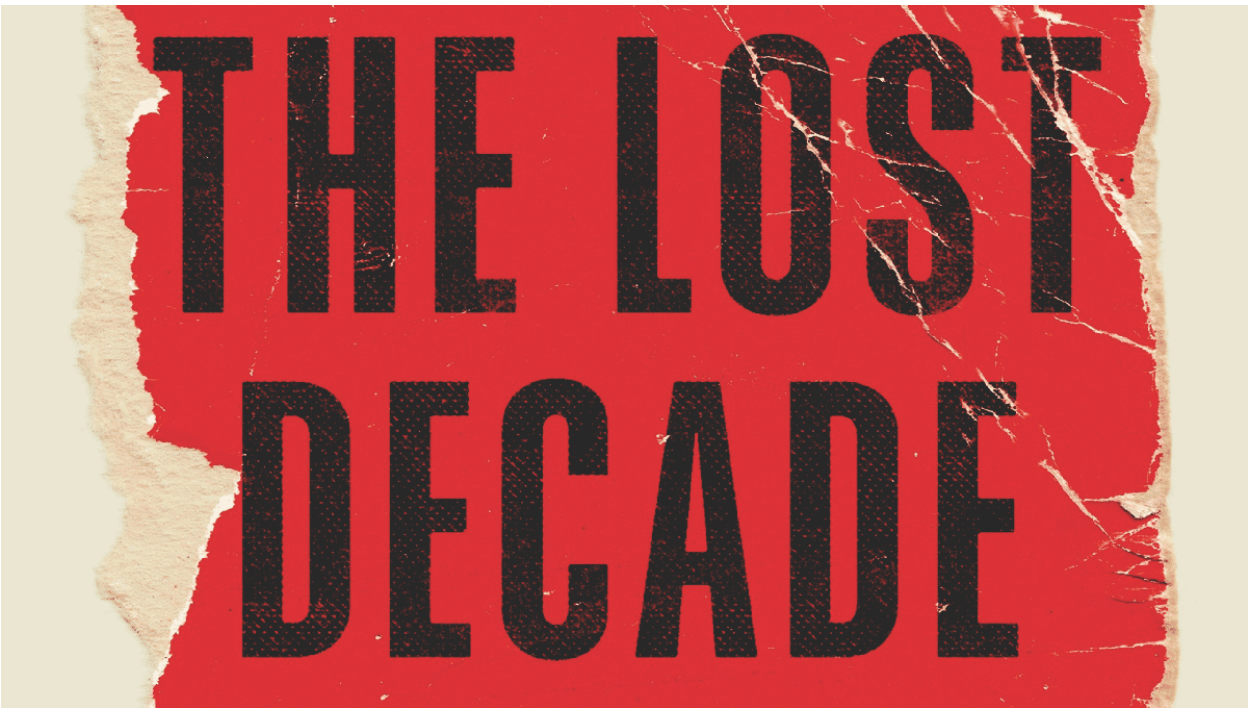
Redesign
Resilience
Regeneration

The Lost Decade: Sustainability Standards Sabotage Sustainability



By Bill Baue

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A *Common Good Resource Paper* from r3.0 (Redesign for Resilience & Regeneration)

"Sustainability requires contextualization within thresholds. That's what sustainability is all about… We don't have decades to get serious about Context in light of the ecological and social perils that lie ahead. I think the time for procrastination has passed and the time for aggressive movement is upon us. The world is issuing a collective wake-up call on the issue of thresholds and limits.
We've lost precious time dawdling in the last decade.
We can't afford another decade of the same."

Global Reporting Initiative Co-Founder Allen White
Interview with Bill Baue
8 November 2013

A car is speeding toward a cliff at 60 miles per hour (mph). As the severity of this situation becomes clear, standard setters emerge to address the problem. An independent group of experts in ***acceleration reduction*** *and* ***direction reversal*** *humbly suggest to standard setters that they should call for* ***slowing down*** *and* ***turning around*** *the car, to avoid hurtling off the cliff and crashing into the chasm.*

"Duly noted" the standard setters respond in a calm but distracted voice, and proceed to spend an entire decade setting standards that ***recalibrate the speedometer*** *to read half the actual speed (60 mph = 30 mph) and* ***replace the steering and braking systems*** *with a GPS system programmed to display the vehicle heading in the opposite direction (despite the fact that the car is still heading straight for the cliff…)*

The new standards are met with widespread celebration ("Hurray – we've averted the hurtling-off-the-cliff-and-crashing-into-the-chasm crisis!"). When the group of ***acceleration reduction*** *and* ***direction reversal*** *experts point out that* ***speedometer recalibration*** *and* ***oppositional GPS displays*** *are actually* ***anti-solutions****, and that* ***actual solutions*** *that exhibit* ***common sense*** *(namely:* ***slowing down*** *and* ***turning around****) have been readily at-hand all along, these experts are dismissed as alarmist. The experts shake their heads over the lost decade and so much more…*

This **lost decade** for sustainability standards carries much broader implications as a lost opportunity for sustainability *writ large!* Just imagine if advances had been made in sustainability standards: those would ripple through to curbing adverse corporate impacts and enhancing beneficial impacts; which would ripple through to supporting deeper investor activism on sustainability; which would ripple through to greater government legislation and regulation for sustainability; which would ripple through to greater societal awareness and action for sustainability; which could ripple through to transform to a world that values *all life* with such depths of love that we humans treat each other, and our precious earth home, with profound respect by perpetually planting seeds to nourish our children's children's children.

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0.1 Interactive Timeline

Historical Context: 2002 - 2013

2002 In its 2nd Generation of *Sustainability Reporting Guidelines* (*G2*), the Global Reporting Initiative (GRI) introduces the *Sustainability Context* Principle, tied to economic, social, and environmental thresholds ("limits and demands"), thereby establishing an *authentic* approach to sustainability.

2006 In its 3rd Generation of *Sustainability Reporting Guidelines* (*G3*), GRI introduces the *Materiality* Principle, inclusive of *not only* traditional reporting's financial materiality thresholds, *but also* sustainability thresholds encompassed in *Sustainability Context*.

2011 In *G3.1*, GRI initiates the process of *sabotaging* sustainability standards by replacing *Significance of Economic, Environmental, and Social Impacts* on the horizontal axis of its *Materiality Matrix* with *Significance to the Organization* – shifting the analysis from a systemic to a narcissistic scope.

2013 In *G4*, GRI refuses to provide implementation guidance on the *Sustainability Context* Principle, despite the fact that 66 prominent sustainability experts co-signed a Public Comment Letter urging it to take this baseline step, and providing a *general specification* as an example of the approach GRI could take.

2013 In its *Conceptual Framework*, the Sustainability Accounting Standards Board (SASB) refuses to integrate the thresholds that define sustainability, repudiating the idea that companies should hold themselves accountable for respecting such thresholds (in addition to external accountability mechanisms).

2013 In its *International Integrated Reporting <IR> Framework*, the International Integrated Reporting Council (IIRC) integrates the multiple capitals, but refuses to call for respecting the carrying capacities of the capitals (respecting sustainability thresholds).

The Lost Decade: 2013 - 2023

2014 The European Union (EU) enters the sustainability standards space, initiating foundational work on its Non-Financial Reporting Directive (NFRD).

2020 When IIRC published its updated *International Integrated Reporting <IR> Framework*, it acknowledged that humanity is approaching "planetary limits," but nevertheless continued to *reject* integrating the carrying capacities of the capitals.

2021 GRI releases its revised *Universal Standards*, eviscerating the "heart of sustainability reporting" of "placing performance information in the broader biophysical, social, and economic context" by eliminating contextualized performance assessment.

2021 The International Financial Reporting Standards (IFRS) Foundation launches an International Sustainability Standards Board (I?SB)[1] that absorbs IIRC and SASB to build on their foundations to create disclosure standards for financially material sustainability-related information.

2022 After shifting framing from NFRD to the Corporate Sustainability Reporting Directive (CSRD) in 2021, the EU develops a set of European Sustainability Reporting Standards (ESRS) Exposure Drafts with sustainability thresholds absent from the overarching Standard, but included in *one* of the Environment Standards (on Biodiversity).

2022 I?SB releases *Sustainability Disclosure Standard Exposure Drafts* that advance a nonsensical definition of sustainability (amounting to definitional cooptation) and a sociopathic approach to materiality that has been likened to focusing on *gunpowder wounds on the trigger finger*.

2023 I?SB issues its first two *Sustainability Disclosure Standards*, which fail to integrate sustainability thresholds, and the *Basis for Conclusions* neglects to document the public input urging I?SB to integrate sustainability thresholds.

2023 The EU releases a revised set of ESRS that expand integration of sustainability thresholds into almost all the Environmental Standards, but thresholds remain absent from the overarching Standards, as well as from the Social and Governance Standards. Just before the final release of the entire set of Standards, the EU releases a Delegated Act that diluted the Standards from mandatory to voluntary. In the end, the EU adopts the ESRS set with thresholds intact, as well as a performance standard approach, but retains the voluntary elements.

The Decade Ahead (2023 →)

2023→ Scenario One (most likely): sustainability standards continue to sabotage sustainability. Scenario Two (possible): sustainability standards make an abrupt about-face to integrate the thresholds that define sustainability and thereby advance *authentic* sustainability.

[1] We at r3.0 universally employ the acronym (I?SB) for the International "Sustainability" Standards Board, to reflect the fact that its Standards are utterly divorced from *authentic* sustainability,

0.2 Executive Summary

Contrary to the superficial case made by many, 2023 was a ***catastrophic year*** for sustainability standards, capping off a ***decade of lost potential*** whereby sustainability standard setters have ultimately ***sabotaged* sustainability**, ***setting back* sustainability efforts by a decade or more** – precisely at the time when humanity needs to be *rapidly* advancing to sustainability…

This r3.0 ***Common Good Resource Paper*** (part of our ***Positive Maverick Thinking*** series) places a robustly evidenced analysis into humanity's collective knowledge commons for contemplation and scrutiny to support critical reflection and undergird strategic decision-making at individual and institutional levels.

After providing a concise **Interactive Timeline** summarizing milestones in the past two decades of sustainability standards sabotaging sustainability, the *Paper* opens with an **Introduction** laying out the case for *how* sustainability standards sabotaging sustainability, by

- ignoring the need to *assess sustainability across scales* (for example, by isolating assessment to the enterprise scale); and more significantly,

- ignoring the *normative thresholds and limits in ecological and social systems that literally define sustainability*

The Introduction anchors the analysis to the idea that normative institutions (such as sustainability standards) play two interdependent roles: a ***conservation*** role of *enforcing existing social norms* that have served us collectively to date; and an ***innovation*** role of stewarding the *cultivation of new social norms* in response to emerging realities that warrant transforming our collective understanding and responses.

As the evidence reveals, despite the fact that *all* of these sustainability standards emerged within our current generation (ie within the past quarter century), these **normative institutions are playing a *conservation* role of enforcing outdated norms**, instead of performing the role one would expect of emergent institutions of stewarding the cultivation of new norms befitting the emerging realities of collapsing ecological and social systems.

The remainder of this *Paper* advances a Robust Analysis in two parts:

- **Part I** establishes the **Historical Context** of the genesis of sustainability standards in their first decade (2002 - 2013), and identifies the first instances of sustainability standards sabotaging sustainability;
- **Part II** documents the **Lost Decade** (2013 - Present) when sustainability standards cemented their sabotaging of sustainability.

Part I kicks off with **GRI's 2002 establishment of the *Sustainability Context* Principle**, which calls for assessing organizational performance in the broader context of sustainability thresholds

("limits and demands") in the ecological and social systems within which organizations operate. This keystone development inaugurated the advent of what was later labeled *Authentic* Sustainability Assessment.

We move to **GRI's 2006 addition of the *Materiality* Principle**, which it married to the *Sustainability Context* Principle by integrating not only traditional materiality thresholds borrowed from financial reporting, but also sustainability thresholds drawn from the physical and social sciences as well as ethical imperatives. We soberly note that this period (2002 - 2011) marks the apex of the development of sustainability standards – it's all downhill thereafter… :-(

GRI's 2011 revision of its *Materiality Matrix* represents "the beginning of the end," as it initiated the process of *sabotaging* sustainability by repudiating the systemic focus of the original *Materiality Matrix*, with its horizontal axis reflecting the *Significance of Economic, Environmental, and Social Impacts*, and replaced it with the narcissistic focus of the new *Materiality Matrix*, with its horizontal axis reflecting *Significance to the Organization.*

The year 2013 introduced a number of new dynamics, including the emergence of new normative institutions in the sustainability standards space: the Sustainability Accounting Standards Board (SASB), and the International Integrated Reporting Council (IIRC). A broader dynamic that applied across the board (at both existing and new standards) was the emergent pattern of *Public Consultation Processes* that *systematically ignored Public Comment Letters* that made clear requests to respect the public interest of assessing sustainability performance authentically (ie in the context of sustainability thresholds).

The Robust Analysis devotes Sections to each of these Public Consultation debacles in 2013:

- In the Public Consultation for the 4th generation of *Sustainability Reporting Guidelines* (G4), **GRI ignored the proposal to provide sufficient guidance to implement the *Sustainability Context* Principle**, despite the fact that 66 prominent sustainability experts signed onto the Public Comment Letter, which also provided a general specification template. (*This example established the pattern of sustainability standards ignoring public input that advocates for measures that clearly advance the public interest – a pattern that persists consistently to this day*.)

- In the Public Consultation for its *Conceptual Framework,* **SASB explicitly rejected the application of the ecological and social thresholds that define sustainability**. (*How can an institution claim to be a "sustainability accounting standard" while simultaneously rejecting fundamental defining features of sustainability?)*

- In the Public Consultation for its *International Integrated Reporting Framework*, **IIRC refused to integrate the carrying capacities of the capitals**, despite the fact that it embraced the multiple capitals (natural, social, human, built, financial, etc) upon which sustainability praxis is predicated (*Why in the world address the capitals unless you're going to address their carrying capacity constraints?*)

The Paper pauses between decades to assess the situation in this pivotal year of 2013, which we **summarize as a period of Lost Opportunity**.

Part II exploring the **Lost Decade (2013 - Present)** kicks off with a few glimpses of progress before focusing on the failure of sustainability standards to divert from their trend of sabotaging sustainability.

From 2014 to 2021, the **European Union entered the sustainability standards space** with EU Non-Financial Reporting Directive (NFRD) that shifted framing in 2021 to the EU Corporate Sustainability Reporting Directive (CSRD) as a platform for developing a set of European Sustainability Reporting Standards (ESRS). This development paralleled work under the Sustainable Finance umbrella developing a Taxonomy that unfortunately adopted a politicized definition over a scientific definition for sustainability thresholds.

In 2020, **IIRC rejected public pleas to integrate the carrying capacities of the capitals** when it updated its *International Integrated Reporting <IR> Framework*, even though it acknowledged that humanity is approaching "planetary limits."

In 2021, **GRI eviscerated "the heart of sustainability reporting"** by removing the performance assessment requirement from its *Sustainability Context* Principle in its revised Universal Standards, despite public input urging against this move.

In 2023, the International Sustainability Standards Board (I?SB)[2] – formed two years earlier by the International Financial Reporting Standards (IFRS) Foundation by merging IIRC and SASB – issued *Sustainability Disclosure Standards* in which **I?SB advanced a nonsensical definition of sustainability (enacting definitional cooptation) and a sociopathic approach to materiality** that has been likened to focusing on *gunpowder wounds on the trigger finger*.

Also in 2023, the **EU issued final ESRS versions, integrating sustainability thresholds into almost all the Environmental Standards**, but not into the overarching Standards nor the Social and Governance Standards. The Delegated Act that formalized the Standards diluted them from mandatory to voluntary. Promisingly, the EU frames the ESRS as a *performance standard*, as compared to GRI's repudiation of *Sustainability Context* as a performance standard.

