GRI also provides sector supplement indicators[14] Protocols provide guidance in the application of the indicators
GATEs	201 indicators covering 6 categories and 18 aspects 80 indicators for all sectors and 121 indicators are specifically aimed at the textile and apparel sector Indicators are divided into base indicators and developing indicators
CASS	135 indicators covering 5 categories Indicators are divided into core indicators and additional indicators Indicators are also divided into management indicators and performance indicators CASS has 37 sector specific supplements
SGX	No specific indicators

[13] With additional indicators, the guideline can allow some flexibility for companies while ensuring some comparability on key issues.
[14] GRI contains 15 sector supplements, in which 5 are under development and 5 are still in pilot version

5.3.4. Performance indicator benchmarking

Strategy and governance

Topics such as strategy and governance provide important content to a sustainability report and are often discussed in relation to one of the three following aspects: corporate sustainability strategy or corporate policy, sustainability management, and stakeholder communications.

Corporate sustainability strategy: most sustainability guidelines mention performance indicators that refer to corporate sustainability values which reflect how companies perceive the relationship between business, society and the environment. According to experts interviewed by SynTao, institutional investors are strongly interested in the specifics of sustainability strategy and management. They have a particular interest in the development of long-term corporate strategy and definition of goals related to sustainability issues.[15] But from the assessment of reports, although many reports have disclosed the related information, the quality of information is not high.

Sustainability management: sustainability guidelines require companies to disclose the specifics of their management approach and systems. The result of the benchmarking analysis points out that the two Chinese guidelines (i.e. CSR-GATEs and CASS) require companies to disclose detailed descriptions of sustainability management design. These transparency requests may not only encourage companies to increase disclosure but can also encourage them to review and improve their sustainability or CSR management practices.

Stakeholder communications: Disclosure of corporate governance arrangements can help stakeholders to better understand corporate internal operations and decision-making processes. Therefore, performance indicators on corporate governance are quite useful to investors.

[15] For investors' perspective, please check Chapter 1 for more details.

TABLE 10 BENCHMARKING ON STRATEGY AND GOVERNANCE

	CASS		GATEs	
Indicators numbers / Categories	Qual. Ind.	Quant. Ind.	Qual. Ind.	Quant. Ind.
Strategy and Governance	11		38	
-Sustainable development strategy	1		6	
-Sustainable development management	6		21	
-Stakeholder engagement	3		4	
-Statement from company decision maker				
-Description of key impacts, risks and opportunities	1		6	
-Participation in organizations/associations			1	
-Commitments to external ESG initiatives				
Governance	2			
-Corporate governance structure	1			
-Introduction to members of highest governance body	1			
-Mechanisms to provide recommendations to highest governance body				
-Linkage between compensation for members of highest governance body and company performance				
-Process for evaluating highest governance body's performance				

-Explanation of whether and how the precautionary approach or principle is addressed by the company				
-Process in place for highest governance body to ensure conflicts of interest are avoided				
-Procedures of highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance.				
-Compliance	3			
Economic Performance	1	4	5	6
-Management of investor relations	1			1
-Growth		1		
-Security		1		
-Direct economic value generated and distributed		1		3
-Financial implications and other risks and opportunities				2
-Coverage of the organization's defined benefit plan obligations				
-Significant financial assistance received from government			1	
-Employee salaries		1		
-Policy, practice, and proportion of spending on locally-based supplier at significant locations of				

operations				
-Infrastructure investment and services provided primarily for public benefit				
-Understanding and describing significant indirect economic impacts				

* Note: The left column above summarizes key indicators of the four selected sample guidelines that are used to compare against each sample guideline. But the table above only describes comparison results between these key indicators and GATEs/CASS.

Environment

Environmental indicators are common features in sustainability guidelines. The guidelines in the benchmarking exercise show great similarities in environmental indicators.[16]

Key environmental performance indicators include energy, resource efficiency, pollution control, and emission reduction. All four sustainability guidelines include indicators in these areas and most of them request numerical data input, although SynTao notes a trend that many companies tend to "normalize" data presented in sustainability reports (e.g. according to size, output of operations). The benchmarking analysis also shows that biodiversity is increasingly being recognized as an important issue. A growing understanding and interest in eco-systems kicked off a search for appropriate measurements of the value of biodiversity to business and society. The integrated reporting approach also challenges companies to show the interconnectedness between sustainability performance and financial performance on the balance sheet.

