Public Comment to INCR re: *Proposed Sustainability Disclosure Listing Standard for Global Stock Exchanges* Consultation Paper

Submitted by Sustainability Context Group Co-Founders Bill Baue & Mark McElroy
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> "We need accelerated performance improvements from companies that reflect the **true scientific** and economic impacts of unchecked carbon pollution, growing water scarcity and billions of people still working and living in poverty . . . Now, more than ever, companies must begin calibrating their performance goals against **national and international performance standards that are grounded in science**." (emphasis added)
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> Ceres *Roadmap for Sustainability*

We support Ceres' call for corporate sustainability "performance standards grounded in science" articulated in its *Roadmap for Sustainability,* and urge its affiliate organization INCR to integrate this approach – which falls under the conceptual framework of *Sustainability Context* – into its *Sustainability Disclosure Listing Standard for Global Stock Exchanges* Proposal under Mandate 3 (M3—more on this below).

Indeed, we believe this approach to be *imperative* if INCR intends to retain the term "sustainability" in the framing. Sustainability, by definition, draws a line in the sand, a threshold separating what's sustainable from what's unsustainable.[1] And the scientific community functions as the primary arbiter of thresholds.[2]

Ceres helped enshrine this approach to sustainability in two sets of standards it birthed – the Global Reporting Initiative (GRI) and the Global Initiative for Sustainability Rating (GISR). Here's how GRI defines the *Sustainability Context* principle:

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[1] Ehrenfeld and Hoffman, "The wrong-headed solutions of corporate sustainability" *GreenBiz*, 10 April 2013. http://www.greenbiz.com/blog/2013/04/10/wrong-headed-solutions-corporate-sustainability?page=full

[2] Whiteman et al. "Planetary Boundaries: Ecological Foundations for Corporate Sustainability", *Journal of Management Studies* 50:2, March 2013. http://onlinelibrary.wiley.com/doi/10.1111/j.1467-6486.2012.01073.x/abstract See especially Table II on page 316 for a complete list of thresholds tied to planetary boundaries.

> The underlying question of sustainability reporting is how an organization contributes, or aims to contribute in the future, to the improvement or deterioration of economic, environmental, and social conditions, developments, and trends at the local, regional, or global level. Reporting only on trends in individual performance (or the efficiency of the organization) will fail to respond to this underlying question….This will involve discussing the performance of the organization in the context of the limits and demands placed on environmental or social resources at the sectoral, local, regional, or global level. For example, this could mean that in addition to reporting on trends in eco-efficiency, an organization might also present its absolute pollution loading in relation to the capacity of the regional ecosystem to absorb the pollutant.[3]

In September 2012, the Sustainability Context Group (which we co-founded) submitted a Public Comment in the G4 Process urging GRI to provide more robust guidance on how to implement *Sustainability Context*. The Comment included both a proposed 5-item Functional Specification as well as a general illustrative 5-step procedure for fulfilling the Functional Specification and two specific examples involving carbon and water.[4] A recent academic paper underlines this perspective.[5]

And here's GISR's more recent take:

> **Context:** A ratings framework should assess performance within the wider context of the company's sustainability impacts at various geographic scales, referencing widely accepted thresholds, limits, targets or norms applicable to such impacts.
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> Performance assessment may be expressed from several perspectives including: (1) performance across time periods, or time series; (2) performance relative to a peer group, e.g., recognizing "best in class" or "top 10 percent"; and (3) performance relative to externally defined targets based on physical limits or thresholds or social norms, commonly referred to as "sustainability context."
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> The first two of these approaches dominate most ratings; together, they offer different, valuable but incomplete perspectives on sustainability performance. The third, sustainability context, is rare but desirable if a ratings framework is to reflect the core tenets of sustainability. Companies operate in a local, national, regional and global milieu, part of larger ecological and social systems delineated by biophysical limits and

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[3] Global Reporting Initiative, *Sustainability Reporting Guidelines (G3.1)* https://www.globalreporting.org/reporting/guidelines-online/G31Online/DefiningReportContentQualityAndBoundary/Pages/default.aspx