Having arrived at the present, we pause to reflect back on GRI Co-Founder Allen White's reflections from a decade ago:

> *"Sustainability requires contextualization within thresholds. That's what sustainability is all about… We don't have decades to get serious about Context in light of the ecological and social perils that lie ahead. I think the time for procrastination has passed and the*

[2] We at r3.0 universally employ the acronym (I?SB) for the International "Sustainability" Standards Board, to reflect the fact that its Standards are utterly divorced from *authentic* sustainability,

> *time for aggressive movement is upon us. The world is issuing a collective wake-up call on the issue of thresholds and limits.* ***We've lost precious time dawdling in the last decade. We can't afford another decade of the same****."* [emphasis added]

White's utterance remains as true today as it was a decade ago – things have not improved substantially since 2013 when it comes to sustainability standards embracing the ecological and social thresholds that define *Sustainability Context.*

In this context, the ***Paper* concludes by projecting two scenarios for the coming decade**:

- In **Scenario One**, which we consider most likely, sustainability standards double down on sabotaging sustainability, painting lipstick on this pig by slapping the term "interoperability" on their *ex post facto* attempts to present themselves as consciously coordinated (r3.0 Managing Director Ralph Thurm calls this entrenchment "Fort Interoperability.")

- In **Scenario Two**, which we consider the most vague of possibilities, sustainability standards make an abrupt about-face to integrate the thresholds that define sustainability and thereby advance *authentic* sustainability as a coherent "Sustainability Reporting System."

The latter would have to overcome an incredible amount of inertia, in the form of institutional lock-in, embedded incrementalism and predatory delay, political intransigence, ego entrenchment, corporate capture, systemic bias against sustainability thresholds, shareholder primacy, economic growth fetishization, and ultimately, the inherent violence and unsustainability of the predominant colonizing economy and culture.

But we suspend judgment at least momentarily, and imagine if advances are made in sustainability standards: those would ripple through to curbing adverse corporate impacts and enhancing beneficial impacts; which would ripple through to supporting deeper investor activism on sustainability; which would ripple through to greater government legislation and regulation for sustainability; which would ripple through to greater societal awareness and action for sustainability; which could ripple through to transform to a world that values *all life* with such depths of love that we humans treat each other, and our precious earth home, with profound respect by perpetually planting seeds to nourish our children's children's children.

1.0 Introduction: A Robust Analysis

If you trust superficial analysis, then you would believe that 2023 was a *banner year* for sustainability standards (building on a *banner decade* of development to get to this point), what with the Global Reporting Initiative (GRI) revised Universal Standards going into effect, the launch of the first 2 Standards from the International Sustainability Standard Board (ISSB, or more accurately, I?SB[3]), and the European Commission's Delegated Act instituting the European Sustainability Reporting Standards (ESRS)![4]

If you trust **robust analysis**, however, you will find it crystal clear that 2023 was a ***catastrophic year*** for sustainability standards, capping off a ***decade of lost potential*** whereby sustainability standard setters have ultimately sabotaged sustainability, ***setting back* sustainability efforts by a decade or more** – precisely at the time when humanity needs to be *rapidly* advancing to sustainability…

Stated briefly here at the outset, we encapsulate our case for sustainability standards sabotaging sustainability:

- **GRI** *sabotages sustainability* first by ***refusing*** (in the face of widespread pleas from the most respected voices in sustainability, delivered in accordance with due process) to provide guidance for *Sustainability Context*, its brilliant Principle that foundationally articulated the necessity of measuring organizational (micro-level) performance vis-a-vis (macro/systemic-level) ecological and social sustainability thresholds; and more recently by disavowing performance assessment altogether, transforming *Sustainability Context* into a meaningless exercise of incrementalist relativism.

- **I?SB** *sabotages sustainability* by **co-opting** the term "sustainability" in its overarching framing (ie its name), then utterly abandoning the core concepts of sustainability – namely, cross-scale (ie the above-mentioned micro-macro link) performance assessment against sustainability thresholds; in its insistence on measuring organization-level sustainability exclusively, and explicitly rejecting organizational accountability for broader-scale sustainability impacts, I?SB advances a narcissistic and sociopathic approach to sustainability.

- **ESRS** *sabotages sustainability* **the least** – it embraces a thresholds & allocations and performance-based approach to sustainability, but in a limited, *ad hoc* way in a subset of its second-tier Standards; it also fails to provide guidance for how to implement thresholds & allocations sustainability performance assessment; and, bowing to illegitimate political pressures, it reverted from a mandatory to a voluntary approach. All

[3] In recognition of the fact that the work of the International Sustainability Standards Board is utterly divorced from authentic sustainability, we at r3.0 introduced the acronym "I?SB" as our standard practice for referring to this illegitimate institution, an approach that has been picked up much more broadly.
[4] For a sense of the superficial case for 2023 as a *banner* year for sustainability standards (following a *banner* decade of development, see the Appendix.

of these shortcomings are readily fixable, with sufficient courage and political will, so in that sense, ESRS represents a very tentative "best" hope for undoing the sabotage to emerge as an authentic sustainability standard.

In this document, I walk you through this deeper robust analysis comprehensively, integrating historical contextualization to illustrate the mechanics of how Sustainability Inc deployed incrementalism to colonize the term *sustainability* and divorce it from its fundamental, *authentic* meaning. It did so primarily by:

- ignoring the need to *assess sustainability across scales* (for example, by isolating assessment to the enterprise scale); and

- ignoring the *normative thresholds and limits in ecological and social systems that **literally** define sustainability* (or retaining a superficial commitment to sustainability thresholds while explicitly dismantling the mechanisms for assessing sustainability performance with meaningful levels of accuracy).

Allow me to pause to unpack a few of the key terms / concepts from the section directly above:

- **"Sustainability Inc"** is the term coined by former Timberland COO Ken Pucker in a 2021 *Harvard Business Review* article to characterize corporates and investors who champion incrementalist, market-based solutions "that likely helped to *delay* … much-needed structural transformations."

- **Incrementalism** is a term that has emerged to characterize developments that advance in increments, distinguishing between instances where incremental progress is cast and tracked against normative goals (eg respecting sustainability thresholds), and instances that are *utterly devoid* of normative grounding and simply pursue "less bad". Two examples from my 2019 United Nations *Compared to What?* report and a third from an October 2020 r3.0 article about our ongoing work with the UN help illustrate incrementalism:

    - "Current sustainable development indicators typically **compare performance to incremental goalposts – *less this, less that* – which, of course, doesn't actually tell us anything about the *sustainability* of the impacts**." (p iv) [emphasis added]

    - "In addition to these relatively straightforward forms of intensity indicators, there also exists another form of relative comparison: **progress toward an incremental goal or target,** expressed as a percentage. In Tier One, **this goal / target is non-normative, or what we might call *arbitrary*, in that the goals are not directly tied to sustainability thresholds or norms.** For example, Unilever seeks to halve the environmental footprint of the making and use of its products, while growing its business (see Figure 10). **Will halving its footprint result in sustainable performance? Who knows?** It is theoretically possible that, by pure dumb luck, this performance would end up qualifying as sustainable. But the point is that there is no way to know one way or the other

without explicitly integrating sustainability thresholds into the indicators." (p 14) [emphasis added]

    - "Last month, three independent initiatives announced plans for "convergence" toward "common" standards for sustainability reporting. What these initiatives lacked was a "common denominator," so to speak — there was no overarching logic binding all three approaches, much less such internal coherence within any of the individual initiatives. If anything, the common thread was the general support for incremental approaches to sustainability — and ironically, **sustainability is the opposite of incrementalism, as it is characterized by thresholds and tipping points that delineate sustainable from unsustainable states. In the absence of such thresholds, it is literally impossible to discern where incremental movement stands in terms of achieving sustainability.**" [emphasis added]

- **Sustainability** is indeed *literally* defined by *normative thresholds and limits in ecological and social systems* that need to be assessed *across scales.*
    - The first line of the Wikipedia entry on Sustainability is: "**Sustainability is a social goal** pertaining to the ability of people to inhabit the Earth well into the future." [emphasis added] "Social goal" clearly applies to the societal scale.
    - The entry also states: "**Sustainability is regarded as a 'normative concept'**." [emphasis added]
    - It later states: "Some other key concepts to illustrate the meaning of sustainability include:
        [...]
        - **Scale matters** in both space and time, and place matters;
        - **Limits exist** (see planetary boundaries)." [emphasis added]

- ***Authentic* sustainability** is a framing introduced by the United Nations Research Institute for Social Development (UNRISD) in its November 2022 Manual for its new Sustainable Development Performance Indicators (SDPIs), entitled *Authentic Sustainability Assessment*. This title explicitly distinguishes between *authentic* sustainability assessment, which applies ecological and social sustainability thresholds, and *inauthentic* sustainability assessment, which does not, instead applying incrementalist approaches.

Stepping back, a deeper analysis invites us to *not only* inspect the historical developments, but also interrogate the underlying institutional power dynamics. Here, it is instructive to consider the role of normative institutions, particularly comparing times of relative stasis, when their primary role is to *conserve* pre-existing social norms, to times of relative flux, when the primary role of normative institutions is to *curate innovation* to spur the *necessary emergence* of *new* social norms that are *future-fit*.[5]

The irony of sustainability standards is that they all represent *emergent* institutions established this generation (ie in the past quarter century) whose social license was implicitly predicated on

[5] This analysis of the roles of normative institutions draws on a recent peer reviewed scientific assessment. Jennifer Loughmiller-Cardinal and James Scott Cardinal. 2023. The Behavior of Information: A Reconsideration of Social Norms. *Societies* 13(5). https://doi.org/10.3390/soc13050111 See also a recorded conversation with the researchers: https://vimeo.com/849010639

their role of curating the emergence of new social norms for standardizing sustainability assessment. Alas, as this deeper analysis clearly demonstrates, as history unfolded in reality, all of these emergent institutions reverted to conservatorial roles of enforcing pre-existing social norms that are now lapsing.

Stated more plainly, instead of stewarding us from our unsustainable present to a sustainable future, the normative institutions of "sustainability" standards did (and continue to do) the exact opposite: they entrench(ed) the ever-increasingly dysfunctional and destructive status quo, having abandoned their legitimate innovation role of stewarding the emergence of new social norms anchored to *authentic* sustainability. Effectively, the normative institutions of "sustainability" standards *appear* to be advancing sustainability, when in fact they actually (and insidiously) undermine and thereby sabotage the very transformations necessary to achieve sustainability.

Stepping back even further, the lost decade for sustainability standards carries much broader implications as a lost opportunity for sustainability *writ large!* Just imagine if advances had been made in sustainability standards: those would ripple through to curbing adverse corporate impacts and enhancing beneficial impacts; which would ripple through to supporting deeper investor activism on sustainability; which would ripple through to greater government legislation and regulation for sustainability; which would ripple through to greater societal awareness and action for sustainability; which could ripple through to transform to a world that values *all life* with such depths of love that we humans treat each other, and our precious earth home, with profound respect by perpetually planting seeds to nourish our children's children's children.

All of these potential ripple effects and reinforcing feedback loops are lost. The question is: can we learn from this loss, and transform *this* decade into one of opportunity?

To explore answers to this question, we walk you through our **robust analysis** in two parts:

- **Part I** establishes the **Historical Context** of the genesis of sustainability standards in their first decade (2002 - 2013), and identifies the first instances of sustainability standards sabotaging sustainability.
- **Part II** documents the ***Lost Decade*** (2013 - the present) when sustainability standards cemented their sabotaging of sustainability.

2.0 Part I: Historical Context (2002 - 2013)

The decade[6] of 2002 - 2013 represents the early developmental stage for sustainability standards, which commenced with exceptional promise in terms of advancing *authentic* sustainability. Unfortunately, we here document how sustainability standards started the process of sabotaging sustainability standards by the end of this decade.

2.1 GRI 2002: Enter *Authentic* Sustainability…

A robust analysis of the development of sustainability standards to the present must start in the past – specifically, 2 decades ago, when GRI (which established the sustainability standards field with its 1997 founding) introduced the *Sustainability Context* Principle in its 2nd Generation of *Sustainability Reporting Guidelines* (G2) in 2002. This Principle represents the first-ever articulation of a robust definition of *authentic* sustainability[7] to anchor the still emergent sustainability standards field. The Principle holds that:

> "…sustainability reporting draw[s] significant meaning from the **larger context of how performance at the organisational level affects economic, environmental, and social capital formation and depletion at a local, regional, or global level**… [S]imply reporting on the trend in individual performance (or the efficiency of the organisation) leaves open the question of an organisation's contribution to the total amount of these different types of capital..
>
> **[P]lacing performance information in the broader biophysical, social, and economic context lies at the heart of sustainability reporting**.
>
> [W]hile the ability of an organisation to "sustain" itself is obviously important to a range of stakeholders, ... [t]his principle emphasises the sustainability of the broader natural and human environment within which organisations operate.
>
> [R]eporting organisations should consider their **individual performance … in the context of the limits and demands placed on economic, environmental, or social resources at a macro-level**." [emphasis added]

GRI Co-Founder Allen White, who served as GRI Chief Executive at the time of the establishment of the *Sustainability Context* Principle in 2002, reflected on the historical significance of this articulation in a 2013 conversation with me:

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[6] For the purposes of our analysis, we consider this 11-year period as a decade, as further precision is not really needed or useful.

[7] Remember: the term "authentic" sustainability emerged 2 decades later, when a United Nations agency (United Nations Research Institute for Social Development, or UNRISD) released a Manual on the Sustainable Development Performance Indicators (SDPIs) – which includes a subset of context-based (ie thresholds-and-allocations-based) indicators – entitled *Authentic Sustainability Assessment.* In other words, UNRISD labeled its new indicators in a way that frames existing incrementalist approaches to "sustainability" assessment as "inauthentic."

> "As head of GRI at that point, I felt very strongly that an initiative that purports to be a sustainability initiative **could not simply frame its work along the lines of, shall we say, incremental performance assessment.** That is, companies that were improving each year in regard to water management, energy management, living wages and occupational health and safety should be recognized in the evolving GRI framework. **But incrementalism alone, at the end of the day, was insufficient to be faithful to a sustainability reporting framework**. We would have to **take a further step and include a principle that would call for assessing** — in addition to disclosures on backward-looking benchmarks, peer group comparisons, and improvements against a company's own goals — **performance against thresholds and limits**." [emphasis added]

Continuing to illuminate the distinction between incrementalist ESG and normative sustainability, White continued:

> "...**ESG does not, by nature, carry a true sustainability gene**. A company may rate very highly on an ESG score, but do so just because it has performed well against its own internal goals or against a peer group. But to say this company is an excellent sustainability performer is a very fundamentally different statement. It means that the company is positioned to prosper for the long-term and in a way that **respects limits, thresholds, and norms that are externally defined,** not simply defined by peer group comparison or internal targets and goals. **Sustainability requires contextualization within thresholds. That's what sustainability is all about**." [emphasis added]

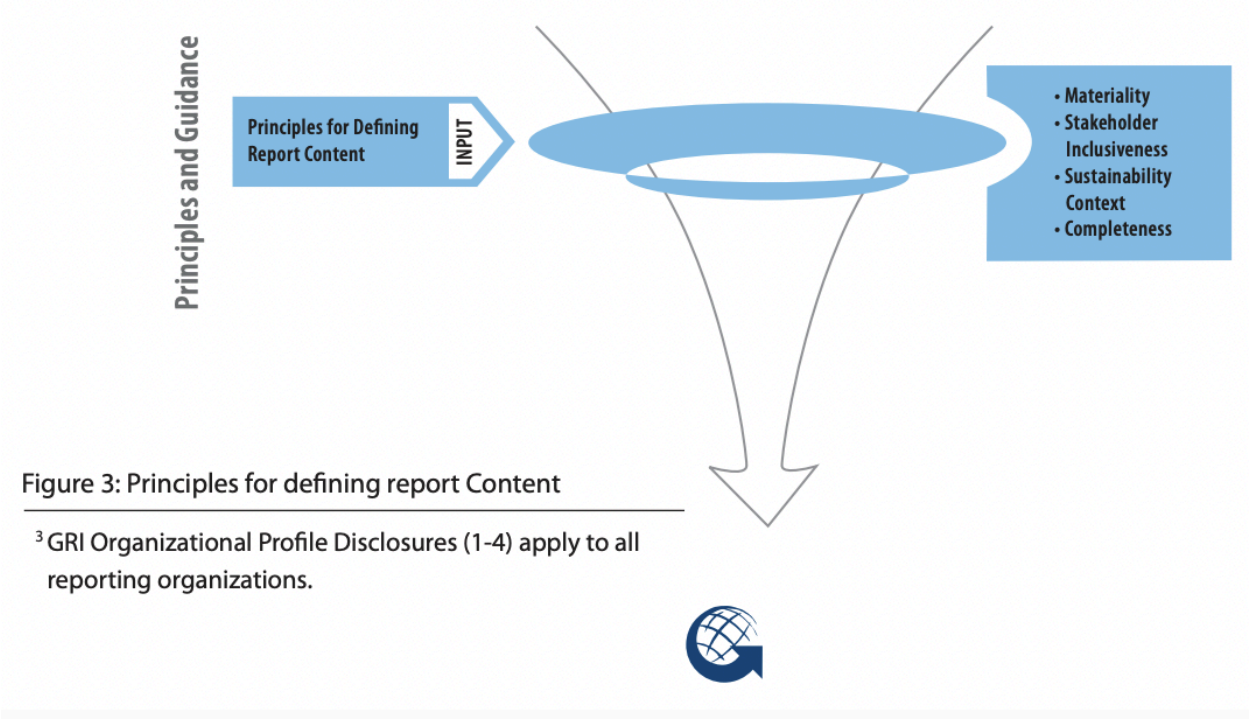
White ended the conversation placing Sustainability Context into the broader historical context:

> "We don't have decades to get serious about Context in light of the ecological and social perils that lie ahead. I think the time for procrastination has passed and **the time for aggressive movement is upon us**. **The world is issuing a collective wake-up call on the issue of thresholds and limits. We've lost precious time dawdling in the last decade. We can't afford another decade of the same**." [emphasis added]

White made this pronouncement in 2013, a decade ago. This deeper analysis examines whether we made up for *precious time lost to dawdling* in the previous decade, or whether we continued to dawdle (or worse…)

2.2 GRI 2006: Enter *Context-Based Materiality*

In 2006, four years after the establishment of the *Sustainability Context* Principle, GRI released its Third Generation of *Sustainability Reporting Guidelines*. G3, as these *Guidelines* were dubbed, introduced a new organizational structure for its Principles, with a first layer of *Principles for Defining Report Content* comprising 4 foundational Principles: *Materiality*, *Stakeholder Inclusiveness*, *Sustainability Context*, and *Completeness*.