TABLE 11 BENCHMARKING ON ENVIRONMENT

Environment	CASS-CSR		CSR-GATEs	
Indicators numbers / Categories	Qual. Ind.	Quant. Ind.	Qual. Ind.	Quant. Ind.
Management	3		2	
-Policy	1		2	
-Institution	2			
Energy and resource	5	5	5	6
-Energy saved	1	1	5	2
-Renewable energy source	1	1		1
-Water	1	1		3
-Green Office	1	1		
-Recycling Economic	1	1		
Pollution and Greenhouse gases	4	6	7	

[16] In this benchmarking, only indictors covering all sectors were taken into account and we did not pay attention to industrial differences. However, we should notice that some indictors show distinctive features for different sectors, especially the ones for environmental disclosure.

-Greenhouse gases emission	1	2	1	3
-Reduce waste residue disposal	1	1	2	
-Reduce waste water	1	1	1	
-Reduce waste gas	1	1	1	
Biodiversity and others	1		1	
-Strategies, actions, and future plans for managing impacts on biodiversity	1		1	
-Nature resource				
-Land use rate			1	
-Green coverage ratio			1	
Product and service			2	
-Reduce impact on environment	2		2	
-Green purchasing	1			
General situation	4		3	3
-Situation for non-compliance with environmental laws and regulations	1		3	2
-Total environmental protection expenditures and investments		1		1

* Note: The left column above summarizes key indicators of the four selected sample guidelines that are used to compare against each sample guideline. But the table above only describes comparison results between these key indicators and GATEs/CASS.

Society

Social performance indicators include a wide range of societal issues. Companies can identify key social issues by performing stakeholder analysis and stakeholder engagement.

The topic "labor relationship" is one of the key performance indicators for sustainability reporting, as employees are companies' most important stakeholders. Most sustainability reporting guidelines highlight the following aspects of labor relationships: recruitment practice, occupational health and safety, and employee career development.

Other key performance indicators may include topics such as protection of rights (including labor and special groups, such as children and consumers), products and services, community impact, and philanthropy.

TABLE 12 BENCHMARKING ON SOCIETY

	CASS-CSR		CSR-GATEs	
Indicators numbers / Categories	Qual. Ind.	Quant. Ind.	Qual. Ind.	Quant. Ind.
Employee	3	6	7	10
-(Basic) employee status				2
-Employment	2		6	1
-Labor union		1		
-Labor rights				2
-Diversity and equal opportunity		2		
-Salary and benefits		3	1	5
-Human resource policy				
-Situation for non-compliance with labor legislation	1			
-Complaint mechanism				
Occupational Health and Safety	6	5	3	2
-Occupational health	1	1		

-Psychological assistance	1			
-Coverage of physical examination		1		
-Occupational safety	3	3	3	2
-Safety and hygiene training	1			
Employee Development	3	1	2	2
Training and education	3	1	2	2
Right Protection			3	4
-Policies of the company concerning forced labor			1	
-Procedures to forbid or prevent child labor			1	1
-Discrimination				3
-Human rights				
-Protection conventional			1	
Product and service	10	4	9	5
-Quality of product and service	5		6	3
-Labels on products or packages			1	
-Customer health and safety			1	
-Research and innovation	3	3		
-Customer privacy	1			
-Customer satisfaction		1		1
-Situation for non-compliance with law			1	1
Society	6	4	11	1
-Community	1		1	

-Corruption			2	
-Compliance with law				
-Charitable donations	4	1	7	1
-Promoting regional economic development	1	2		
-Antitrust				
-Community health and safety				
-Land expropriation and involuntary migration				
-Aboriginal				
-Cultural heritage			1	

* Note: The left column above summarizes key indicators of the four selected sample guidelines that are used to compare against each sample guideline. But the table above only describes comparison results between these key indicators and GATEs/CASS.

6. Gap analysis

6.1. SSE best practice comparison

6.1.1. General comparison between sustainability guidelines and SSE Directive

In comparison with the examples of the best practice sustainability reporting guidelines included in the benchmarking exercise, the SSE Directive on CSR Reporting does not provide many details to its readers. No explanations are given about the specific ideas behind sustainability reporting, there is no statement on the value or purpose of sustainability reporting, there is no identification of reporting principles, and also a reporting framework with detailed performance indicators is lacking.

The SSE Directive on Environmental Disclosure already offers more details than the SSE Directive. However the document could still be more explanatory in terms of performance indicators, reporting framework, and identification of reporting principles.