[4] Sustainability Context Group, *Statement to GRI on the Need to Enhance Treatment of the Sustainability Context Principle in G4,* 24 September 2012 http://www.sustainableorganizations.org/SCG-GRI-G4-Comment-Submitted-9-24-12.pdf

[5] Milne, M. and Gray, R. "W(h)other Ecology? The Triple Bottom Line, the Global Reporting Initiative, and Corporate Sustainability Reporting" *Journal of Business Ethics*, November 2012 http://link.springer.com/article/10.1007%2Fs10551-012-1543-8

> socially-defined thresholds. Without contextualization, the rigor of assessing the collective and cumulative effect of individual companies on the preservation and enhancement of vital capitals is compromised. In such cases, despite incremental progress by individual companies, the collective impact may result in exceedances of ecological thresholds or shortfalls in such social norms.[6]

In April 2013, the Sustainability Context Group submitted a Public Comment to GISR on its Principles, essentially supporting its inclusion of *Sustainability Context* and proposing a few small but significant changes for enhancement.[7]

Note that both the GRI and the GISR definitions highlight limits in the value of eco-efficiency or other incrementalist measures, such as the environmental, social & governance (ESG) criteria that the current INCR Standard Proposal is exclusively predicated upon. Despite the fact that the two terms are often used interchangeably, sustainability and ESG are not synonymous; the former has a normative definition, where science underpins threshold-based performance standards, whereas the latter implies mere directionality without goalposts.[8]

We trust this provides sufficient background support for the notion of including threshold-based performance standards in any and all proposed standards that carry the term "sustainability"—including the *Sustainability Disclosure Listing Standard for Global Stock Exchanges*.

We believe Mandate 3 (M3—"Corporate ESG Disclosure") of the Proposed Listing Standard is the appropriate placement for *Sustainability Context*. As context-based measurement, management, and reporting are still in developmental stages, we believe it makes sense to *recommend* that companies take a context-based approach for areas of impact with sufficiently mature methodologies, as a precursor to requiring such an approach.

Of the listed ESG categories, climate change has the most developed practice on context-based measurement, management, and reporting. The Sustainability Context Group submitted a Public Comment to GRI on its Greenhouse Gas Emissions Thematic

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[6] Global Initiative for Sustainability Ratings, *Principles for the GISR Ratings Standard and Accreditation Process: Exposure Draft for Public Consultation,* February 2013 http://ratesustainability.org/wp-content/uploads/2013/02/GISR_Principles.pdf

[7] Sustainability Context Group, *Public Comment to GISR re: its February 25, 2013* Exposure Draft of the Principles for the GISR Ratings Standard and Accreditation Process, 2 April 2013 http://www.sustainableorganizations.org/SCG-GISR-Comment.pdf

[8] Thurm, Ralph, "Closing the context gap: sustainability reporting is failing us", *Guardian Sustainable Business*, 9 April 2013 http://www.guardian.co.uk/sustainable-business/blog/context-gap-sustainability-reporting-failing

Revision.[9] We encourage INCR to use this – as well as two recent articles we co-authored (with Network for Sustainable Financial Markets Executive Director Cary Krosinsky) on integrating a thresholds-based approach to investing[10] – as a template for formulating an appropriate means of recommending context-based disclosure as a listing requirement on stock exchanges globally.

Thank you very much for your consideration.

Bill Baue and Mark McElroy

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[9] Sustainability Context Group, *Statement to GRI on G4 GHG Emissions Guidance Integrating the Sustainability Context Principle*, 12 November 2012 http://www.sustainableorganizations.org/SCG-GRI-G4-GHG-Submitted-11-12-12.pdf

[10] Baue, B., McElroy, M. and Krosinsky, C., "Investing 2.0: assessing companies' true sustainability performance", *Guardian Sustainable Business*, 4 April 2013 http://www.guardian.co.uk/sustainable-business/sustainable-investing-assessing-companies

Baue, B., McElroy, M. and Krosinsky, C., "Crossing Thresholds: From Fossil Fuel Divestment to Sustainable Investment", *Sustainable Brands,* 27 March 2013 http://www.sustainablebrands.com/news_and_views/new_metrics/crossing-thresholds-fossil-fuel-divestment-sustainable-investment