GRI G3 Principles for Defining Report Content: Retaining Sustainability Context, Adding Materiality

This new configuration of the Principles both retained existing Principles from G2 (including *Sustainability Context*) and added new Principles – including *Materiality*, which had recently been *redefined* by AccountAbility CEO Simon Zadek and colleagues, expanding the term from its traditional bounded application in financial reporting, to now also apply to sustainability reporting and assessment. G3 picked up on this development, articulating its own definition of *Materiality*:

> "In financial reporting, materiality is commonly thought of as a **threshold for influencing the economic decisions of those using an organization's financial statements**, investors in particular. **The concept of a threshold is also important in sustainability reporting, but it is concerned with a wider range of impacts and stakeholders**. Materiality for sustainability reporting is not limited only to those sustainability topics that have a significant financial impact on the organization. **Determining materiality for a sustainability report also includes considering economic, environmental, and social impacts that cross a threshold in affecting the ability to meet the needs of the present without compromising the needs of future generations.** These material issues will often have a significant financial impact in the near-term or long-term on an organization. They will therefore also be relevant for stakeholders who focus strictly on the financial condition of an organization." [emphasis added]

What's particularly interesting is that G3 frames *Materiality* in terms of two types of *thresholds*: **materiality thresholds**, as commonly understood in financial materiality, and **sustainability thresholds**. In other words, G3's definition of *Materiality* encompasses *Sustainability Context*, and so establishes the foundations for a *Context-based* approach to *Materiality*.[8]

Accompanying this introduction of the *Materiality* Principle was a figure representing a matrix to graphically illustrate the dimensions encompassing *Materiality*, including *Influence on Stakeholder Assessment and Decisions* on the vertical axis and *Significance of Economic, Environmental, and Social Impacts* on the horizontal axis.

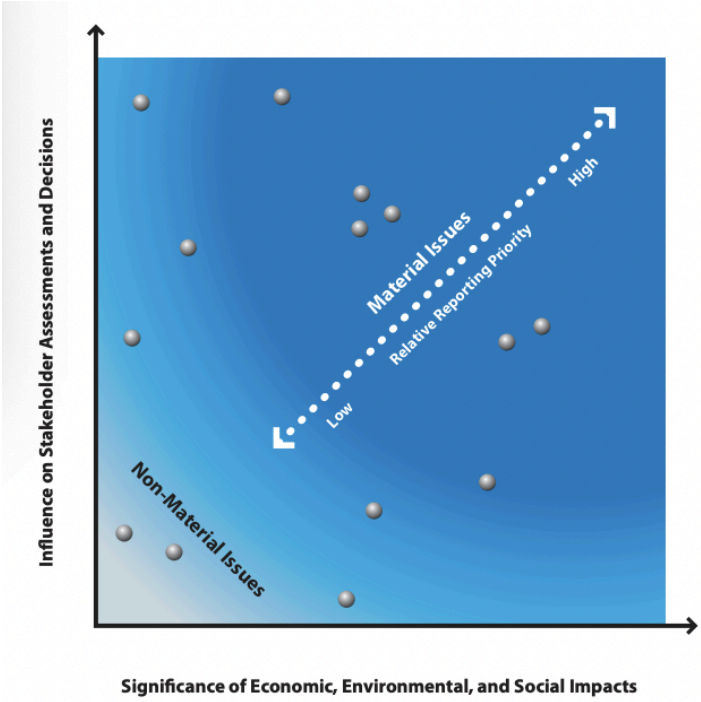


Figure 4: Defining Materiality

GRI G3 Materiality Matrix (2006)

Later, in the Profile section, G3 makes even clearer its commitment to the necessary disclosure of ***inside-out*** **impacts and risks** (ie an organization's impact on its stakeholders and its broader operating environment) and also ***outside-in*** **impacts and risks** (ie the world's impacts on the organization):

> "The reporting organization should provide two concise narrative sections on key impacts, risks, and opportunities.

[8] In 2019, the United Nations Research Institute for Social Development published a report that explicitly laid out a context-based approach to materiality: Mark McElroy. 2019. *Making Materiality Determinations: A Context-Based Approach*. United Nations Research Institute for Social Development. https://www.unrisd.org/en/library/publications/making-materiality-determinations-a-context-based-approach

> *Section One* should focus on the **organization's key impacts on sustainability and effects on stakeholders**, including rights as defined by national laws and relevant internationally agreed standards. This should take into account the range of reasonable expectations and interests of the organization's stakeholders…
>
> *Section Two* should focus on the **impact of sustainability trends, risks, and opportunities on the long-term prospects and financial performance of the organization**. This should concentrate specifically on information relevant to financial stakeholders or that could become so in the future." [emphasis added]

In other words, Section One encompasses *inside-out* impacts, and Section Two encompasses *outside-in* impacts,[9] and together, Sections One and Two encompass a holistic approach to *Materiality* that also integrates the ecological and social thresholds enshrined in the *Sustainability Context* Principle.

This combination of bi-directional *Materiality* with the *Sustainability Context* Principle represented an apex in sustainability standards development. The expectation at the time, of course, was that the development process of strengthening sustainability standards would *continue…*

2.3 GRI 2011: Enter the Sabotage

In 2011, GRI introduced a seemingly modest revision of G3, appropriately labeled G3.1. The key *Sustainability Context* and *Materiality* Principles remained essentially intact.[10] However, a seemingly minor yet ultimately monumental element was added, deep in the *Technical Protocol* for *Applying the Report Content Principles*.

On page 194 of the 200 page document, in the section covering *Step 2: Prioritization* encompassing the *Materiality* assessment, the detailed guidance **completely abandons** the approach to *Materiality* laid out in the *Report Content Principles* section of the upfront *Reporting Guidelines* (on page 8). Specifically, the original *Materiality Matrix* with the vertical axis of *Influence on Stakeholder Assessment and Decisions* and the horizontal axis *Significance of Economic, Environmental, and Social Impacts* is retained in the upfront section, but by the time we get to the detailed guidance of the *Technical Protocol*, the horizontal axis has **completely disappeared**, replaced (*without noting this replacement or further explanation*) by a horizontal axis of *Significance to the Organization.*

[9] In 2019, the European Union coined the term "Double Materiality" to refer to *outside-in* and *inside-out* impacts and risks, making it appear as if it invented this concept that GRI had introduced more than a decade prior.

[10] The concept of "capitals" was removed from the *Sustainability Context* Principle, which weakened the concept. But for the purposes of this analysis, the Principle was articulated in essentially the same way as when it was introduced in G2 in 2002.

Let me repeat that to let its significance sink in: without comment or explanation, GRI **removed** *Significance of Economic, Environmental, and Social Impacts* from the horizontal axis of the *Materiality Matrix,* and **replaced** it with *Significance to the Organization.* An organization assessing the *significance of [its] economic, environmental, and social impacts* is a humane, empathic endeavor. An organization assessing the *significance* of the "Aspect" *to the organization* itself is a self-centered or even *narcissistic* endeavor.

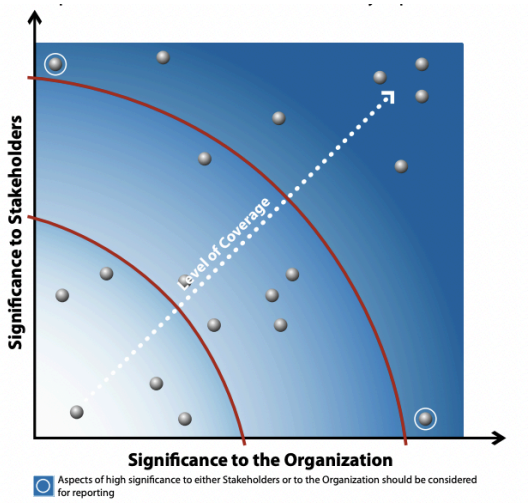


Figure 3: Relative reporting priority

GRI Materiality Matrix (G3.1 - 2011): Enter Sustainability Sabotaging Narcissism

While one might assume that the *Significance of Economic, Environmental, and Social Impacts* is subsumed under the *Significance to Stakeholders* – ie, merging the horizontal axis from the original *Materiality Matrix* into the vertical axis to represent both dimensions, this would amount to just that – an assumption. GRI would have had to actually articulate this merging in order for G3.1 users to safely make this assumption. The evidence reveals that GRI did *not* articulate this.

The *Prioritization* section of the G3.1 Technical Protocol is utterly silent on the question *Significance of Economic, Environmental, and Social Impacts* – it appears *nowhere* in this section. GRI *could have* clarified that the *Significance of Economic, Environmental, and Social Impacts* must be integrated into the *Significance to Stakeholders* assessment, but, quite significantly, it neglects to do so.

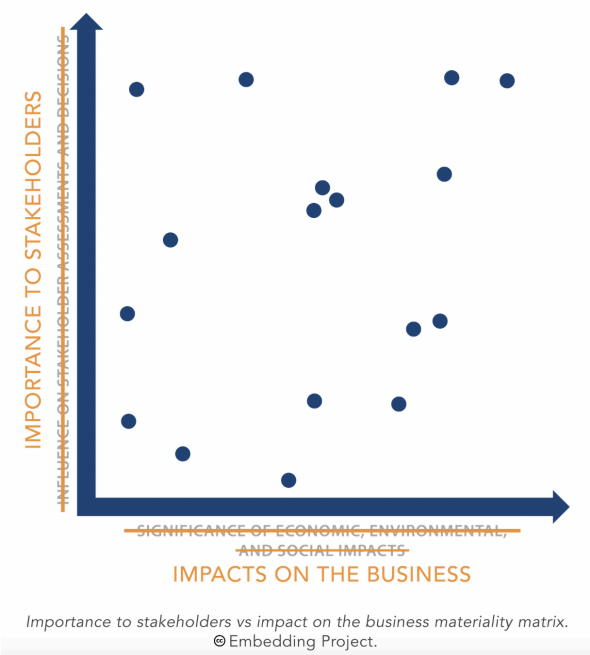
Given the significance of this omission, one cannot interpret it as an inadvertent oversight.

No, the only accurate way to interpret this development is as a purposeful dilution of the *Guidelines*, which amounts to the ***first step in the sabotage of sustainability***.

This development did not go unnoticed. In December 2011, *Sustainable Brands* published an article by Center for Sustainable Organizations Founding Director Mark McElroy identifying this "**myopic change**" that

> "amounts to a **perversion of the idea of materiality in sustainability reporting**, because it essentially **cuts out consideration of what are arguably the most material issues**: the broad social, economic and environmental impacts of an organization, regardless of how they relate to a particular business plan or strategy." [emphasis added]

This fatal flaw remains on the radar screen to this day. As recently as February 2023, the Embedding Project posted a blog spotlighting this same problem (and underlining it with visual representation).



Embedding Project visualization of GRI's "sleight of hand" on "renaming the axes" on its Materiality Matrix in the G3.1 Technical Protocol.

Here's how Embedding Project Founding Executive Director Stephanie Bertels and Knowledge Director Rachel Dekker describe the 2011 development:

> "...determining the significance of economic, environmental, and social impacts was (and is) hard… But fear not, a **quick sleight of hand and renaming of the axes** solves the problem: impacts on the underlying systems around you gets swapped for *impact on the business* and influence on decisions becomes *importance to stakeholders* (now it's just an opinion or a demand). Not to point fingers, but one of the first reports that we found to take this approach was Ford's 2004-2005 sustainability report."

Wait, Ford introduced this narcissistic approach to materiality in 2005, the year *before* GRI even introduced the concept of materiality in G3, and six years before GRI inexplicably shifted to the narcissistic approach to materiality?? It is a material fact that Ford was a major funder of GRI

throughout this period, suggesting the possibility (probability? near certainty?) that Ford funding played *some* role in GRI's "sleight of hand"…

As a brief tangent: To its credit, Ford did make the connection between *Materiality* and *Sustainability Context* here, a year before GRI codified this connection (as noted in our previous section). Here's how Ford framed *Sustainability Context* in its *Materiality* analysis at the time:

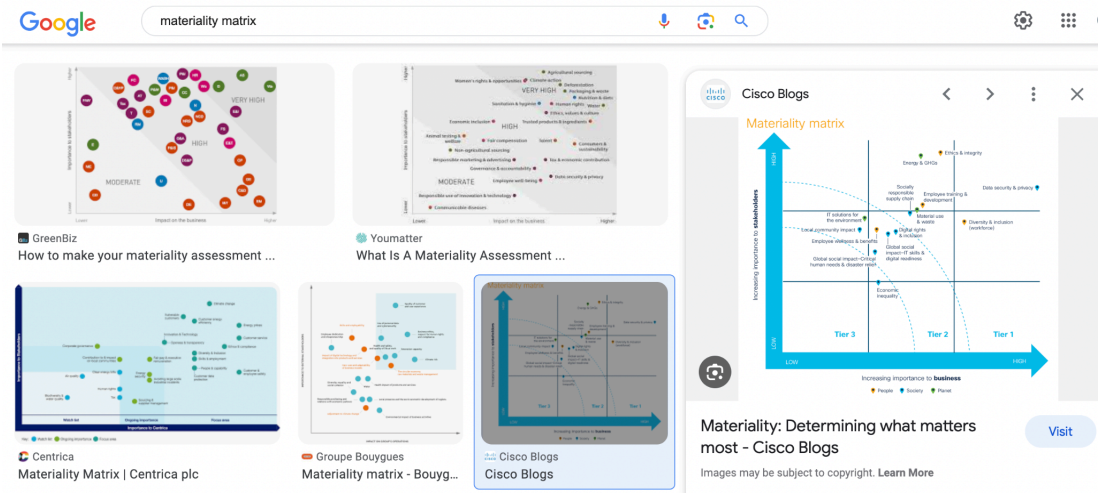
> "We also considered, in a less systematic way, "sustainability context" issues identified through major initiatives like the United Nations Millennium Development Goals and the Millennium Ecosystem Assessment. "Sustainability context" issues represent important global challenges. **While not tied directly to the auto industry**, they sometimes shape the nature of and response to the environmental, social and economic issues we identified." [emphasis added]

Wait, *not tied directly to the auto industry??* Climate change is a core issue under the *Sustainability Context* umbrella, and the auto industry clearly has a *material* impact on climate change (given that internal combustion engines emit copious amounts of carbon dioxide that trigger the greenhouse effect that causes climate change)!

Now, back to Bertels and Dekker, who continue:

> "Next thing we know, we have almost ***two decades*** of materiality assessments that take a decidedly different approach – us versus them. Go ahead, open almost any sustainability report and we bet you will find a materiality matrix full of issues plotted as dots based on their importance to stakeholders and their potential to impact the business."

I encourage you to see for yourself: just do a Google image search for "materiality matrix"...