TABLE 13: GAP BETWEEN SSE DIRECTIVES AND BEST PRACTICE

	Best Practice	SSE Directive on CSR Reporting	SSE Directive on Environmental Disclosure
Purpose Statement	G3: Designed for the compilation of sustainability reports, including full definition of report and clear purpose statement.	Making a clear statement about information disclosure requirements for listed companies although no definition of sustainability reporting is included. A basic introduction is needed.	Aiming at the requirement of environmental information disclosure for listed companies.
Reporting Framework	G3: Composed of principles, standard disclosures, and reporting notes	Declaring companies to be obligated to report and making a brief statement on basic reporting procedures. No principles and indicators included and provide companies with little help with how to report.	Basic information requirement has been listed without providing a clear framework for how to organize a report.
Reporting Principles	G3: Including principles for defining report content and principles for ensuring report quality, which provides detailed guidance to the companies in terms of methodology.	No principles on reporting.	No principles on information disclosure.
Reporting Scope	CASS-CSR: designed in conformity with domestic society and Chinese companies' conditions.	Stating that the report should contain essential information about social responsibility by issuing a clear minimum requirement list.	Designed for environmental information disclosure.

Indicator Overview	CASS-CSR: Well organized index system with detailed explanation and examples of case studies. CSR-GATEs: Divided into basic indicators and developmental indicators, which lower the technical barriers of information disclosure and in the meantime encourage advanced companies to do better.	Came with no specific indicators.	Roughly designed indicator system with no further classification and description.

6.1.2. Comparison between SSE report directive and best practice

Social aspects

The SSE Directive on CSR Reporting covers the topics employee health & safety, community, and product quality. In comparison to the examples of best practice sustainability reporting guidelines (as discussed in the previous chapter), the document could also include topics on recruitment practices, career development and labor rights, etc.

TABLE 14: LIST OF IMPORTANT INDICATORS ON SOCIETY

Society	**Important performance indicators**
Employment	The number of total employees by types of employment, contract and region.
Workers' rights	Coverage of labor contract
	Coverage of insurance
Occupational health and safety	Lost days because of injury, illness by region The number of casualties
Training and education	Total hours of training by type
Non-discrimination	Total number of discrimination cases and measures that have been taken
Child labor	Measures to avoid child labor
Bribery	Measures to avoid bribery
Community	Evaluation of the impact of business operation on

engagement	local community
Products and services	Negative information about product quality

Environmental aspects

The SSE Directive on CSR Reporting already covers the topics pollution prevention and reduction, water and energy conservation, habitat protection and biodiversity. In comparison to the examples of best practice sustainability reporting guidelines (as discussed in the previous chapter), the document may also want to include topics on resource consumption, emissions, and number of environmental accidents, etc.

TABLE 15: LIST OF IMPORTANT INDICATORS ON ENVIRONMENT

Environment	Important performance indicators
Energy	Direct energy consumption by type
	Indirect energy consumption by type
	Indirect energy consumption by source
	Energy saving
Water	Water consumption per production value, and water resource saving
Waste	Greenhouse gas emissions, direct and indirect
	Measures and achievement of emission reduction
	Total weight of solid wastes by type
Product and service	Measures and achievement of reducing the environmental impacts of products and services
Compliance	The number of cases of environmental non-compliance and the total values of punishment

Economic aspects

The SSE Directive on CSR Reporting covers the topics value creation for customers, career development for employees, and economic return for shareholders. In comparison to the examples of best practice sustainability reporting guidelines (as discussed in the previous chapter), the document could also include topics on economic context and financial support to and from government sectors.

TABLE 16: LIST OF IMPORTANT INDICATORS ON ECONOMY

Economy	Important performance indicators
Direct impact	Created economic values, including total revenue, operational cost, employee salary, monetary donation, etc.
Indirect impact	Impact of organization's business activities and in-kind donation, infrastructure that is mainly for public interest

6.1.3. Comparison between the SSE environmental disclosure directive and best practice

The SSE Directive on Environmental Disclosure already mentions the following performance indicators:

- Environmental policy, annual goal and performance
- Resource consumption
- Investment in environmental technology development
- Pollutants
- Environmental facilities
- Solid waste disposal and recycling
- Voluntary agreement with environmental protection bureaus
- Awards by environmental protection bureaus
- Other information voluntarily disclosed

Compared with the examples of best practice sustainability reporting guidelines, the SSE Directive on Environmental Disclosure still has room for further improvement:

- In terms of environmental management, the SSE Directive mentions environmental policy, annual goal and performance, but does not yet include requirements to report on environmental management systems and institutional arrangements.

