Current Status of Sustainability Reporting Compliance in Pakistan

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Sustainability reporting is a global practice addressing environmental and social concerns. However, Pakistan presents a diverse scenario. This article analyzes the compliance status of sustainability reporting in Pakistan, specifically focusing on public listed companies and the corporate sector. It also provides insights into sustainability reporting compliance globally and within SAARC countries.

Sustainability reporting is crucial for Pakistani companies to compete globally and attract multinational firms, especially as European markets reward firms that voluntarily report their sustainability performance. Initiatives such as the Best Corporate and Sustainability Report Awards launched by ICAP and ICMAP in 2011 and Environmental Reporting Awards initiated by WWF and ACCA in 2002, aim to promote sustainability reporting and raise awareness of corporate social responsibility.

Global Compliance

Before we delve into sustainability reporting compliance in Pakistan, let's take a quick look at global compliance status. Currently, 29 countries and territories enforce some level of mandatory ESG (Environmental, Social, and Governance) disclosure regulations.

Each country or territory implements distinct policies dictating the extent to which institutions need to disclose ESG data and the companies subjected to more stringent standards. The compliance status of sustainability reporting globally varies across countries.

1) **United States:** In the USA, the Securities and Exchange Commission (SEC) operates a 'comply-or-explain' system, with certain mandatory reporting features. Additionally, the New York Stock Exchange (NYSE) necessitates listed companies to publish codes of corporate behavior and ethics. The SEC now proposes enhancing and standardizing climate-related disclosures for information of stakeholders.

2) **United Kingdom:** Under UK law, specific companies, especially those with over 500 employees or annual turnovers exceeding £500 million, are required to disclose climate-related financial information in their annual strategic reports. Other guidelines, such as Section 172 of the Companies Act, encourage directors to consider societal factors like employees' rights, community relations, anti-corruption, and anti-bribery issues.

3) **European Union (EU):** In the EU countries, large and listed companies are mandated to undertake sustainability reporting, excluding listed micro-enterprises.

4) **Malaysia:** In Malaysia, mandatory ESG reporting standards were initiated in 2016 for all publicly listed companies. These standards cover responsibilities such as establishing equity, diversity, human rights policies, anti-bribery, anti-sexual harassment policies, sustainable development practices. There are proposals to align Malaysian ESG reporting standards with global climate-related disclosures.

5) **Hong Kong:** Hong Kong operates under a 'comply-or-explain' system overall, with certain mandatory ESG reporting standards for firms under the Main Board Listing Rules. These standards include board statements on ESG oversight, management, progress, and explanations on reporting principles and boundaries.

6) **Singapore:** Singapore established a 'comply-or-explain' ESG reporting framework in 2016. Mandatory reporting rules for specific listed companies were initiated in January 2022. The ESG disclosure rules also mandate sustainability training for leading directors of Singapore-listed companies and require climate-related disclosures from various industries by 2023, along with board diversity policies.

7) **The Philippines:** Since 2019, the Philippines has maintained national ESG disclosure regulations and publicly listed companies have mandatory requirement to submit annual reports on ESG performance. These regulations emphasize stakeholder relationships and recommend reporting sustainability policies concerning ESG matters by the Philippine Securities and Exchange Commission (SEC).

Compliance in SAARC countries

The compliance status of sustainability reporting in India, Sri Lanka, Bangladesh and Pakistan are as under:

1) **India:** In India, the top 1,000 listed companies are required by the Securities and Exchange Board (SEBI) to disclose their Environmental, Social, and Governance (ESG) initiatives in their annual reports. Despite a high reporting rate of 99%, only 15% meet Global Reporting Initiative (GRI) standards.

2) **Sri Lanka:** The Colombo Stock Exchange (CSE) in Sri Lanka promotes sustainability reporting, offering guidelines to assist companies in disclosing their ESG practices. Although not obligatory, 46% of listed organizations produce sustainability reports, with 29% aligned with GRI standards.

3) **Bangladesh:** The Dhaka Stock Exchange (DSE) encourages listed companies in Bangladesh to incorporate sustainability reporting in their annual reports. Furthermore, the Central Bank issued guidelines prompting banks to publish sustainability reports.

4) **Pakistan:** The Securities and Exchange Commission (SECP) introduced Voluntary Guidelines on Corporate Social Responsibility (CSR) for listed companies. While not mandatory, these guidelines encourage firms to divulge their sustainability initiatives. Presently, sustainability reporting in Pakistan is voluntary, lacking mandatory regulatory requirements, yet certain policies indirectly highlight its necessity.