Google image search for "materiality matrix" yields almost exclusively "Significance to the Organization" on the horizontal axis

So, in the historical development thus far, we see that GRI initiated its commitment to *authentic* sustainability with its introduction of the *Sustainability Context* Principle in 2002 (in G2), and *strengthened* this commitment by integrating contextual sustainability thresholds into its new *Materiality* Principle in 2006 (in G3).

The period when G3 was in force – from 2006 - 2011 – represents a high water mark, if you will, for sustainability standards.

With the publishing of G3.1 in March 2011, GRI started the process of sabotaging sustainability, by shifting *Materiality* from covering the *Significance of Economic, Environmental, and Social Impacts,* to covering the *Significance to the Organization.*

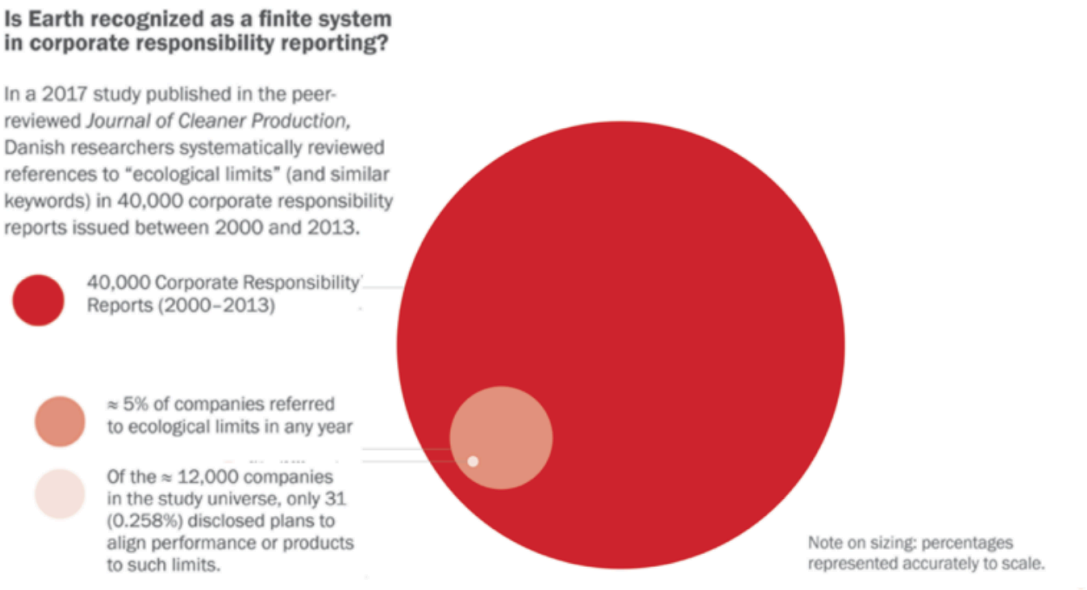
This solipsistic shift set a dangerous precedent, as we will see, but the strength of the *Sustainability Context* Principle remained essentially intact at this point.

2.4 GRI 2013: Whistling Past the Graveyard?

In 2013, as GRI geared up for yet another generational revision of its *Sustainability Reporting Guidelines* (to G4), it became increasingly clear that the *conceptual* strength of the *Sustainability Context* Principle warranted commensurate *guidance* for actually implementing this Principle. As GRI Co-Founder Allen White told me in November 2013:

> "In the best of worlds, reporting would have evolved to supply … Context-based disclosures. But this is not the case… **to this day in the reporting world, as you well know, Sustainability Context is incipient, uneven, and occasional**."

A subsequent scientific study substantiated just this: of the ~40,000 corporate sustainability reports issued from 2000 to 2013, only a tiny percentage (5%) even paid lip service to sustainability thresholds (ie merely mention the term "limits" or contextually related terms), and an infinitesimal percentage (0.238% – 31 of the ~12,000 companies in the study universe) integrated such thresholds into corporate strategy or product development.



Sustainability Context: "Incipient, Uneven, and Occasional"
Data from Bjørn et al 2017; Graphic from Baue / UNRISD 2019

In an intimate conversation after a 2012 seminar at the Tellus Institute where Center for Sustainable Organizations Founding Director Mark McElroy presented on his just-published book introducing Context-Based Sustainability (CBS) as a general framework for implementing the *Sustainability Context* Principle (building on his 2008 doctoral dissertation), White (a Tellus Senior Fellow) advised McElroy and me to gather together a critical mass of respected voices globally who share the perspective that Sustainability Context is woefully under-applied, to collectively advocate for GRI (and others) to address this grievous shortcoming. Isolated voices are harder to ignore than collective voices, White reasoned.

So in 2012, McElroy and I co-founded the Sustainability Context Group (SCG) to gather these experts together in a loose-knit network to conduct *ad hoc* advocacy for *Sustainability Context*. It wasn't hard to find participants – the number of members swelled to nearly 100 quite quickly. As one of the first actions, in September 2012, the SCG submitted a Public Comment Letter to GRI as part of the G4 Public Consultation Period.

In this Letter, 66 signatories (yes, 66!) urged GRI to develop guidance for implementing the *Sustainability Context* Principle to include in G4. To facilitate this task, the Letter proposed a generalized *functional specification* to model how GRI could provide such guidance in a non-prescriptive way. The signatories included a veritable who's who in the field, including:

- GRI Co-Founder Allen White;
- Former GRI COO Ralph Thurm;
- Ecological Footprint Innovator Mathis Wackernagel;
- Ecological Economics Co-Founder Bob Costanza;
- Triple Bottom Line Conceiver John Elkington;

- B Lab Co-Founder Bart Houlahan;
- Embedding Project Founder Stephanie Bertels;
- Center for Social and Environmental Accounting Research (CSEAR) academics Jan Bebbington, Charles Cho, and the late Rob Gray (among several others);
- *Green to Gold* Author Andrew Winston;
- Carbon Tracker Co-Founder Cary Krosinsky;
- *Corporate Responsibility Code Book* Author Deborah Leipziger;
- Climate Stabilising Intensity Targets Creator Chris Tuppen; and
- Impact Entrepreneur Founder Laurie Lane-Zucker.

Given the prominence and sheer number of the proponents, and the utter reasonableness of the request, it was almost inconceivable that GRI would opt *against* honoring this request.

Yet, amazingly, *opt against it GRI did*!

When GRI unveiled G4 at its 2013 Conference, guidance on implementing the *Sustainability Context* Principle was nowhere to be found – prompting *both* SCG Co-Founders to publish scathing critiques (here on *GreenBiz* and here in *The Guardian*). The latter ended on this note:

> "Events at the Amsterdam Stock Exchange on the morning of the G4 launch weirdly foreshadowed GRI's shift from visionary status. After [GRI Chair Herman] Mulder banged the gong opening the trading day, Anne Louise van Lynden of NYSE Euronext presented him with a tombstone plaque and a bronze coin of Mercurius, patron saint of trade, thieves, and boundaries. What's the symbolism? How does Mercury feel about the G4's (mis)handling of planetary boundaries? And what's up with the tombstone – **is GRI whistling past the graveyard? Or is there still an opportunity for GRI to finally provide guidance on how to do sustainability context and recapture its visionary status?"** [emphasis added]

This surreal experience planted the seeds for a recognition that the Public Consultation Process that standard setters follow, ostensibly to be responsive to the public interest, in fact baldly represents a charade. It only takes a moment of reflection to see that, if a standard setter feels emboldened to simply *ignore* formal input from a critical mass (66!) encompassing some of the most respected voices in the field, proposing a common sense measure (*provide sufficient guidance for implementing a Core Principle!*), and furthermore does all the work for them by providing a non-prescriptive general specification, then what can a Public Consultation Process possibly represent other than a *fig leaf*?

Standard Setter Public Consultation Processes = Fig Leaf

This recognition of the *performative* nature of sustainability standard setter Public Consultation Processes has only been validated time and again over the intervening decade, as is evidenced *extensively* in this document. This dynamic affirms the interpretation that these standard setters, instead of serving as *emerging* normative institutions to curate *emerging* social norms that necessarily adapt to *emerging* new realities (such as the increasing recognition of the *unsustainability* of the existing economic, financial, and corporate systems), quite oppositely they served as *emerging* normative institutions that perversely served to *entrench* the status quo and thereby *sabotage* sustainability.

Unfortunately, as I will lay out later, GRI has not only failed to recapture its visionary status suggested in the quote directly above, but it actually *backtracked* on the *Sustainability Context* Principle…

2.5 SASB 2013: "Sustainability" Standard Rejects Sustainability

If you worked in the corporate / investment sustainability space in 2010, chances are high that Jean Rogers (then of Arup) sent you a confidential copy of *The Deck* – her famous powerpoint presentation that comprehensively and meticulously laid out the case for creating a Sustainability Accounting Standards Board (SASB). This deck, complemented by a June 2010 Harvard paper by Rogers, Steve Lydenberg, and David Wood entitled *From Transparency to Performance: Industry-Based Sustainability Reporting on Key Issues*, did its magic, and SASB was established in 2011, and formally launched on 4 October 2012.[11]

Interestingly, as early as 28 September 2012 – before even formally launching – SASB saw fit to post a statement on Context on its website that issued a preemptive "shot across the bow" arguing *against* Context-Based Sustainability. After validating several "legitimate" forms of

[11] I was among the ~100 members of the original Advisory Council, which SASB reconstituted once the Council had served its purpose.

context, such as peer-to-peer comparison and industry-to-industry comparison, SASB explicitly rejects a context-based approach to assessing entities' sustainability performance:

> "Proponents of context-based sustainability argue for the measurement, management, and reporting of sustainability performance in terms of impacts on vital capital resources. This view interprets sustainability performance as a function of the impacts of an organization relative to the carrying capacity of local, regional, and global systems.
>
> SASB is setting minimum standards for an entity to report material sustainability impacts in their Form 10-K. The data that will be included must be of similar high quality as financial data, and auditable. Therefore, **SASB will not, as a rule, ask entities to report on the carrying capacity of local, regional, and global systems at this time**. Use of SASB standards will provide excellent quality entity level data by which companies can be compared against one another. **SASB believes that it is the role of the analyst and academic communities to establish capacity limits and to interpret this data relative to carrying capacity, and the role of regulators to effect policy if limits of capacity are endangered.** SASB furthermore believes that **asking companies to provide local, regional, and global data, because it is not under their control or influence, and because it is not standardized or auditable, would be redundant, cost prohibitive, and counter-productive.** Therefore "full quotient metrics"[12] will not generally be required." [emphasis added]

In other words, SASB does **not** consider it the responsibility of the entity itself to use resources that stakeholders rely on for the wellbeing in ways that preserve the sustainable quality and quantity of those resources. *Leave it to analysts and academics and regulators to hold entities accountable for transgressing sustainability thresholds,* SASB essentially says, *but by all means, **do not ask entities to hold themselves accountable for unsustainable impacts. Indeed, that would be counter-productive.***

SASB's assertion of counter-productivity runs contrary to logic – and ethics.

These issues played out more formally the next year, when SASB released the *SASB Conceptual Framework Exposure Draft* in June 2013, as part of a 45-day Public Consultation Process. The Sustainability Context Group submitted a Public Comment Letter with 37 signatories, including many who had signed the GRI G4 Public Comment Letter, as well as some new names, such as Libby Bernick of Impact-Cubed and Jackie Cook of Morningstar.

The SCG Letter commenced by applauding the "the *Framework's* grounding in the multi-capital model as a basis for accounting for and disclosing material sustainability issues" – in particular its coining of the term "common capitals," which are "those that are available to companies as a

[12] "Full quotient metrics" refers to the *Sustainability Quotient*, conceived by Mark McElroy and published in his 2008 doctoral dissertation, which held that S = A / N, where S = Sustainability, A = actual impacts on the carrying capacities of vital capital resources, and N = normative impacts on the carrying capacities of vital capital resources.

source of value creation but that are not owned or controlled by those companies." This positive foundation set the stage for constructive critique:

> **The Conceptual Framework's commitment to the multi-capital model could stand to be strengthened.** The underlying reason for measuring and managing impacts on capitals in all forms – which constitute the very foundations of value creation – is to enhance or maintain the stocks for future use in supporting shareholder value and stakeholder well-being, or at a minimum, to signal when their availability and/or quality is threatened to such a point that adaptive management actions are needed to maintain continuity of business operations. By creating a framework that instructs companies to report their use of a shared capital stock with no supporting acknowledgment of the size of that capital stock, its health, or the reporting company's claim of share for the stock in question, SASB is, in our opinion, missing a critical step in helping companies and investors better evaluate sustainability risks and opportunities—namely, the step of placing corporate sustainability metrics in their appropriate supporting "context".

The SCG Letter culminated in two interrelated points that fundamentally challenged SASB's stance against Context due to third-party data constraints:

> **In light of the general absence of third party standards for the determination of such context for "Common Capitals", it is incumbent on the reporting companies themselves (and/or their industry) to provide best-available and transparent "context" data for common capitals** – in other words, to provide the thresholds for company-level (and/or industry-level) impacts on common capitals that sustain common capital stocks and flows sufficient for ongoing value-creation.
>
> **While we understand that this imposes a burden, we believe it is absolutely necessary.** No company, nor its shareholders and stakeholders, can evaluate its performance vis-à-vis common capitals without such context. To exclude this context from the accounting process would encourage business reporting of potentially meaningless numbers that do little to improve performance – financial and non-financial – through improved risk/opportunity analysis, securing of license to operate, and quantifying externalities for the purpose of internalizing them. Turning the tables, company use of common capitals places burdens (historically, presently, and into the future) on individual stakeholders and society at large, some of which have eroded the availability and viability of common capitals for ongoing use by companies, stakeholders, and society at large (beyond the thresholds of our planetary boundaries in certain instances). We believe the burdens placed on companies for identifying the context for sustaining common capitals is altogether commensurate with the burdens companies impose on common capitals, stakeholders, and society, and therefore represents minimum, decision-useful, material information.

Unfortunately, when SASB published its *Conceptual Framework* in October 2013, it rejected the proposed context-based approach to sustainability, opting instead for a context-free approach to

"sustainability" that defies the meaning of sustainability, given that it is predicated on the fact that *limits exist*.[13]

As a formal standard setter, SASB had a responsibility to provide formal responses to the Public Comment Letter inputs (as compared to *de facto* standard setters who are free to simply ignore Public Comment Letters without rationalization, as the GRI G4 Public Consultation Process demonstrates.) The SASB *Conceptual Framework Record of Public Comments* responded to three of the Sustainability Context Group points.

Bill Baue, Sustainability Context Group	2.6	Accounting for Non-financial Capital	...We do not agree with the mutual exclusivity the Exposure Draft implies in 2.6 and 2.7, whereby the minimum decision-useful information for comparing performance between peers and industries necessarily precludes a degree of accounting or information associated with scientific accuracy and target setting. To the contrary, we believe investors and other end-users of SEC-mandated material information have a right to expect, at minimum, data that aligns with scientific accuracy and underpins target setting.	Comment noted. SASB's mission is to provide decision useful information, which means the ability to discern relative differences in corporate performance, not absolute, weighing the costs and benefits of providing such information. Information provided in the Form 10-K is not meant for public policy- or government target-settings, where absolute values are necessary.

In the first instance, the SCG Letter stated:

> "...We do not agree with the mutual exclusivity the Exposure Draft implies in 2.6 and 2.7, whereby the minimum decision-useful information for comparing performance between peers and industries necessarily precludes a degree of accounting or information associated with scientific accuracy and target setting. To the contrary, we believe investors and other end-users of SEC-mandated material information have a right to expect, at minimum, data that aligns with scientific accuracy and underpins target setting."

To which SASB responded:

> "Comment noted. SASB's mission is to provide decision useful information, which means the ability to discern relative differences in corporate performance, not absolute, weighing the costs and benefits of providing such information. Information provided in the Form 10-K is not meant for public policy- or government target-settings, where absolute values are necessary."

Two issues with this response warrant analysis.

[13] As noted earlier, the Wikipedia definition of "Sustainability" asserts (among other things) that "limits exist." See also the Harvard paper that SASB Board Member and Standards Council Chair Steve Lydenberg wrote (as a kind of companion piece to the Rogers / Lydenberg / Wood Harvard paper *From Transparency to Performance* mentioned earlier), *On Materiality and Sustainability: The Value of Disclosure in Capital Markets* (September 2012), in which he writes: "The organization Sustainable Measures has succinctly identified these underlying and unifying aspects of sustainability. 'All the definitions [of sustainability] have to do with: Living within the limits; Understanding the interconnections among economy, society, and environment; Equitable distribution of resources and opportunities.'"