- In terms of resource conservation, the SSE Directive lacks performance indicators about energy use reduction, renewable energy consumption, green office policies, etc.

- In terms of emission control, the SSE Direction mentions solid waste and water pollutants, but makes no reference to greenhouse gas emission.

- The SSE Directive does not mention performance indicators related to biodiversity.

- The SSE Directive requires companies to disclose information about sustainability-related awards that were won by the company. The guideline does not require companies to disclose information on perhaps less positive events.

6.2. SWOT analysis

TABLE 16: SWOT ANALYSIS FOR SSE REPORTING GUIDELINE

Strength(S)	**Weakness(W)**
SSE stimulates management of corporate reporting SSE emphasizes corporate governance disclosure	SSE does not as strongly focus on corporate environmental and social performance It is not easy to acquire data relevant to quantitative indicators
Opportunity(O)	**Threat(T)**
Overseas and domestic experiences are available. Chinese government is promoting reporting and more companies are willing to report. Some indicators, such as carbon intensity are also in line with government policy.	Stock exchanges are relatively inexperienced in developing reporting guidelines (performance indicator basis) Many companies and stakeholders still lack awareness to engage effectively with sustainability reports. Capacity will need to be built.

7. Recommendations

7.1. How to close the gap between SSE and best practice

Transform the Directive into a full and formal guideline

The SSE Directive on CSR Reporting cannot be compared to a comprehensive sustainability guideline as it currently lacks several important elements. Therefore, the first thing SSE could do is to transform the SSE Directive into a formal guideline, with inclusion of the following parts:

- Purpose of guideline and value of reporting
- Overall guideline framework
- Reporting principles
- Reporting scope and boundary
- Performance indicators

In addition, the SSE Directive could become more user-friendly. For instance, the directive could provide readers with explanations and case studies about the implementation of a sustainability reporting cycle and provide examples of reporting according certain performance indicators.

Enrich performance indicators

The outcome of the gap-analysis points out that the SSE Directive does not yet offer enough details on performance indicators. Therefore, as an important next step, SSE could enrich the Directive with a comprehensive set of indicator protocols. A protocol is extremely important for companies as it helps them to understand how to make the management of sustainability issues more tangible.

Prioritizing performance indicators

Companies should not be required to start reporting on all possible performance indicators at once. SSE could offer companies step-by-step guidance in the process of sustainability reporting and help them to prioritize certain indicators over others. When taking the Chinese market and society into account, SSE may consider corporate disclosure on the following indicators to be of crucial importance for a company's first year of sustainability reporting: energy consumption, greenhouse gas emissions, solid waste and water pollutants, occupational health & safety and product safety.

Identifying specific stakeholder priorities

SSE's reporting guideline could be aligned with domestic central government policies to promote overall corporate responsibility and sustainability development. The guideline may consider referring to government policy on product quality and environmental protection, as well as to recently launched financial incentives (e.g. Green Credit Policy).

From an investor perspective, sustainability reports should highlight product quality, customer satisfaction, market share and future strategy development. Also, companies should disclose information according to a minimum number of KPIs (key performance indicators) and provide precise, quantitative and comparative data.

Media and NGO organizations want companies to provide a realistic picture of its ESG (i.e. environmental, social, governance) performance, including information about positive achievements and sustainability issues that are more challenging to manage.

SSE may consider pilot sector guidelines

Each business sector holds specific sustainability issues that are of particular concern to the industry. Several sustainability reporting guidelines even include sector-specific supplements. As part of a pilot project, the impact of the new SSE guideline could be tested within a specific industry sector and a selection of companies operating within that sector can be asked for feedback to assess the effectiveness of the new guideline. Such a process eventually might also contribute to the development of additional sector-specific guidelines. Sectors characterized by heavy polluters[17] or financial institutions are, for instance, required by the central government to provide extra information disclosure (e.g. Green Credit Policy) and therefore might benefit from additional guidance on sustainability reporting. Eventually, SSE could decide to develop a sector specific guideline for one of these industries.

SSE may consider issuance of guideline supplements

Sustainability reporting guidelines should cover a wide range of fundamental issues. Also, a guideline should pay attention to newly developing issues in the world. As a result, after developing a first draft of a sustainability guideline, SSE might want to keep the option open to revise the guideline and performance indicators in a few years. For the draft, SSE may – at the least – want to include performance indicators relating to energy and carbon emissions, water, and food safety issues.