Compliance Status in Pakistan

In Pakistan's corporate landscape, a disparity exists between private enterprises and public limited companies regarding sustainability reporting. Private firms, including sole proprietorships, lack regulatory pressure and awareness, often prioritizing survival over sustainability due to resource constraints. Conversely, public limited companies grapple with compliance challenges, facing ambiguous guidelines and considering reporting burdensome without incentives. The absence of motivations dampens their enthusiasm for sustainability reporting. Addressing these differences requires comprehensive measures such as clear regulations for public firms, incentivizing reporting, and educating private entities about sustainability's advantages. Shifting the perception of sustainability from a burden to an avenue for responsible business practices can bridge this reporting gap, benefiting both businesses and society.

Pakistan's corporate sector is recognized for its philanthropic activities aligned with social responsibility. However, only a small fraction of listed firms undertakes dedicated sustainability reporting that encompasses various areas like labor standards, biodiversity, and community health services. In 2020, the Pakistan Business Council (PBC), in collaboration with the United Nations Development Program (UNDP) and the Pakistan Stock Exchange (PSX), conducted a 'Baseline Survey on Sustainable Development and SDG Reporting among Listed Companies.' This study aimed to assess how listed companies engage with and report on the Sustainable Development Goals (SDGs). Out of 547 PSX-listed companies, only 71 responded, revealing an alarming lack of business sector contribution to the SDGs. The survey's key findings included:

- Roughly one-third of companies listed on the Pakistan Stock Exchange (PSX) fail to include sustainable development reporting in their financial reports or on their websites.

- The corporate sector often confuses Corporate Social Responsibility (CSR) with Sustainable Development, lacking clarity between them.
- While companies can identify relevant Sustainable Development Goals (SDGs), they struggle to comprehend the targets, indicators, and measurement methods for these goals.
- Senior leadership involvement, such as CEOs, COOs, or CFOs, significantly enhances the integration of sustainable development within organizations.
- Identifying non-financial issues is inadequate without the implementation of formal policies and transparent reporting mechanisms.

71 submissions received

35% Of companies do not report on sustainable development

60% Of companies mention sustainable development in their annual report

40% Of companies have identified strategies on SDGs

78% Of companies do not disclose on SDG targets

Legislations for Sustainability Reporting Compliance

The Securities and Exchange Commission of Pakistan (SECP) as a regulator has been a driving force behind sustainability reporting among companies listed on the PSX through voluntary guidelines. These guidelines, introduced through the Corporate Social Responsibility (CSR) Order in 2009 and subsequent CSR Voluntary Guidelines in 2013, aim to encourage firms to adopt and disclose their sustainability efforts.

The Code of Corporate Governance Guidelines (2017) directs the board of directors to implement environmental, social, and governance practices, along with health and safety measures. This includes reporting on corporate social responsibility activities and compliance with the 2013 CSR Guidelines.

In June 2022, the SECP introduced an ESG Regulatory Roadmap, outlining steps from raising awareness to assessing the impact of ESG practices. As part of this plan, on October 27, 2023, the SECP released Draft Guidelines on ESG Disclosures for Listed Companies, detailing how listed companies can incorporate ESG factors into their business operations and reporting processes. These guidelines, voluntary for listed firms, serve as a recommended baseline disclosure framework and encourage others to follow suit. The SECP will periodically update them to stay relevant in the evolving ESG landscape.

The SECP also encourages Pakistani companies to follow global standards like the Global Reporting Initiative (GRI) for better sustainability reporting. Additionally, the PSX has included sustainability reporting in its rules, highlighting the importance of environmental, social, and governance (ESG) aspects.

Despite these initiatives, the absence of stringent regulatory requirements has resulted in varying levels of transparency among companies in their sustainability disclosures. There remains a need for clearer guidance on disclosure standards to ensure more consistent and effective reporting practices across companies. The businesses have not fully adopted ESG practices in their reporting due to challenges like lack of awareness and insufficient resources for data collection. Without stricter regulations, varying transparency levels might persist in sustainability reporting among companies.

Conclusion

While Pakistan has made progress through voluntary initiatives, there is an urgent need for significant improvements. Collaborative endeavors among regulators, industries, and businesses are pivotal in solidifying the integration of sustainability into reporting practices, thereby cultivating a more responsible business environment within the country.

The Securities and Exchange Commission of Pakistan (SECP) should establish clearer and more stringent guidelines for sustainability reporting so as to ensure consistent and transparent reporting practices across all companies in the country. Without stronger regulations, varying levels of transparency in sustainability reporting will likely persist among companies.