- First, “comment noted” is polite vernacular for “comment ignored”;[14]
- Second, in order to legitimately ignore a comment, a standard setter would need to clearly establish the irrelevance of the comment. SASB’s rationale does the opposite, essentially mis-defining sustainability as if it is incrementalist (“relative differences in corporate performance”), instead of being normative (“where absolute values are necessary.”) It is utterly nonsensical to define sustainability as relativist when applied by companies, and absolutist when applied by governments. SASB’s contorted definition of sustainability essentially seeks to create a moral and ethical vacuum that erases corporate agency and accountability, and mistakenly suggests that companies *only* have agency and accountability in response to governments’ legal mandates. What a truly terrifying vision!

Bill Baue, Sustainability Context Group	3.44	The Source of Materiality of Industry-specific Sustainability Issues	Thankfully, the SASB Framework lends itself to a context-based approach in three ways, therefore requiring very little modification of the existing format. Our suggestions for how to include robust and impactful "context" requirements are as follows: a. Revise the "Forward-looking Adjustment" Principle form "externalities" to "sustainability context" to more comprehensively cover all three "main factors" identified by the Exposure Draft (3.44- "extensive license to operate" and "use of common capitals" in addition to high costs on society and/or environmental externalities"); b. In the "Characteristics of Sustainability Accounting and Disclosure: Principles" section (4.2), replace "directional" (and its definition) - which lacks the necessary elements of time/pace and proximity to relevant social or ecological threshold that define sustainability - with "contextual: The metric provides clarity about whether the numerical value signals sustainable performance"; c. Multi-Stakeholder Industry Working Groups present an ideal opportunity to initiate discussion toward identifying methods that companies can use to determine their sustainability thresholds in material area of impact for their industries. We believe this is the most cost-effective means of	Comment noted. The context of company's operation in crucial to understanding the impact of that company on sustainability issues. However, SASB believes that the analysis and reporting of such context information is not within the boundary of current disclosure requirements. Contextual information is not auditable or comparable, nor is it within the control of corporations and therefore it does not meet the criteria we set out for good metrics. Complete accounting to provide context is not SASB's objective. SASB provides context by enabling investors to benchmark performance. Understanding limits and aggregate impacts is the work of analysts, policy makers, and regulators.
			sourcing this necessary information, as it spreads the burden across the peer-group. Regardless, we believe the benefits of clearly identifying industry-specific sustainability thresholds far outweigh the costs of unsustainable performance.	

In the second instance, the SCG Letter states:

> “**Thankfully, the SASB Framework lends itself to a context-based approach in three ways, therefore requiring very little modification of the existing format.** Our suggestions for how to include robust and impactful "context" requirements are as follows:
>
> a. Revise the "Forward-looking Adjustment" Principle from "externalities" to "sustainability context" to more comprehensively cover all three "main factors" identified by the Exposure Draft (3.44- "extensive license to operate" and "use of common capitals" in addition to high costs on society and/or environmental externalities");

[14] I can think of more frank translations of what SASB *really* meant, but I will spare you…

b. In the "Characteristics of Sustainability Accounting and Disclosure: Principles" section (4.2), replace "directional" (and its definition) - which lacks the necessary elements of time/pace and proximity to relevant social or ecological threshold that define sustainability - with "contextual: The metric provides clarity about whether the numerical value signals sustainable performance";
c. Multi-Stakeholder Industry Working Groups present an ideal opportunity to initiate discussion toward identifying methods that companies can use to determine their sustainability thresholds in material areas of impact for their industries. We believe this is the most cost-effective means of sourcing this necessary information, as it spreads the burden across the peer-group. Regardless, we believe the benefits of clearly identifying industry-specific sustainability thresholds far outweigh the costs of unsustainable performance."

To which SASB responded:

> "Comment noted. The context of [a] company's operation [is] crucial to understanding the impact of that company on sustainability issues. However, SASB believes that the analysis and reporting of such context information is not within the boundary of current disclosure requirements. Contextual information is not auditable or comparable, nor is it within the control of corporations and therefore it does not meet the criteria we set out for good metrics. Complete accounting to provide context is not SASB's objective. SASB provides context by enabling investors to benchmark performance. Understanding limits and aggregate impacts is the work of analysts, policy makers, and regulators."

Here, SASB advances the illogical argument that the "work" of "understanding limits" (ie sustainability thresholds) falls *exclusively* on actors who *don't* create the impacts in question ("analysts, policy makers, and regulators"), while it is (for some unexplained reason) decidedly *not* the work of the actors *who are actually responsible for the impacts* to assess (*and bear accountability for*) the sustainability of their own impacts in the context of "aggregate impacts."

The Three Stooges approach to accountability

The image that comes to mind is the Three Stooges approach to accountability: point the finger at anyone else but me!

It is unclear if SASB holds that corporate boards and executives are, by definition, *intellectually deficient* and therefore incapable of assessing their own impacts in the context of aggregate impacts, and only analysts, policy makers, and regulators have the necessary intellectual capacity. This is the only explanation I can come up with for this otherwise inexplicable externalization of accountability determination from the accountable party.

Finally, the assertion that “SASB provides context by enabling investors to benchmark performance” is only true if one ignores *sustainability* performance, which *requires* reference to ecological and social thresholds. So what SASB is advancing is the illogical stance that an emergent sustainability accounting standards board should support the assessment and benchmarking of performance of various sorts – *except* sustainability performance!

Bill Baue, Sustainability Context Group	N/A	Definition of Sustainability	The Conceptual Framework's commitment to the multi-capital model could stand to be strengthened... By creating a framework that instructs companies to report their use of a shared capital stock with no supporting acknowledgement of the size of that capital stock, its health, or the reporting company's claim of share for the stock in question, SASB is, in our opinion, missing a critical step in helping companies and investors better evaluate sustainability risks and opportunities - namely, the step of placing corporate sustainability metrics in their appropriate supporting "context"... We believe the long-term viability of the SASB Framework (as well as the long-term viability of capital markets and human existence on our planet) hinges on requiring companies to measure and disclose their impacts on the multiple capitals within the "context" of sustaining stocks of these vital common capitals at levels required to ensure ongoing shareholder value creation and stakeholder well-being.	Comment noted. Definition of sustainability was clarified with respect to different nomenclatures (ESG, capitals etc.).

In the third instance, the SCG Letter states:

> The Conceptual Framework's commitment to the multi-capital model could stand to be strengthened... By creating a framework that instructs companies to report their use of a shared capital stock **with no supporting acknowledgement of the size of that capital stock, its health, or the reporting company's claim of share for the stock in question**, SASB is, in our opinion, missing a critical step in helping companies and investors better evaluate sustainability risks and opportunities – namely, the step of placing corporate sustainability metrics in their appropriate supporting "context"... We believe **the long-term viability of the SASB Framework (as well as the long-term viability of capital markets and human existence on our planet) hinges on requiring companies to measure and disclose their impacts on the multiple capitals within the "context" of sustaining stocks of these vital common capitals at levels required to ensure ongoing shareholder value creation and stakeholder well-being.** [emphasis added]

To which SASB responded:

> Comment noted. Definition of sustainability was clarified with respect to different nomenclatures (ESG, capitals etc.).

This response makes it crystal clear what SASB means by “comment noted”: the final version of the *Conceptual Framework* made minor tweaks to the definition of sustainability, but did *not* attend to the defining aspect of “requiring companies to measure and disclose their impacts on the multiple capitals within the "context" of sustaining stocks of these vital common capitals at levels required to ensure ongoing shareholder value creation and stakeholder well-being.”

In other words, SASB’s response is a non-response, which utterly ignores the issues raised, without acknowledging that it is doing so, which is disingenuous at best, and existentially (“long-term viability of … human existence on our planet”) unethical and irresponsible at worst.

SASB’s approach to a Public Comment Process – namely, claiming to value the public interest while in actuality ignoring public input that doesn’t align with its predetermined decisions – reinforces the GRI experience in 2013 described above: that standard setter Public Comment Processes are actually shams that serve only to insult our collective intelligence through utter disregard for the public interest.

2.6 IIRC 2013: Capitals? *Yes!* Carrying Capacities of Capitals? *Not So Much…*

Interestingly, another standard-setter emerged around the same time as SASB, pursuing a very similar goal: the integration of extra-financial and financial reporting. The International Integrated Reporting Council (IIRC) launched in 2010, picking up on advocacy for integrated reporting from influential actors such as Mervyn King (the 2009 *King Code of Governance for South Africa*, or King III, advocated for integrated reporting); Bob Eccles and Mike Krzus (their 2010 book *One Report* advocated for “integrated reporting for a sustainable strategy); and Prince Charles (who, under the umbrella of his Accounting for Sustainability initiative, famously convened the seminal December 2009 meeting planting the seeds for the formation of IIRC).

One of the first tasks of the IIRC was to commission a series of background papers, including a *Background Paper on Value Creation* (prepared by EY as the Lead Organization) that included the following paragraph (the famous *Paragraph 58*) at its conclusion:

> 58 Ultimately value is to be interpreted by reference to **thresholds** and parameters established through stakeholder engagement and **evidence about the carrying capacity and limits of resources on which stakeholders and companies rely for wellbeing and profit**, as well as evidence about societal expectations. Interconnections between corporate activity, society and the environment and the purpose of the corporation should therefore be understood in terms of **what the corporation, society and the environment can tolerate and still survive – that will be the main determinant of value. The challenges will be to reach agreement at corporate, national and international level on what those thresholds and limits are, how the**

> **resources within those limits should be allocated, and what action is needed to keep activity within those limits so that value can continue to be created over time.** [emphasis added]

Soon thereafter, the International Integrated Reporting Council (IIRC) released a *Consultation Draft* of its *International Integrated Reporting <IR> Framework* in its own Public Consultation Process. Oddly, the ideas embedded in Paragraph 58 were nowhere to be found in the *Consultation Draft.* Here again, the Sustainability Context Group (SCG) submitted a Public Comment Letter, and as with the GRI G4 Public Comment Letter, the signatories numbered over 60.

This SCG Letter was quite concise, comprising essentially two parts to lay out a common-sense case:

- First, SCG fully supported, "in the strongest possible terms, the *Framework's* **grounding in capital theory** as a basis for measuring, assessing, and reporting organizational performance."
- Second, SCG noted that a commitment to a multi-capitals approach essentially entails a concomitant commitment to measuring, assessing, and reporting organizational performance on the "**carrying capacities of the capitals**."

The SCG lays out the case for the latter in three steps.

First, it establishes the connection between capitals and performance assessment, with stakeholder well-being as a vitally important intermediary consideration:

> "The performance of an organization, that is, is a function of what its impacts on vital capitals of importance to stakeholder well-being are. This is because **capitals constitute resources that stakeholders depend on for their well-being. Any organizational activity that puts the quality or sufficiency of such capitals at risk can put the organization itself at risk, not to mention shareholder value**. Impacts on vital capitals should therefore be measured, so as to be effectively managed." [emphasis added]

The second step logically follows, extending the impact from the organization (and shareholder value) to stakeholders, taking a *stocks-and-flows* – as well as a *quality and sufficiency* – approach to defining and assessing impacts on capitals :

> "Capitals can, in fact, be quantified in terms of their stocks and flows, as well as the effects of impacts upon them. Indeed, Costanza et al (*An Introduction to Ecological Economics*, 1997) define **capital as "a stock that yields a flow of valuable goods or services into the future."** With this in mind, we believe the IIRC's *Framework* should encourage organizations to **assess and report their performance not just in terms of impacts on vital capitals, but on the quality and sufficiency of capitals at levels**

> **required to ensure stakeholder well-being.** This has measurement implications that we do not believe the current draft of the *Framework* fully does justice to." [Emphasis added]

The third and final step is to express capital stock-and-flow quality and sufficiency in terms of carrying capacities:

> "For example, the size of capital stocks and flows of capitals can be expressed, both conceptually and quantitatively, in terms of their carrying capacities: **The Carrying Capacities of Capitals**. **This is an attribute of capitals that actually enhances the ability to measure impacts on them**, and which is otherwise part and parcel of capital theory in a way that deserves recognition (see Capital Theory References.)
>
> **Here it should be clear that the conceptual commitment to vital capitals as a key principle in performance measurement and reporting necessarily entails a co-commitment to the principle of carrying capacity, since it is precisely the fact that capitals are limited in their scope and supply that makes them so relevant.** Thus, measuring and reporting the effects of organizational activities on the carrying capacities of vital capitals should be encouraged in the Framework, while deferring to organizations themselves to innovate and experiment with alternative means of doing so." [emphasis added]

While the common sense of this case is crystal clear (IIRC's commitment to a capitals-based approach carried with it a collateral commitment to the carrying capacities of the capitals as the logical endpoint of the original commitment), nonetheless the final version of the *International Integrated Reporting <IR> Framework* failed to reflect this common sense.

Stated more concisely: the IIRC *International <IR> Framework* consciously advanced an internally inconsistent structure, committing to the capitals while irrationally rejecting the carrying capacities of the capitals. Here's how the Sustainability Context Group analyzed the situation later:

> "When IIRC released the *International <IR> Framework* in December 2013, it retained its commitment to the multiple capitals, but it did not integrate the carrying capacities of capitals. While the *<IR> Framework* may seem to integrate the carrying capacities of capitals, a careful read reveals that the *<IR> Framework* goes to pains to explicitly *exclude* this interpretation (i.e., it explicitly excludes the carrying capacities of capitals). Quoting three key passages helps illuminate this fact (with emphasis added, and commentary appended, to aid in this understanding); the first two quotes skirt the possibility of calling for the integration of the carrying capacities of capitals, but the third quote hammers nails into the coffin of the possibility of integrating the carrying capacities of capitals.

a. “4.54 Disclosures about the capitals, or a component of a capital … Include the factors that affect their **availability, quality and affordability** and the **organization’s expectations of its ability to produce flows from them to meet future demand**. This is particularly relevant with respect to **capitals that are in limited supply, are non-renewable, and can affect the long term viability of an organization’s business model.**” [emphasis added]

> i. ***Commentary***: This passage comes tantalizingly close to calling for the integration of carrying capacity, though a close reading reveals that it merely mentions that capitals may be “in limited supply” and “non-renewable,” and that external “factors” may “affect” capital “availability, quality, and affordability,” but it does not call for assessing the *company’s own impacts on the capitals*, in particular those that may either exceed ecological, or fall below social, thresholds of carrying capacity.

b. “2.14 Although organizations aim to create value overall, **this can involve the diminution of value stored in some capitals**, resulting in a net decrease to the overall stock of capitals. In many cases, whether the net effect is an increase or decrease (or neither, i.e., when value is preserved) **will depend on the perspective chosen**; as in the above example, employees and employers might value training differently. In this Framework, the term value creation includes instances when the overall stock of capitals is unchanged or decreased (i.e., when value is preserved or diminished).” [emphasis added]

> i. ***Commentary***: Here, the use of the term “net” could tempt an interpretation that this refers to the threshold of the carrying capacities of capitals, but a careful reading reveals that it merely means a “net” decrease or increase: the term “net” does not refer to a carrying capacity threshold.

c. “4.46 This Framework **does not require** an integrated report to provide an exhaustive account of all the complex interdependencies between the capitals **such that an organization’s net impact on the global stock of capitals could be tallied**.” [emphasis added]

> i. ***Commentary***: This is the “smoking gun” proof that the *Framework* does not embrace the carrying capacities of capitals, but rather demonstrates active antipathy to the concept. And we find it quite shocking to read this, given that it creates a kind of intellectual incoherence and cognitive dissonance. On the one hand, the <*IR*> *Framework* robustly advocates for companies to account for their impacts on the multiple capitals in nearly all of the 150 times the term is mentioned in its 37 pages, but in this one instance – arguably the most relevant and important instance, as the global stock of capitals is what we as humanity have as our collective

> resources – the <*IR*> *Framework* unequivocally advocates against companies accounting for their "net impact on the global stock of capitals…".

I distinctly remember an intimate dinner at the 2016 GRI Conference with Mervyn King, a key architect and Chair Emeritus of IIRC, where I asked him if his original commitment to capitals also inherently entailed a commitment to sustaining their sufficiency and quality (ie their *sustainability*), and he responded with a somewhat confused look on his face, saying something along the lines of: "Of course! Why in the world would you assess impacts on capitals if not to assess their quality and sufficiency?"