Energy saving and low Carbon performance are worth special attention, as creating and exploiting China's low-Carbon economy, which has already been embedded in the "the twelfth

[17]In Directive on Environmental Information Disclosure by Listed Companies released by the Ministry of Environmental Protection, 16 industries are classified as highly contaminated, including steel, cement, thermal power, coal, chemical, petrochemical, paper making, and metallurgical industry and so on.

five-year plan", has become a mainstream development direction and a focus point of public life. The domestic capital market is also high in relation to the low-Carbon industries and several investment institutions launched their green investment programs recently, such as releasing low-Carbon indices and initiating low-Carbon funds. However, most domestic companies have systematic flaws in Carbon information statistics and disclosure, which brings inconvenience to the collection of low-Carbon information and the practical operation of green investment. Therefore, we recommend SSE to make extra effort to include low-Carbon indicators in the guidelines. The S&P/IFC Carbon Efficiency Index[18] and Carbon Disclosure Project (CDP) can serve as good examples in this area.

SSE may consider integrated reporting

In future, financial reporting and sustainability reporting may become fully integrated, resulting in the release of one single report by companies per year. The foundation and the work of the International Integrated Reporting Committee (IIRC) may accelerate this development. SSE might want to consider the specifics of the integrated reporting approach when developing the sustainability guideline, particularly allowing room for the release of supplement issues in future.

7.2. How to encourage the use of the SSE guideline

SSE can take several measures to encourage listed companies to make use of the new SSE sustainability reporting guideline, ultimately contributing to the overall quality of sustainability reporting in China. Measures may include training, seminars, grading scheme of application disclosure level, mandatory third party audits, and key stakeholder recognition.

Capacity building
SSE can offer a more detailed explanation or manual to companies explaining how to implement a sustainability reporting cycle. SSE can also organize training opportunities and seminars to improve the reporting capacity of listed companies.

Grading scheme
SSE can develop a grading scheme, similar to GRI's A, B and C application disclosure levels. Listed companies can self-claim the application level of disclosure in their reports. This may encourage companies to improve the quality of their reporting practices.

Third party audit
Third party audits can enhance the quality and credibility of reporting practices. SSE may require all companies to include a third party audit of their sustainability report.

[18] The S&P/IFC Carbon Efficiency Index was launched on December 10th 2009 at the UN climate conference in Copenhagen. As the world's first Carbon-efficient index for emerging markets, it measures the performance of investable emerging market companies with relatively low carbon emissions.

Key stakeholder recognition

Companies will pay more attention to reporting if more key stakeholders expect and or demand companies to disclose information on their sustainability performance. Investors are companies' most critical stakeholders. SSE can seek opportunities to build capacity and awareness among key stakeholder groups and stimulate engagement with companies.

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9. Annexes

9.1. List of expert interviews

Category	Organization	Date
Guideline developer	CSR Office of CNTAC	12.22
Investor	Hermes Fund	12.10
Investor	Sumitomo Mitsui Banking Corporation	12.13
Investor	Japan Research Institute	12.13
Listed company	Guangzhou Development Industry (Holdings) Co., Ltd.	12.15
Listed company	Petro China	12.23
Stock exchange	Shenzhen Stock Exchange	12.10
Service provider	RepuTex	12.19
Service provider	Principles for Responsible Investment	12.22
Service provider	Mercer Investment Nominees Limited (MINL)	12.08
Service provider	Robeco	12.08
NGO	Oxfam	12.14
NGO	GreenPeace	12.15

9.2. IFC Sustainability Framework

IFC Sustainability Framework for private sector investments in emerging markets (April 2006)
For information on the current update of IFC's Sustainability Framework, visit www.ifc.org/policyreview

Overview of IFC Sustainability Framework

IFC's Sustainability Framework consists of the Policy and Performance Standards on Social and Environmental Sustainability (the Sustainability Policy and Performance Standards) and the Policy on Disclosure of Information (the Disclosure Policy). Published in 2006, these policies and standards replaced IFC's Environmental and Social Safeguards, which had been in use since 1998.

These documents are formal policies for the IFC and requirements its clients approved by the IFC's Board of Executive Directors:

1) **The Sustainability Policy** defines IFC's roles and responsibilities and reflects IFC's commitment to the sustainability of the projects it finances.

