Corporate Knights report shows sustainability disclosure is flatlining: “Time for regulators to step in”

Nasdaq Helsinki Stock Exchange tops ranking of 49 global exchanges measured on overall sustainability disclosure

(Davos, January 22, 2020) The world’s largest companies are under-reporting sustainability policies and performance, hampering investors’ access to data that will allow them to play a full role in the transition to a low-carbon economy, according to a new report released today.

The study, “Measuring Sustainability Disclosure: Ranking the World’s Stock Exchanges 2019,” finds that of 6,261 large companies analyzed, 85% disclosed payroll, followed by greenhouse gases (41%), energy (33%), water (28%), waste (27%), injuries (24%) and employee turnover (22%). Over the past five years, corporate disclosure rates for greenhouse gases (GHGs), energy, water, waste, payroll and injuries have flatlined, while employee-turnover disclosure improved at an annualized clip of 9.2%.

Over the 2013–2017 time period, every indicator experienced negligible growth, measured in disclosure rate (Figure 1) and in the absolute number of disclosing companies (Figure 2). Waste disclosure growth has stalled, and GHG disclosure has actually fallen slightly. GHG disclosure spiked in 2015 with 2,609 companies (41.7%) disclosing, falling to 2,583 (41.3%) in 2017.

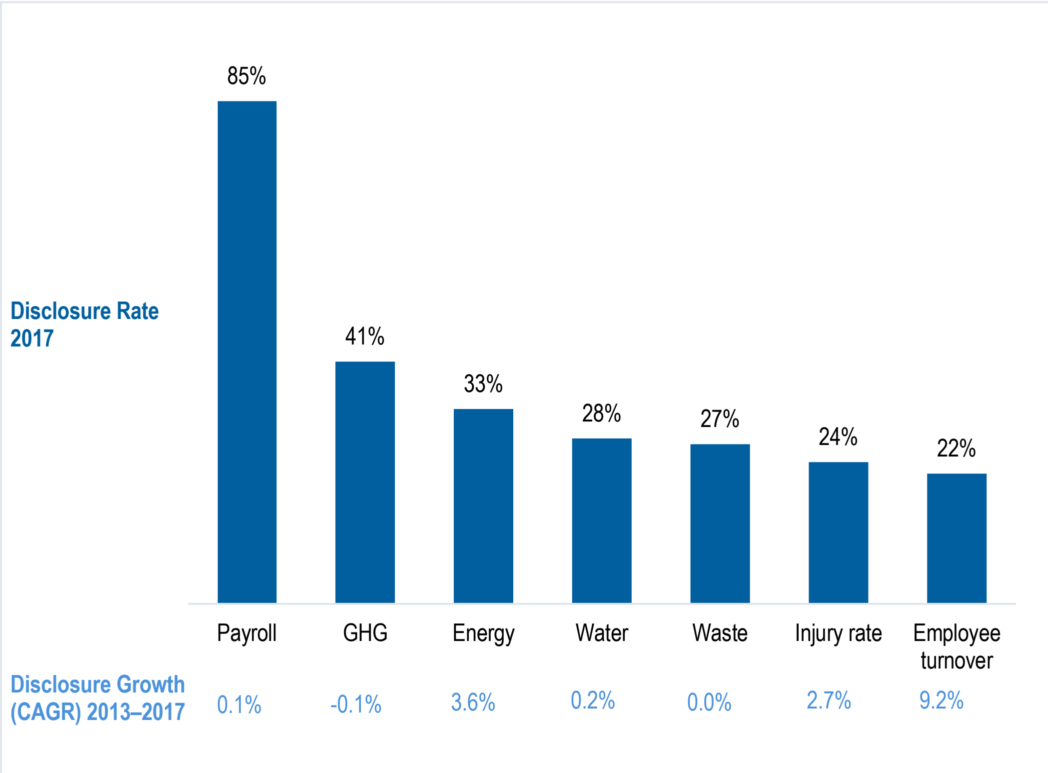
Given investors’ surging interest in sustainability data and a host of significant ESG data-disclosure initiatives, including the Task Force on Climate-related Financial Disclosures and the Sustainability Accounting Standards Board, it seems counterintuitive that companies are not disclosing more ESG data.

There are two likely reasons for this:

- the change in economy make-up, which has become more tech-heavy over the past economic cycle (tech companies tend to disclose less ESG information); and
- the increased scrutiny and accountability around ESG data, including litigation risks, has caused some companies to pull back on ESG transparency.

Figure 1: Corporate disclosure rates and growth rates for specific sustainability indicators

Percentage of all 6,261 companies in research universe disclosing the indicator for year 2017 and compound annualized disclosure growth rate (CAGR) 2013–2017.



First commissioned by Aviva Plc in 2012, the report tracks corporate disclosure on seven sustainability indicators. Written by *Corporate Knights*, it also suggests how such disclosure can be translated into actionable key performance indicators, which might help investors to distinguish companies that are incorporating sustainability into their value-creation stories.

Toby Heaps, Chief Executive Officer at *Corporate Knights*, said:

"The reporting gap constitutes a glaring governance failure that requires urgent redress, especially given the surging investor interest in sustainability performance metrics. In the short-term, exchanges and regulators should set a mandatory requirement for climate disclosure (building on the recommendations in the Financial Stability Report of the Task Force on Climate-related Financial Disclosures) on a "comply or explain" basis, which can help maintain clear expectations while allowing companies the flexibility they need."

Maurice Tulloch, Chief Executive at Aviva plc, said:

“The entire economy needs to change quickly for there to be any hope of achieving the ambitions set by the Paris Agreement. In part this depends on everyone having access to the right information about how individual companies are contributing. Global stock exchanges are central to this, and I welcome this valuable report from *Corporate Knights*.”

Top exchanges

Nasdaq Helsinki topped the disclosure performance ranking for the second year in a row, with excellent disclosure rates across all indicators. Among environmental indicators, the Finnish companies did especially well in disclosing energy use and GHG emissions, which were disclosed by 32 of the 36 companies evaluated. BME Spanish stock exchanges and Euronext Paris kept their places in the top five, with Euronext Lisbon and Johannesburg Stock Exchange emerging as newcomers to the top five. The top 10 included three exchanges from emerging markets: Bolsa de Varoles de Colombia, the Stock Exchange of Thailand (SET) and the Johannesburg Stock Exchange (JSE).

All of the top 10 ranked stock exchanges have mandatory, prescriptive requirements for sustainability disclosure.

The issuers of Bolsa de Comercio de Buenos Aires led the pack in disclosure growth, with an average compound annualized growth rate (CAGR) of 41% from 2013 to 2017. Disclosure increased significantly among issuers on the Argentine exchange, especially for employee turnover, energy, waste and GHGs. The Stock Exchange of Hong Kong went from a GHG disclosure rate of 18% in 2013 to 42% in 2017.

The issuers of Nasdaq Copenhagen were the fastest disclosers, with an average lag of only 73 days between the end of the fiscal year and the release of annual sustainability data: 66% of the companies in the exchange had disclosed their sustainability data within five months of year-end. The issuers of Nasdaq Stockholm and the Stock Exchange of Thailand also performed well in this metric, with an average timeliness of 98 and 105 days, respectively, compared to the research universe average of 164 days.

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