2.7 2013 Summary: Opportunity Lost…

So, to summarize, the year 2013 commenced with the greatest opportunity to *advance* sustainability standards, with one existing (*de facto*) standard (GRI) and two emerging standards (SASB and IIRC) enacting Public Consultations on how to align their standards with the public interest. It seems fair to expect the outcome to be *enhancement* of the sustainability standards landscape.

Unfortunately, instead of delivering on this promise by *improving* sustainability standards, these three standard setters demonstrably *eroded* the quality of sustainability standards:

- **GRI** inexplicably *refused* to provide guidance for enacting the Sustainability Context Principle;
- **SASB** *insisted* on advancing an approach to "sustainability" accounting that *consciously rejected* the thresholds & allocations that *define* sustainability; and
- **IIRC** embraced the multiple capitals but *explicitly opted against* taking the next logical step of embracing the carrying capacities of the capitals.

3.0 Part II: The Lost Decade (2013 - Present)

We borrowed the idea of the *Lost Decade* from the infamous *Lost Weekend* – former Beatles frontman John Lennon's two years of sex-and-drug fuelled debauchery in Los Angeles, after which he returned apologetically to his wife Yoko Ono in 1975 and spend the next 5 years in domestic bliss with their new child Julian. Similarly, the decade from 2013 to the present offered an opportunity to *reverse* the worrying trend of sustainability standard setters abandoning sustainability, a particularly important goal given that many sustainability thresholds align with point-of-no-return tipping points where systems phase-shift into new, unpredictable, catastrophic states of being.

Unfortunately, sustainability standards spent the past decade *doubling down* on their sabotage of *authentic* sustainability. Lennon's *Lost Weekend* storyline suggests potential future redemption for sustainability standards – if they take accountability for past transgressions, and transform into good faith actors serving the public interest (but in fact, based on the evidence, *undermine* it – and *sabotage* sustainability).

The decade is not completely devoid of positive developments for Context-Based Sustainability. For example:

- The Science Based Targets initiative (SBTi), launched in 2015, emerged a *de facto* standard setter for corporate decarbonization goals aligned to the sustainability threshold defined by climate science (2°C at first, then 1.5°C after the IPCC released its Special Report on 1.5°C in 2018) – though SBTi has had its own technical and governance failures;

- The Science Based Targets Network (SBTN) followed thereafter to apply sustainability thresholds to other environmental areas (eg biodiversity, water, etc.) under the umbrella of the Global Commons Alliance that also encompasses a parallel Earth Commission of scientists identifying and vetting determinations of ecological thresholds; and

- The Impact Management Platform (IMP), a structured network that includes all of the major sustainability standards, launched a landing page dedicated to Thresholds & Allocations in 2021.

However, these developments essentially represent anomalies to the norm. The devastating fact is that we find ourselves in 2023 having *further eroded* sustainability standards, in particular their foundations in sustainability thresholds & fair, just, and proportionate allocations.

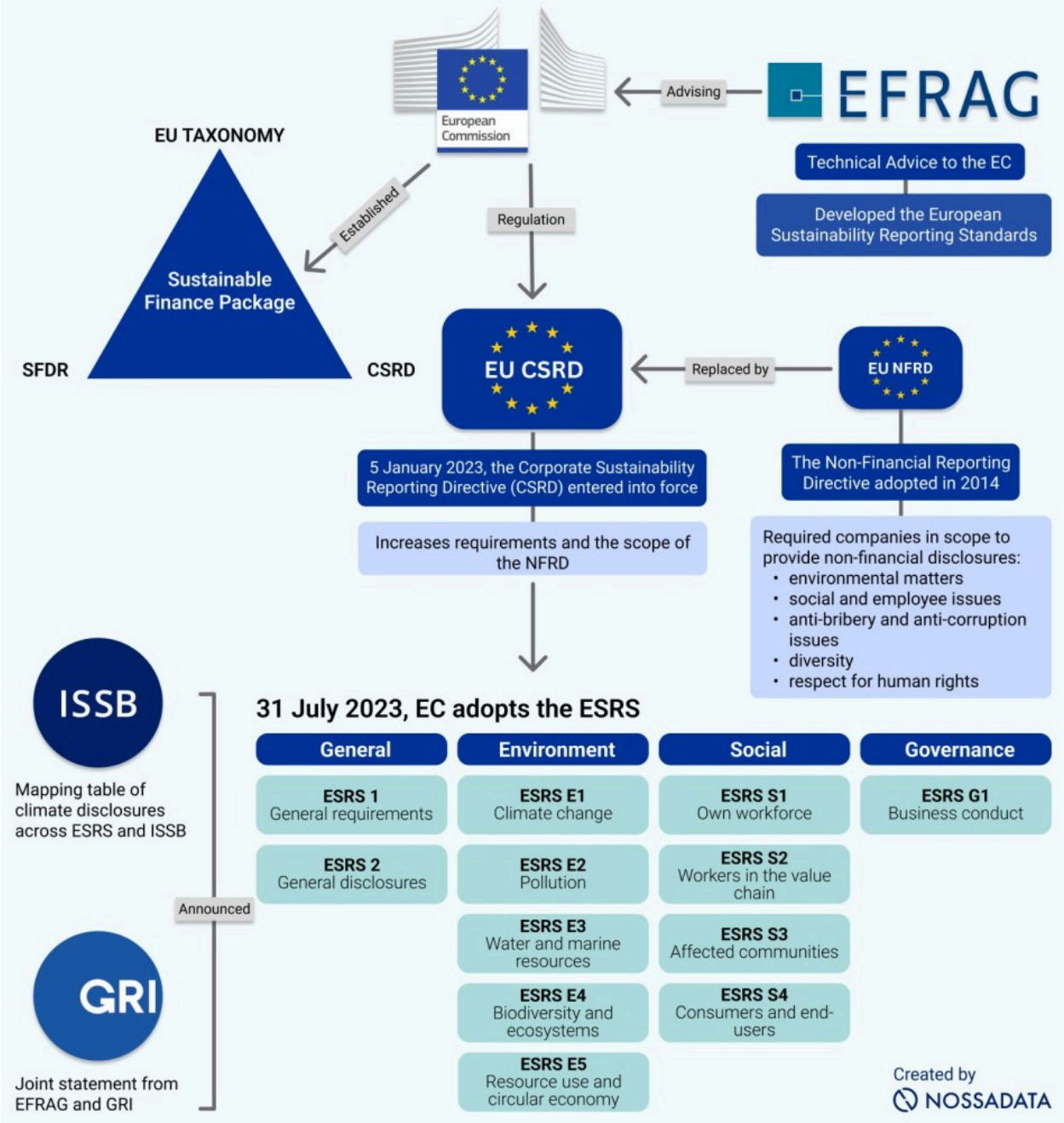
I won't endeavor to attempt a comprehensive survey of the decade, but rather touch on highlights sufficiently to properly contextualize the period from 2013 - 2023 as the *Lost Decade*.

3.1 2014 - 2022 ESRS: European Sustainability Taxonomy & Standards

The European Union entered the sustainability standards space in earnest near the beginning of the *Lost Decade*, with a set of intertwining initiatives developed during this period, all clustered under its overarching **Sustainable Finance initiative**.

- **Corporate Sustainability Reporting initiative**
    - Initiated in 2014, the EU first framed this workstream around a *Non-Financial Reporting DIrective* (NFRD), until 2021 when it shifted framing to a *Corporate Sustainability Reporting Directive* (CSRD), which went into force on 5 January 2023 and was codified into action through the development of a set of *European Sustainability Reporting Standards* (ESRS) that were adopted on 31 July 2023.

- **Taxonomy for Sustainable Activities initiative**
    - Initiated in 2016 with a High Level Expert Group (HLEG) on Sustainable Finance followed by the work of a Technical Expert Group (TEG) on Sustainable Finance from 2018 to 2020 that resulted in the development of a taxonomy of sustainable activities that went into force as a Taxonomy Regulation on 12 July 2020. This workstream continues under the umbrella of a Platform on Sustainable Finance, including a series of Delegated Acts on Disclosures, Climate (in 2021 and 2022), and Environment.



A Map of European Union activities on Sustainable Finance & Corporate Sustainability Reporting (à la M C Escher…)

We at r3.0 started engaging in constructive critique of these lines of development in our 2020 *Sustainable Finance Blueprint*, in which we identified how the EU Sustainable Finance Taxonomy mis-defined the term "threshold":

> "We like to first point out one quote from the June 2019 report that is a poster child of the problem of sustainability context: the use of term threshold in a non-scientific way, something that corrupts the complete intention of the 'Sustainable Finance' idea:

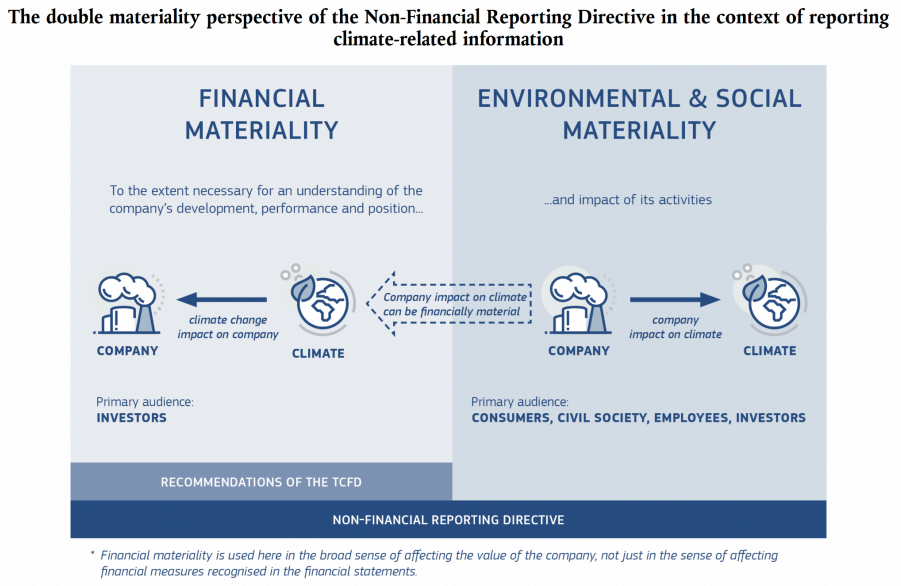
> [quoting from the EU report:] ‘To ensure the broadest usability of the Taxonomy possible, the TEG had to arbitrate between granularity and flexibility as well as between complexity and clarity. A very granular Taxonomy, which uses precise metrics and thresholds, is expected to provide clarity and to minimize the risk of greenwashing. Nevertheless, there is a risk that requirements that are too granular and stringent lower the willingness of stakeholders to take up the Taxonomy, due mainly to the costs to access the necessary data and adapting their internal processes. On the other hand, more flexibility in the definition of screening criteria may facilitate the use of the Taxonomy but increase significantly the risk of divergent interpretations and greenwashing. Another challenge regarding the definition of the screening criteria is setting the adequate level of thresholds. Setting too low or too high thresholds, which do not reflect best market practices, would undermine the Taxonomy’s ultimate goal of redirecting financial flows towards sustainable investments. Consequently, the selection of the Taxonomy’s thresholds has been carefully considered, based on existing standards and consultation processes with experts in the relevant sectors.’
>
> “**This explanation makes it clear that the EU Technical Expert Group is approaching thresholds not as biophysical realities that must be abided in order to achieve sustainability in the real world, but rather as political variables open to negotiation amongst those with diverse positions of power.** Therefore, it’s vital to understand that the term “thresholds” used throughout the 400+ page document is not sustainability thresholds, but rather thresholds as defined to “reflect best market practices” with the “ultimate goal of redirecting financial flows towards sustainable investments.” **Of course, this raises the question of just how those investments can possibly be “sustainable” if the thresholds used to measure them are divorced from biophysical reality?**” [emphasis added]

This kind of political capitulation came to characterize the Sustainable Finance Taxonomy, a dynamic that peaked in 2022 with the highly controversial decision to include nuclear power and natural gas as “sustainable” (transitional) energy sources.

Concurrently, r3.0 more formally weighed in during the 2020 Public Consultation on the EU shift from the NFRD to the CSRD, encouraging the EU to:

> “Revise and strengthen the provisions of the NFRD. Specifically, we see the need to require implementation of the Sustainability Context Principle, first established in 2002, which calls for reporting on the ‘performance of the organisation in the context of the limits and demands placed on economic, environmental, or social resources at a macro-level.’”

At this point, the issue that was garnering most attention was the EU's coining of the term *Double Materiality* to refer to the combination of *Financial Materiality* (also known as *Single Materiality*), which pertains to *outside-in* impacts and risks *from* the external operating environment *onto* the enterprise, with *Environmental & Social Materiality* (also known as *Impact Materiality*), which pertains to *inside-out* impacts and risks *from* the enterprise *onto* external operating environment.



European Commission Coins the Term "Double Materiality" as if it's a progressive new concept, instead of a regressive version of Context-Based Materiality from GRI G3

It warrants pausing momentarily here to note that *Double Materiality* is merely a rhetorical innovation, not a substantive one: the idea of *Materiality* encompassing both *inside-out* and *outside-in* impacts and risks dates back the 3rd Generation of GRI Sustainability Reporting Standards (G3) released in 2006 (as documented in Section 2.1.2). Importantly, G3's context-based approach to *Materiality* encompasses sustainability thresholds, and thereby transcends the EU's version of *Double Materiality*, which is silent on sustainability thresholds.

It is therefore exceedingly ironic that the sustainability field embraced *Double Materiality* with open arms, as if it were something new, without embracing the totality of the *context-based* approach to *Materiality* embedded in G3 in 2006. It is surreal that progress for Sustainability Inc amounts to regress in the real world…

Starting in 2021, the European Financial Reporting Advisory Group (EFRAG) managed the transition from NFRD to CSRD, in particular proposing the development of a set of European Sustainability Reporting Standards (ESRSs). In 2022, r3.0 again submitted a Public Comment Letter weighing in on the Exposure Drafts of the ESRSs, which

> "contain a **fatal flaw** — namely, its inconsistent (and most often nonexistent) integration of sustainability **thresholds, and allocations** of responsibility for respecting these

> sustainability thresholds (across ecological, social, and economic dimensions) at the organisational level (i.e., the level of the "undertaking," to use EFRAG's language). Ecological, social, and economic thresholds *define* sustainability, and allocations enable assessment of performance at the organisational level in terms of respecting these thresholds, which typically apply at higher scales (e.g., macro systemic levels).
>
> In other words, **sustainability reporting *requires* integration of thresholds and allocations.**
>
> *Accordingly, the ESRSs will need to integrate thresholds and allocations comprehensively, if EFRAG wishes for the ESRSs to be **authentic Sustainability Reporting Standards**.*"

The Letter lauded the *single* instance of an ESRS Standard (E4 on *Biodiversity and Ecosystems*) integrating thresholds & allocations, which only served to highlight the fact that *all the other* environmental, social, and governance Standards – and more importantly the two foundational General Standards ESRS 1 and ESRS 2 – were completely devoid of thresholds & allocations. We noted:

> "To be clear, this particular strength of E4 has its limitations: the document does *not* actually provide *guidance* on how the undertaking would implement thresholds and allocations — a necessary element, if EFRAG and the EC wish for undertakings to comply with its Standards in ways that would deliver sustainability.
>
> That said, we much prefer E4's inclusion of thresholds & allocations (i.e., Sustainability Context) over all the other ESRSs' limited or lack of inclusion of thresholds & allocations (i.e., Sustainability Context)."

The Letter documents in detail how ESRS 1 and ESRS 2 includes mention of thresholds and allocations that are utterly divorced from their sustainability context – for example, referencing *materiality* thresholds that fail to integrate sustainability thresholds. This points to a similar applause / critique dynamic that r3.0 applies to double materiality:

> "while we loudly applaud EFRAG and the ESRSs for embracing "double materiality," calling for accountability for *both* **outside-in impacts and risks** (how the world impacts the undertaking — which the ESRSs call "financial materiality") and also **inside-out impacts and risks** (how the undertaking impacts the world — which the ESRSs call "impact materiality"), **clearly double materiality alone is insufficient**, because it fails to take sustainability thresholds and allocations explicitly into account. Materiality that truly takes sustainability into account calls for a context-based approach, which integrates sustainability thresholds and allocations."