2) **The Performance Standards** define clients' roles and responsibilities for managing environmental and social risks associated with their projects and the requirements for receiving and retaining IFC support. The standards include requirements to disclose information at the project level. There are 8 Performance Standards:

- Social and Environmental Assessment and Management System
- Labor and Working Conditions
- Pollution Prevention and Abatement
- Community Health, Safety and Security
- Land Acquisition and Involuntary Resettlement
- Biodiversity and Sustainable Natural Resource Management
- Indigenous Peoples
- Cultural Heritage

3) **The Disclosure Policy** defines IFC's obligations to disclose information about itself as an institution and its activities. (Public disclosure requirements for clients are found in the proposed Performance Standards as an integral part of stakeholder engagement with communities that are affected by projects.) IFC believes that transparency and public dissemination of information regarding its activities can strengthen public trust in IFC and its clients, and enhance the development impact of its investments.

The policies and standards are supported by three additional sets of documents that give direction to IFC staff and clients in implementing the Sustainability Policy and Performance Standards:

4) **The Guidance Notes**, which are companion documents to the Performance Standards, provide additional guidance to clients (and IFC staff) in fulfilling their roles and responsibilities under the standards.

5) **The Environmental and Social Review Procedure**, outlines management-approved steps for processing proposed investments by IFC's E&S specialists.

6) **The Environment, Health & Safety (EHS) Guidelines** are intended to provide a technical reference for IFC staff and clients, and to promote the use of good international industry practice in pollution prevention and abatement as well as issues related to health and safety.

An integrated management approach

IFC's approach is based on firms establishing effective management systems as part of their basic operations to ensure compliance with IFC requirements and ensure results on the ground. IFC believes that strong outcomes are most likely when companies can incorporate standards into internal management systems and understand the business case for doing so.

Importantly, the requirements of IFC's Sustainability Framework are tailored to specific risks. Since no policy can anticipate all scenarios and risks, the standards define clear outcomes and help clients assess specific project risks comprehensively. The requirements for achieving specific outcomes go into a public Action Plan and become part of the legal agreement with IFC.

Implications for disclosure by IFC and its clients

IFC's Disclosure Policy determines the appropriate level of disclosure for IFC as a publicly-owned institution working in the private sector and respecting the business confidentiality of its client companies.

The Policy sets out routine disclosures, including:

- IFC's Budget and Business Plan
- Minutes from IFC Board meetings
- Annual reporting on the aggregate development impact of IFC's activities
- A summary of IFC's environmental and social review as well as information on expected development impacts in the public Summary of Proposed Investment for each investment project.

The Performance Standard 1 defines responsibilities for timely disclosure by IFC's clients in support of community engagement throughout the life of a project. Requirements include:

- Disclosure of key information at the beginning of a project, including its size, purpose, and duration; expected risks and impacts; findings from social and environmental assessment; and the client's Action Plan to address any problems identified.
- Ongoing disclosure to address implementation of the Action Plan and issues raised by affected communities, particularly those related to health and the environment.

For more information and to download related documents, visit http://www.ifc.org/ifcext/sustainability.nsf/Content/EnvSocStandards

9.3. Overview of sustainability reporting guidelines

9.3.1 Domestic sustainability guidelines:

Sustainability reporting guidelines:

CASS-CSR, 2009

These guidelines were issued by China Academy for Social Sciences in 2009 and include a general guideline and 37 sector-specific guidelines. The document recommends organizations to adopt a reporting structure including the following six parts: foreword, responsible management, market performance, social performance, environmental performance and closing remark.

China Sustainability Reporting Guidelines for Apparel and Textile Enterprises (CSR–GATEs), 2008

CSR-GATEs provides guidelines, including comprehensive and quantifiable performance indicators, about how to release a voluntary CSR (i.e. corporate social responsibility) report.

The guidelines aim to support companies to voluntarily release a report discussing the economic, environmental and social performance of business operations, products and services.

Guidelines on Social Responsibility for Industrial Corporations and Federations, 2008

These sustainability guidelines were issued by 11 national industrial federations and associations from the iron, steel, oil chemical, light industry, textile industry, building materials, non-ferrous metals, electric power and mining industries. The guidelines state that the content of a CSR (i.e. corporate social responsibility) report should cover eight aspects: public protection, energy conservation, production safety, interests of employees, interests of stakeholders and social commonwealth. The guidelines recommend more than 80 key performance indicators related to economic results, employment of employees, labor contracts, production safety, social insurance, energy consumption and emission, environmental protection, company credit, etc. The guidelines encourage companies to discuss the outcome of the performance indicators in a CSR report.

SSE Directive on CSR Reporting, 2008

These guidelines issued by the Shanghai Stock Exchange make a clear statement about information disclosure requirements for listed companies. The guideline states that a CSR (i.e. corporate social responsibility) report should contain essential information about sustainability issues, such as pollution prevention and reduction, water and energy conservation, habitat protection, biodiversity, employee health & safety, community and product quality.