3.2 GRI 2020: Abandoning Performance, Eviscerating the Heart of Sustainability Reporting

> "[P]lacing **performance** information in the broader biophysical, social, and economic **context lies at the heart of sustainability reporting**." [emphasis added]

So said GRI in 2002 when it established the Sustainability Context Principle in its Second Generation (G2) of Sustainability Reporting Guidelines, as we establish at the outset of this exploration. And variations of this sentiment remained intact for almost two decades – until June 2020, when GRI released the *Exposure Draft of the GRI Universal Standards*, when it completely erased "performance" from the Sustainability Context definition.

In its Public Comment Letter, the Sustainability Context Group challenged this regressive development in the strongest possible terms:

> c. "This is a striking and frankly scandalous reversal, shifting from *seven* mentions of the term performance (in the 2016 Standards, which currently hold force) to *zero* mentions of the term performance [in the Sustainability Context Principle section] in the *Universal Standards Exposure Draft*.
>
> 4. In place of the term "performance," the *Universal Standards Exposure Draft* employs terms such as "draw on" ("*draw on* objective information and authoritative measures of sustainable development, where available, when reporting on its impacts (e.g., scientific research or consensus on ecological limits, societal expectations)") and "with reference to" ("report information on its impacts *with reference to* broader sustainable development conditions and goals, as reflected in recognized sector-specific, local, regional, or global instruments (e.g., reporting total GHG emissions as well as reductions in GHG emissions with reference to the Paris Agreement)"). [emphasis added]
>
> > a. According to these definitions, a reporting organization would be able, for example, to simply make reference to the Paris Agreement (regardless of its *performance* vis-à-vis the Paris Agreement), and still be in full compliance with the Sustainability Context Principle as redefined in the *Universal Standards Exposure Draft*.
> >
> > b. In other words, a reporting organization could be emitting more than its fair share of the carbon budget, as delineated by the Paris Agreement, and therefore be performing unsustainably by definition, yet so long as it merely reports its impacts "with reference to" the Paris Agreement, then it's fulfilled its reporting obligation on the Sustainability Context Principle according to the *Universal Standards Exposure Draft*.

> c. **The difference between the terms *draw on* / *with reference to* on the one hand, and *performance* on the other, is the difference between sustainability as a metaphor, and sustainability as a literal state of being in the real world.**" [emphasis added]

For a more in-depth analysis of the problematic aspect of this development, please see this long analysis we posted earlier this year, after an illuminating call with GRI's Global Sustainability Standards Board (GSSB) Chair Judy Kuszewski and Head of Standards Bastian Buck.

In reviewing this analysis, what is most distressing is the rationale Kuszewski provided in her call with us for why GRI abandoned its commitment to *performance* in the Sustainability Context Principle. From the in-depth analysis:

> "In the call, Judy explained that the GSSB deliberated at length over the question of performance, and determined that it could not identify a universal definition of performance (!) that applies to all sustainability reporting contexts."

At the time, we noted that "we respect the veracity of Kuszewski's claim that GSSB could not find a universal definition of performance applicable to sustainability reporting" as her rationale for erasing the term performance from Sustainability Context Principle. However, looking back at our 2020 Public Comment Letter, we were reminded that the *Universal Standards Exposure Draft* employs the term "performance" 16 times!

So it appears that Kuszewski's explanation was developed as an *ex post facto* rationalization – if GRI *really* removed "performance" from the Sustainability Context Principle in the *Universal Standards Exposure Draft* because the GSSB "could not find a universal definition of performance applicable to sustainability reporting," then why in the world would the term "performance" appear 16 times in the *Exposure Draft*? Wouldn't this inability to "find a universal definition of performance applicable to sustainability reporting" apply *across the board*, not just to Sustainability Context Principle?

While we understand that it is possible there is some legitimate explanation for this *idiosyncratic* erasure of *performance* in only one part of the *Exposure Draft* and not *throughout* the document, it certainly does appear (based on the evidence available) as if Kuszewski's explanation amounts to a *lie*.

In any case, when the GRI *Universal Standards* were released in 2021 (to go into effect on 1 January 2023), this erasure of the *performance* element of the Sustainability Context Principle remained intact. In Section 1.1 – *Purpose of the GRI Standards* – the Universal Standards contain the following paragraph, which displays an exceedingly odd element of asserting a negative characteristic – ie, not just what the Universal Standards *are*, but what they are *not:*

> "The GRI Standards are based on expectations for responsible business conduct set out in authoritative intergovernmental instruments, such as the *Organisation for Economic*

Co-operation and Development (OECD) Guidelines for Multinational Enterprises [3] and the *United Nations (UN) Guiding Principles on Business and Human Rights* [5] (see the Bibliographies of the GRI Standards for a list of authoritative instruments used in developing the GRI Standards). Information reported using the GRI Standards can help users assess whether an organization meets the expectations set out in these instruments. **It is important to note that the GRI Standards do not set allocations, thresholds, goals, targets, or any other benchmarks for good or bad performance.**

What is particularly odd about this final assertion is that nobody has ever asked GRI Standards to ***set*** thresholds & allocations (or goals / targets / benchmarks etc) – but, GRI *has* been asked repeatedly, over more than a decade, to ***provide sufficient guidance*** on how to ***assess sustainability performance*** as a means of ***implementing*** its Sustainability Context Principle.

It warrants explicit noting that the *Universal Standards* failed to resolve this shortcoming, and retained GRI's irrational obstinance in continuing to refuse to provide the guidance necessary to operationalize the very Principle (Sustainability Context) that ***lies at the heart of sustainability reporting***.

Stated more plainly, ***GRI has eviscerated the heart of sustainability reporting***…

3.3 IIRC 2020: "...as planetary limits are approached…"

In 2020, IIRC sought to revise its 2013 *International Integrated Reporting <IR> Framework,* and in May 2020, it released a *Consultation Draft of the International <IR> Framework*. While one might hope it would rectify its shortcomings by embracing the carrying capacities of the capitals, it instead exhibited an exceedingly modest step forward that only serves to emphasize the fact that it continued to fall short of the necessary baseline. The Sustainability Context Group submitted a Public Comment Letter that identified the sections of the revised Framework that come closest to integrating the carrying capacities of the capitals, and provides commentary on how it nevertheless still falls significantly short:

"3.8 The key forms of connectivity of information include the connectivity between:

- The Content Elements. The integrated report connects the Content Elements into a total picture that reflects the dynamic and systemic interactions of the organization's activities as a whole. For example …
    - Linking the organization's strategy and business model with changes in its external environment, such as increases or decreases in the pace of technological change, evolving societal expectations, and **resource shortages as planetary limits are approached**." [emphasis added]

"4.6 Significant factors affecting the external environment include aspects of the legal, commercial, social, environmental and political context that affect the organization's ability to create value in the short, medium or long term. They can affect the organization

directly or indirectly (e.g. by influencing the availability, quality and affordability of a capital that the organization uses or affects)."

"4.7 These factors occur in the context of the particular organization, in the context of its industry or region, and in the wider social or planetary context. They may include, for example:

- Environmental challenges, such as climate change, the loss of ecosystems, and resource shortages as planetary limits are approached"

> i. ***Commentary***: We appreciate mention of "planetary limits" (also referred to as "Planetary Boundaries" in a robust body of scientific research coordinated by the Stockholm Resilience Centre that was introduced in 2009 (documenting that humanity is overshooting three of these nine Planetary Boundaries), and updated in 2015 (documenting that humanity is now also *overshooting* a fourth Planetary Boundary). **However, the *Consultation Draft* does not call for assessing a company's own impacts that would contribute to the crossing of these carrying capacities of natural capitals.** As well, the ***Consultation Draft*** **only mentions planetary limits being *approached*, when in fact almost half of these planetary limits (4 of 9 Planetary Boundaries) are actively being *transgressed***. [emphasis added]
>
> > 1. Furthermore, the *Consultation Draft* mentions "Societal issues, such as population and demographic changes, human rights, health, poverty, collective values and educational systems," but does not frame that *at all* in terms of social limits, thresholds, or norms. We would point your attention to the concept of Doughnut Economics, first proposed in 2012 (building on the concept of "'inner limits' of basic human needs for all the world's people and of doing so without violating the 'outer limits' of the planet's resources and environment" first introduced in 1974). These inner limits were comprehensively quantified in a peer-reviewed scientific journal in 2017, finding that humanity is *shortfalling* on *all twelve* Social Foundation thresholds. A methodology for assessing the social sustainability performance of organizations in these terms (the Social Footprint Method) has also been in existence since 2008, a detailed description of which was published in 2015.

When IIRC published its revisions to the *International <IR> Framework*, it is perhaps unsurprising that the enhancements proposed by SCG did not make it into the mix. What is particularly surreal is that the month before, r3.0 issued its White Paper, *From Monocapitalism to Multicapitalism: 21st Century System Value Creation*, which ostensibly represented a collaboration with IIRC, but in practice amounted to IIRC politely distancing itself from the

project as IIRC transitioned from a supportive CEO (Richard Howitt) to a new, less-than-supportive CEO (Charles Tilley). The ultimate upshot is that IIRC's formal stance continued to reject the carrying capacities of the capitals.

3.4 2021-2023 I?SB: Definitional Cooptation & Sociopathic Materiality ("Gunpowder Burns on the Trigger Finger")

Following the brutal logic of late-stage monocapitalism, the sustainability standards field started to experience its inevitable consolidation on 9 June 2021, when IIRC & SASB merged to create the Value Reporting Foundation (VRF). Given that the IFRS Foundation had issued a *Consultation Paper on Sustainability Reporting* in September 2020, it came as no surprise that the IIRC / SASB merger was an exceedingly temporary stepping stone toward the absorption of VRF into a new International Sustainability Standards Board (I?SB), announced by the IFRS Foundation on 3 November 2021 at the COP26 climate conference, with consolidation of the Climate Disclosure Standards Board first and then of VRF completed by August 2022. Obviously, the IFRS Foundation put a positive spin on this development in its announcement:

> "Consistent with feedback received through consultation, the ISSB will build on the work of existing investor-focused reporting initiatives to become the global standard-setter for sustainability disclosures for the financial markets."

A more accurate analysis is that the I?SB *inherited* all of the shortcomings of IIRC and SASB that have been detailed in this document: essentially, I?SB simply "delivered on the promise" established by its predecessor organizations by extending their dysfunctions. This assessment is evidenced by the *Sustainability Disclosure Standard Exposure Drafts* on general sustainability-related disclosure requirements (S1) and climate-related disclosure requirements (S2) that I?SB issued in March 2022 for a 4-month Consultation Period.

r3.0 submitted a frank Public Comment Letter that we prefaced with

> "an explicit acknowledgement of the utter futility of this Consultation exercise, as historical precedent[15] — combined with toothless Due Process[16] — essentially ensures

[15] The Letter included a footnote referencing the SASB Consultation Process that is discussed in depth earlier in this document.

[16] The footnote from the Letter: According to the November 2021 IFRS Foundation *Constitution*, the International Sustainability Standards Board could publish an *Exposure Draft* that claimed that the earth is flat, receive Public Comments that overwhelmingly point out the scientific evidence that the world is, in fact, round, and yet proceed to publish a *Sustainability Disclosure Standard* asserting a flat world, accompanied by a *Basis for Conclusions* explaining why its flat-world assertion aligns with its self-definition, justifying it to ignore the *Public Comments*. While this may sound hyperbolic, we see nothing in the *Constitution* on an ombuds function or complaint mechanism, so there is essentially no Due Process whereby the public (that the International Sustainability Standards Board ostensibly serves) can hold it accountable for taking such an outlandish position; its decisions, be they reasonable or nonsensical, are beyond appeal.

> that you will ignore Public Comments that identify the fatal flaws in your ideological reasoning and predetermined outcomes. We submit this *Public Comment purely* for the record, without an ounce of faith that the strength of its case will hold sway. Of course, we wish it were otherwise, and would be glad to eat our words if you prove us wrong."[17]

After clearing our throats thus, we identified two intertwining fatal flaws:

> "1) **Nonsensical Definition** / **Definitional Cooptation**; and 2) **Sociopathic Materiality**."

On the first front, the Letter identified two primary ways that I?SB's Exposure Drafts contravene the core essence of the term "sustainability":

- **Thresholds**: first, they fail to integrate normative thresholds, which are definitional to sustainability;[18] and

- **Outside-in / Inside-out**: second, they focus only on effects of the external operating environment on the enterprise (ie *outside-in*), not the enterprise's effects on its external operating environment (ie *inside-out*) .

> In practical terms, I?SB … obfuscates its definition of "sustainability," and thereby seeks to co-opt the term "sustainability" for use in ways that actually *counteract* the achievement of sustainability."

The first problem the Letter documents is that the Exposure Drafts "refuse to provide its definition of sustainability." Indeed, the *Defined Terms* Appendix in S1 includes the term "sustainability" in two definitions., for "sustainability-related financial disclosures" and "sustainability-related financial information". Our assessment:

> "By defining 'sustainability' only within the bounded space of 'financial disclosures' and 'financial information,' S1 shrinks the definitional scope in ways that eliminate key vitalizing aspects of 'sustainability' — namely, its focus on internal and external environmental, social, and economic impacts."
>
> "Digging a layer deeper, it is illuminating to notice that three-quarters of the time S1 uses the term "sustainability" (268 of 364), it is represented as "sustainability-related," attempting to 10 end-run around the essential meaning of "sustainability" by diluting its denotation through hyphenation."

IFRS Foundation. 2021. *Constitution*. https://www.ifrs.org/content/dam/ifrs/about-us/legaland-governance/constitution-docs/ifrs-foundation-constitution-2021.pdf

[17] Perhaps unsurprisingly, we did *not* have to eat our words, as things unfolded precisely as we predicted (except for the flat earth bit, which was intended merely as an intentionally hyperbolic example.)

[18] "Sustainability is regarded as a 'normative concept'." Wikipedia. n.d. Sustainability: Current 3 Usage. https://en.wikipedia.org/wiki/Sustainability#Current_usage

> "Digging yet another layer deeper, S1 further bounds its application of "sustainability" to the scope of "enterprise value," which is nonsensical, seeing as the ability to sustain enterprise value creation depends upon the sustenance of value in the systems within which the enterprise is nested.[19] In other words, the enterprise relies on vital capital resources drawn from 11 outside its own boundaries, so its ability to sustain its own value creation (enterprise value) is, *by definition*, interdependent with its ability to *do its part* to sustain that *system value* creation.[20] And by extension, enterprise value cannot be sustained if it *depletes* system value beyond critical thresholds — ie, if the enterprise impedes the continual regeneration vital capital resources in its internal *and* external operating environment below sufficiency levels."

Shifting to the question of Sociopathic Materiality, our Letter starts by defining sociopathy:

> "Wikipedia asserts that sociopathy is characterized by "a long-term pattern of disregard of, or violation of, the rights of others,"[21] as well as "manipulative self-serving behaviors with no regard for others" and "a selfish world view that precludes the welfare of others."[22]
>
> We will demonstrate how I?SB's approach to materiality precisely fits this definition of sociopathy, warranting the labeling of its approach as "Sociopathic Materiality." We propose, in contrast, a form of "prosocial" materiality that shows "regard" for "the welfare of others," not only for a snapshot in time, but sustainably over time.

I?SB actually makes our point for us, so all we really need to do is quote S1:

> "When an **entity's activities result in adverse, external impacts**—on, for example, local communities—it could be **subjected to stricter government regulation and consequences of reputational effects**—for example, **negative effects on the entity's brand and higher recruitment costs.**"

I'll repeat the invitation we make in the Letter: "Let that sink in. Re-read it. In fact, we will repeat it here, to reinforce experiencing the sociopathic nature of it:"

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[19] The nested nature of sustainability is well established. Wikipedia. n.d. *Sustainability: Dimensions of sustainability — relationship of dimensions to each other.* https://en.wikipedia.org/wiki/Sustainability#Dimensions_of_sustainability

[20] "System value" is a term coined by Geoff Kendall of the Future Fit Foundation. Future Fit Business Benchmark. 2019. *Methodology Guide. Release 2.1.* April 2019. https://futurefitbusiness.org/wp-content/uploads/2019/04/FFBB-Methodology-Guide-R2.1.pdf See also: Bill Baue. 2020. *From Monocapitalism to Multicapitalism: 21st Century System Value Creation*. r3.0. December 2020. https://www.r3-0.org/wp-content/uploads/2020/12/r3-0-WhitePaper-1-2020-From-Monocapitalism-to-Multicapitalism.pdf

[21] Wikipedia. n.d. *Antisocial Personality Disorder*. https://en.wikipedia.org/wiki/Antisocial_personality_disorder "Other names: sociopathy"

[22] Wikipedia. n.d. *Psychopathy*. https://en.wikipedia.org/wiki/Psychopathy "Psychopathy [is] sometimes considered synonymous with sociopathy..."