Shenzhen Stock Exchange Social Responsibility Guidelines for Listed Companies, 2006

These guidelines were issued by the Shenzhen Stock Exchange and encourage listed companies to establish social responsibility mechanisms and release social responsibility reports on a regular basis. The guidelines list a range of key topics that should be discussed in these reports.

Environmental information disclosure guideline

The Measures for Environmental Information Disclosure (for Trial Implementation)

The Measures took effect in 2008. The guideline is designed to regulate methods for environmental information disclosure, strengthen corporate responsibility and improve the supervisory mechanisms of sustainability reporting.

The Measures define the scope of disclosure on environmental data, including environmental laws and regulations, policies, standards, administrative licenses, the quality of the environment, etc.

Guide of Environmental Report for Enterprise (A Preliminary Draft)

The guide stipulates a framework, reporting principles, procedures, content and environmental reporting methods.

SSE Directive on Environmental Disclosure

The Directive was issued by Shanghai Stock Exchange in 2008 and lists requirements for listed companies regarding environmental information disclosure. The guideline clarifies the nature of corporate disclosure, including referrals to the voluntary basis of reporting and the companies listed by the environmental protection authority, and defines the procedural requirements concerning the release of environmental information, including public announcements and filing of documents.

Directive on Environmental Information Disclosure by Listed Companies (draft currently under discussion)

This new document should be applied by Shenzhen and Shanghai A-Share companies. According to this guideline, listed companies should publish annual environmental reports both on the company website and on the website of the Environmental Protection Ministry.

9.3.2 Overseas sustainability guidelines[19]

Governments

Australia: Triple Bottom Line Reporting in Australia

Issued by the Department of Environment and Heritage, the guideline explains how to report against environmental performance indicators. The guideline is consistent with the Global Reporting Initiative (GRI) sustainability guidelines.

India: Corporate Social Responsibility Voluntary Guidelines

The guidelines were issued by the Ministry of Corporate Affairs in late 2009. The guidelines state that business entities should formulate a CSR (i.e. corporate social responsibility) policy to guide strategic planning and provide a roadmap for CSR initiatives. The CSR policy should cover the following core elements: care for all stakeholders, ethical functioning, respect for workers' rights and welfare, respect for human rights, respect for environment and activities for social and inclusive development.

Italy: The Social Reporting Standards

The standards were issued by the Study Group for Social Reporting (Gruppo Bilancio Sociale). The GBS guideline can be used to prepare a sustainability report, in particular by public administration and local Italian companies. In recent years GBS published a number of research documents, for example "Corporate Governance and CSR", "Social reporting for the

[19] This information is partly from the report *Carrots and Sticks-Promoting Transparency and Sustainablity.*

University", "Social reporting for the Region", "Social reporting of the intangibles", and "Social reporting for Local Health Companies". The second, updated version of the GBS social reporting standards is currently being drafted.

Japan: Environmental Reporting Guideline
This guideline was issued by the Ministry of Environment. The document "Environmental Performance Indicator Guidelines for business" has also been issued by the Ministry of Environment and was integrated into the newly revised Environmental Reporting Guidelines in 2007. The new guideline sets out the definitions and calculation methods for information disclosure according certain environmental performance indicators.

The Netherlands: Guidelines for the integration of social and environmental activities in the financial reporting of companies
The guidelines were issued by the Dutch Accounting Standards Board (DASB). In view of considerable interest in social reporting from Dutch companies and stakeholders, the Social and Economic Council of the Netherlands (SER) proposed that the DASB reviewed the existing "Guideline 400" to provide specific guidance to companies on how to integrate non-financial information into regular financial annual reports. In 2008, the SER asked the DASB to review the Guideline 400 and guidance on separate social reporting again. This new guidance was issued in 2009 and is applicable since 1 January 2010.

South Africa: King Report on Corporate Governance
The "King Report on Corporate Governance, 1994" is a non-legislated code on good corporate governance. The King Report was updated and re-released on 1 September 2009 (King III). The guideline reflects changes focused on the integration of corporate disclosure regarding financial and non-financial issues (risk management and audit). King III prescribes that entities follow an integrated reporting format, which aims at a holistic approach discussing financial, social and environmental impacts in one annual report.

South Korea: Sustainability management(SM) report guideline, 2006
The guideline was released by the Ministry of Knowledge Economy. With regard to CSR (i.e. corporate social responsibility), the Korean government adopted "sustainability management (SM)" as a legal term. The guideline contains full details on reporting with respect to ethics, environmental impact, social responsibility and innovation. The importance of a discussion of management practices in sustainability reports is emphasized in the guideline. In addition to the SM reporting guideline, there was an environmental reporting guideline issued by the Ministry of Environment in 2004.

Sweden: Guidelines on environmental information in the Directors' Report section of the Annual Report
The guidelines were issued by the Swedish Accounting Standards Board in 1998. The guidelines require companies to include environmental information in their annual reports.

Since 2008, more Swedish companies start to publish separated sustainability report, and most refer to GRI framework

United Kingdom: Environmental Reporting Guidelines – Key Performance Indicators (KPIs)

The guidelines were issued by the Department for Environmental, Food & Rural Affairs (DEFRA), designed to assist companies with narrative reporting requirements relating to environmental matters, as contained within the 'Contents of Directors Report' of the Company Law Reform Bill.

Stock Exchanges

Guayaquil Stock Exchange (BVG): Transparent System of Indicators of Business Environment Best Practice

This initiative aims at developing a transparent system of business practices based on environmental values that allow companies listed on the BVG to assess their performance towards sustainable development on a permanent basis, thus contributing to the sustained success of their business. On these premises, companies that adhere to this initiative voluntarily will stand out in environmental responsibility in the long run and become a point of reference for other companies and gain market credibility as a result.

Quito Stock Exchange (BVQ): Andean Plan of Good Corporate Governance: Fundamental Principles

This document sets out fundamental corporate governance principles, part of the Andean Plan of Good Corporate Governance which proposes a voluntary approach to ethical business conduct other than adopting stock market laws and regulation. The main objective is to encourage the development of the stock market by means of good corporate governance practices, in particular adequate management of corporate communications, resources and stakeholder relations.

A company website should mention, besides the company's raison d'être and products and services, corporate governance arrangements. A corporate governance report should include an explanation of Board of Directors' affiliations, shareholder and corporate communications mechanisms and other relevant facts.

An annual corporate governance report should be the responsibility of the Board of Directors, regardless of the financial statements presented by the company. The report should contain at least the following elements: annual assessment of internal rules for good corporate governance; ownership structures; policy on dividends and payments, board composition; information about subsidiaries and other relevant facts.

Luxembourg Stock Exchange: The Ten Principles of Corporate Governance

These principles were initiated following the launch of an action plan by the European Commission in 2003, aimed at enhancing corporate governance (CG) within the European Union. An initiative in line with international practice and the recommendations of the European Commission, whilst taking into account the interests of all stakeholders. The Ten Principles and recommendations are highly flexible and based on the "comply or explain" principle.

The principles are complementary to Luxembourg legislation. The Ten Principles are broken down into recommendations. Recommendation 1.6 specifies that a CG Chapter should be updated as often as necessary to accurately reflect the company's corporate governance framework at all times.

The information should be posted on the company's website, including the dates of announcements. Recommendation 1.7 specifies that companies should publish a CG Chapter in their annual report, describing all the relevant events that took place in the preceding financial year. If the company does not fully implement these recommendations; it should why it could not disclose the required information in the CG Chapter of the annual report.

The Oslo Stock Exchange (OSL): Norwegian Code of Practice for Corporate Governance

The Oslo Stock Exchange stipulates that all listed companies must publish a statement specifying compliance with the recommendations of the Code. In the white paper "Corporate Social Responsibility in a Global Economy" (2009), the government urges the Norwegian Corporate Governance Board to incorporate recommendations concerning more detailed reporting of social responsibility in the document "Norwegian Code Practice for Corporate Governance".

The Singapore Exchange (SGX): Guide to Sustainability Reporting for Listed Companies

In 2010, the Singapore Exchange (SGX) released a guide to encourage listed companies to adopt sustainability reporting. As of now, the Singapore Stock Exchange has not endorsed any specific standards; instead it suggests that the Global Reporting Initiative (GRI) reporting guidelines are the way to progress.

SGX encourages companies to consider and provide disclosure on the following issues: relevant laws, sustainability policy, risk management policies and processes, assessment of sustainability impact, risks, or opportunities, main topics of interest and future challenges for specific industry sectors.

London Stock Exchange：The British Companies Act of 2006

The British Companies Act of2006 mandates that companies listed on the London Stock Exchange disclose in their annual Business Review information on environmental, workplace, social and community matters “to the extent that they are important to understanding the company’s business.”