> "When an **entity's activities result in adverse, external impacts**—on, for example, local communities—it could be **subjected to stricter government regulation and consequences of reputational effects**—for example, **negative effects on the entity's brand and higher recruitment costs.**"

Our analysis:

> "In this example, a local community experiences ***adverse impacts at the hands of the reporting entity***, and the I?SB's concern — its scope of materiality for disclosure — is the "***negative effects on the entity***…" The I?SB literally does not give a damn about the welfare of the local communities, which we know has experienced adverse impacts.
>
> Indeed, these adverse impacts perpetrated by the reporting enterprise could be so severe as to place the *sustainability* of the vital capital resources that those local communities rely on for their wellbeing at risk. Yet to the I?SB, this is *utterly immaterial* — it does not factor into the I?SB's so-called *"Sustainability" Disclosure Standard*."

Elsewhere, I've likened this to "attending to the gunpowder burns on the trigger finger": instead of attending to the mortal wounds of the victim from the gunshot, focusing instead on the tangential harm to the perpetrator (gunpowder burns) incurred in the course of inflicting much greater harm (pulling the trigger).

On 26 June 2023, the IFRS Foundation announced that I?SB

> "issued its inaugural standards — IFRS S1 and IFRS S2 — ushering in a **new era of sustainability-related disclosures** in capital markets worldwide. The Standards will help to improve trust and confidence in company **disclosures about sustainability** to inform investment decisions." [emphasis added]

Note I?SB's deft sleight-of-hand, as it slips from "sustainability-related disclosures" to "disclosures about sustainability," almost invisibly performing brilliant rhetorical conflation such that its "sustainability-related" formulation transforms in the next sentence to "sustainability." This kind of conflation of not-sustainability with sustainability has been the strategic calling card of I?SB throughout its development, sowing seeds of confusion.

However, when performs a keyword search of S1 for "sustainability," it comes up 246 times as "sustainability-related" and an additional 132 times as "sustainability" without the "-related" qualifier – yet the stand-alone instances of the term appear in the name "International Sustainability Standards Board," for example, and *not* in the authentic sustainability context. Underlining this, the term "threshold" (in the sustainability context) is *nowhere* to be found in S1.[23] Nor is the term "threshold to be found in the *Accompanying Guidance* to S1.

[23] The term "threshold" appears twice, neither related to sustainability thresholds in ecological and social systems.

Most egregiously, the term “threshold” in its sustainability context does not appear in the *Basis for Conclusions*, which is supposed to rationalize I?SB’s responsiveness to the Public Comment Letters from the Public Consultation. In other words, I?SB utterly ignores the issue of sustainability thresholds raised in the Public Consultation – according to the *Basis for Conclusions*, it simply didn’t exist.

The closest that S1, the *Accompanying Guidance,* and the *Basis for Conclusions* comes to acknowledging the very thresholds that *define* sustainability is in the *Basis for Conclusions,* when it mentions “planetary boundaries” in passing:

> “BC 42 The concept of sustainability is frequently linked to ‘sustainable development’, which was defined in 1987 as ‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs’. The United Nations (UN) released definitions of sustainability, Sustainable Development Goals and international policy pronouncements identifying matters that the UN has concluded are important in considering sustainability, including:
>
> (a) climate change (the UN Framework Convention on Climate Change);
>
> (b) biodiversity (the Convention on Biological Diversity);
>
> (c) oceans (the UN Convention on the Law of the Sea);
>
> (d) desertification (the UN Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification, Particularly in Africa); and
>
> (e) human rights (the Universal Declaration of Human Rights).
>
> BC43 The terms ‘sustainability’ and ‘sustainable development’ therefore apply widely across social and ecological communities, and apply to current and future generations. The terms also encompass environmental and social notions of justice, health, welfare and preservation, and acknowledgement of **planetary boundaries.**” [emphasis added]

However, in the very next paragraph (BC44), the *Basis for Conclusions* diverts us back to the space of “sustainability-related financial information,” tacking on sustainability (as if an afterthought):

> “understanding **sustainability-related** risks and opportunities, including their **relationship with the established notions of sustainability and sustainable development**, is pivotal to understanding the scope of IFRS S1 and IFRS

> Sustainability Disclosure Standards more broadly." [emphasis added]

It seems as if we're entering the realm of circular reasoning with "sustainability-related risks and opportunities" being understood in "their relationship with the established notions of sustainability and sustainable development" – it seems as if we hover in the realm of "relationship to" sustainability, and never enter the realm of actual sustainability (the very term that features centrally in the name of I?SB).

Finally, I?SB's *Basis for Conclusions* echoes language from the IIRC's International Integrated Reporting Framework:

> "IFRS S1 elaborates that an entity both depends on resources and relationships throughout its value chain and affects those resources and relationships, which contributes to their preservation, regeneration and development, or to their degradation and depletion."

As with IIRC, IFRS S1 follows suit in acknowledging that resources (ie capitals) exist, and can be preserved, regenerated, developed, degraded, or depleted, but S1 does not make *any* reference to the ongoing sufficiency or viability (ie sustainability) of these vital capital resource stocks and flows.

IFRS S2 (*Climate-related Disclosures*) essentially replicates the same problems as S1, only perhaps more egregiously. Reviewing S2, one could be forgiven for assuming that a clear sustainability threshold for climate change – 1.5°C as outlined in the 2018 Intergovernmental Panel on Climate Change (IPCC) Special Report (SR15)[24] – *does not exist*, as it is essentially absent from the Standard. The 1.5°C threshold warrants a mere single mention in S2, prefaced by the discretionary indicator "for example."

A review of the one place one would expect to find clear articulation of the vital climate threshold – in the "Metrics and Targets" section – comes up empty handed. The closest S2 comes is passing mention of "whether the target was derived using a sectoral decarbonisation approach." Instead of capitalizing this term, which would clearly reference the threshold-based Sectoral Decarbonization Approach (SDA) from the Science Based Target initiative, S2 represents the term in lowercase, indicating a non-specific, generic use. And even if S2 were intended to signal a threshold-based approach, it makes no sense to reference SDA exclusively, seeing as several other approaches exist, including more robust methods, and SDA's coverage does not cover the entire economy.

In sum, **sustainability is simultaneously ubiquitous *and* invisible** in the I?SB Standards.

[24] The Paris Agreement articulates the threshold as a range: "well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels."

3.5 2022-2023 ESRS: Our Best Hope??

In late 2022, EFRAG submitted to the European Commission the first set of draft ESRSs, which refreshingly expanded mention of thresholds & allocations to several of the Environmental Standards. However, this only served to highlight the *ad hoc* nature of this integration of thresholds & allocations, as it only applied to a *subset* of the Environmental Standards (and inexplicably didn't include the Climate Standard, the arena with the most broadly understood threshold of a 1.5°C), and a *subset* of the Standards overall, as thresholds & allocations were completely absent from the Social and Governance Standards.

So while this represents progress, it is only partial.

In mid-2023, the European Commission released a Delegated Act that was widely perceived to dilute the Standards, in particular shifting them from mandatory to voluntary – a shift that r3.0 critiqued in its Public Comment Letter:

> While we appreciate that ESRS1 and ESRS2 remain mandatory, we find it **highly problematic** that the majority of the Standards — 5 Environmental, 4 Social , and 1 Governance — have been shifted from mandatory to voluntary. This differential treatment of ESRS 1 & 2 on the one hand, and all the ESRS E, S, and G Standards on the other hand, **does not hold water intellectually** — indeed, the stakeholder who experience companies E and S and G impacts do not have the luxury of such discretion — the impacts do not disappear when companies opt against disclosing them.
>
> This points to the **fatal flaw in the EU's *"proportionality"* argument**, which essentially seeks to relieve companies of the burden of disclosure without commensurately relieving stakeholders of the burden of companies' impacts. It is true that companies bear **proportionate *responsibility*** for their proportionate impacts on *shared* resources (such as the climate regulation system or freshwater or knowledge), the act of disclosure is *binary*, and cannot be divvied up like pieces of a pie: a company either discloses its impacts, or it does not. When companies create impacts on resources that stakeholders and rightsholders rely on for their wellbeing, this generates a duty or obligation to manage said impacts sustainably, and disclose information on its impact management so stakeholders and rightsholders can assess the sustainability of said impacts. The only way for companies to relieve themselves of these duties and obligations to manage and disclose these impacts, is to divorce their business models from these impacts.
>
> What makes this shift from mandatory to voluntary (based on the faulty notion of proportionality) particularly problematic is that the only mandatory Standards, **ESRS1 and ESRS 2, are devoid of the very thresholds that *define* sustainability**. Accordingly, this proposal essentially **transforms ESRS from a normative *sustainability* standard to an *incrementalist* ESG standard**.

We therefore urge the reversal of this illogical provision in the Delegated Act, and call for the reinstatement of mandatory disclosure of ALL Standards.

On 31 July 2023, when the European Commission adopted the ESRSs, the dilutions remained in place, despite significant concern expressed by stakeholders in the 600+ Public Comment Letters submitted in the 4-week Public Consultation Process. Luckily, mention of thresholds & allocations in several of the Environmental Standards also remained in place, though they lacked implementation guidance – as with GRI's Universal Standards.

The ESRSs differ significantly from the GRI Universal Standards by insisting on *performance* assessment, as covered in the Application Requirements for Entity-Specific Disclosures in the Appendix A of Annex 1:

> AR 3. When determining the usefulness of ***metrics*** for inclusion in its entity-specific disclosures, the undertaking shall consider whether:
>
> > "(a) its chosen **performance metrics** provide insight into:
> >
> > > i. how effective its practices are in **reducing negative outcomes and/or increasing positive outcomes for people and the environment (for impacts)**; and/or
> >
> > [...]
> >
> > (c) it has provided **sufficient contextual information to interpret performance metrics appropriately**, and whether variations in such contextual information may impact the comparability of the metrics over time." [emphasis added]

The fact that ESRS commits to *performance* metrics shines a critical light on the claim that GRI could not identify a sufficient definition of performance… Accordingly, despite the significant shortcomings of ESRS, it appears that it is the sustainability standard that may be our best hope to strengthen itself and become an *authentic* sustainability standard.

4.0 Two Scenarios for the Decade Ahead: *Authentic* Sustainability Reporting *System*, or *Fort Interoperability*

"We don't have decades to get serious about Context in light of the ecological and social perils that lie ahead.

I think the time for procrastination has passed and the time for aggressive movement is upon us.

The world is issuing a collective wake-up call on the issue of thresholds and limits.

We've lost precious time dawdling in the last decade.

We can't afford another decade of the same."

GRI Co-Founder Allen White, Interview with Bill Baue, 8 November 2013

A decade ago, Allen White bemoaned the fact that the sustainability standards field had *lost precious time dawdling in the last decade*, and warned that *we can't afford another decade of the same.* At that time (2013), he conceived of *ecological and social perils* as future potentials.

Today, after a decade of global pandemic, grossly widening inequity, climate chaos-fueled wildfires / heat waves / floods / droughts / etc, ongoing biodiversity loss in the sixth mass extinction, deepening entrenchment of racist colonialism in our economic and cultural systems, and much, much more, it is clear that these ecological and social perils are no longer future potentials: they are a *clear and present danger*.

This raises a few key questions about the past decade as it relates to the present moment::

- In the decade since White made these declarations, did sustainability standards *get serious about Context?*
- Did they heed the *collective wake-up call on the issue of thresholds and limits?*
- Did they take up *aggressive movement?*

The evidence presented herein makes it clear that the answer is a resounding: ***NO****!*

Indeed, the evidence suggests that sustainability standards did the *exact opposite* of what White implored: they collectively, persistently, and systemically ***sabotaged*** the thresholds that define sustainability.

Is the cause of sustainability standards embracing *authentic* sustainability – ie framed by the thresholds in ecological and social systems that define sustainability – hopelessly lost?

From an historical perspective, assuming that sustainability standards' past actions determine their future actions, the answer is clearly *yes*, it's a hopelessly lost cause.

But the beauty of humanity is that we humans – and the institutions we aggregate into – are capable of change, even radical transformation.

Accordingly, the miraculous transformation necessary to bring integrity to the sustainability standards space is of course possible.

What would an *authentic* sustainability standards space look like?

In background conversations I've been having with I?SB Board Member Richard Barker of Oxford, he advocates for a **Sustainability Reporting *System***, where different standards (I?SB, ESRS, GRI) play diverse, discrete-but-overlapping roles that, when "stitched" together, make up a sufficient and *authentic* sustainability reporting infrastructure.

The standard setters themselves have long been making this case with their focus on **"interoperability."** My colleague Ralph Thurm, Managing Director of r3.0 and COO of GRI during its seminal years (2002 - 2008), takes a jaundiced view of this line of representation, dubbing it ***"Fort Interoperability."***

In other words, Ralph (and many, many others) see *interoperability* as an *ex post facto* excuse layered onto the situation to explain away the lack of *foresight* and *backcasting* by the standard setters in their parallel development processes.

Stated more plainly, he sees the standard setters *not* as purposeful strategists pursuing a well-conceived grand vision to achieve *authentic* sustainability, but rather, more as the Three Stooges fumbling their way through the haze, demonstrating more incompetence than strategic acumen.

Thurm thus sees the Memorandums of Understanding (MOUs) between the standard setters as "cease fire" agreements, meant to maintain a tentative peace between otherwise *competing* actors.

So, which vision will prevail: **Scenario One** (*Fort Interoperability*), or **Scenario Two** (an *Authentic* Sustainability Reporting *System*)?

The latter (an *Authentic* Sustainability Reporting *System*) would have to overcome an incredible amount of inertia, in the form of institutional lock-in, embedded incrementalism and predatory delay, political intransigence, ego entrenchment, corporate capture, systemic bias against sustainability thresholds, shareholder primacy, economic growth fetishization, and ultimately, the inherent violence and unsustainability of the predominant colonizing economy and culture.

That said, let's explore what this would look like.

On a more granular level, the task could be distilled to a level of relatively simplicity:

- **GRI** re-embraces *Sustainability Context* as a *Performance Standard*, and provides sufficient guidance for robust implementation. GRI would also need to become mandatory.

- **ESRS** expands thresholds & allocations across the board, starting with its top-level standards (ESRS 1 and ESRS 2) and cascading through *all* its Environmental, Social, and Governance Standards, while simultaneously providing implementation guidance that integrates its performance orientation. Finally, ESRS would need to abandon its capitulation to voluntary implementation of select elements, and re-commit to a mandatory approach.

- **I?SB** could essentially remain as it is, with a slight name change to add "related" to its name (as the various Taskforces on Climate-related and Nature-related and Inequality-related Financial Disclosure do); or, if it took seriously the commitment to integrated reporting of the IIRC that it enveloped, it could bolster its approach to sustainability, insisting on accountability for (and accounting of) inside-out impacts contextualized by sustainability thresholds, recognizing that providers of financial capital *should* take such information into account.

Is all this possible? Yes.

What it would ultimately require is for sustainability standards to act as the normative institutions they are, but instead of acting to ***conserve*** the social norms of the past that entrench behaviors and worldviews that are *no longer fit-to-task* for our emerging reality and knowledge base, they would act to ***cultivate*** new emergent social norms that are truly *future-fit,* in order to steward us toward a sustainable future.

Is it likely? You tell me…

5.0 Appendix: The Superficial Case

The superficial case that 2023 was a *banner year* for sustainability standards, building on the foundation of a decade of development, goes something like this:

- **GRI**: On 1 January 2023, the Global Reporting Initiative (GRI) revised *Universal Standards* went into effect, "setting a new global benchmark for sustainability reporting" according to GRI;
    - A decade earlier, in 2013, GRI released G4, the fourth generation of *Sustainability Reporting Guidelines* (and the last generation before shifting to standards), in a move heralded with much fanfare.

Then-GRI Chair Herman Mulder and Chair Emeritus Mervyn King celebrating the launch of the G4 Sustainability Reporting Guidelines at the 2013 GRI Conference

- **ISSB**: On 26 June 2023, the International Sustainability Standards Board (ISSB) issued its inaugural standards – IFRS S1 and IFRS S2 – "ushering in a new era of sustainability-related disclosures in capital markets worldwide," according to the International Financial Reporting Standards (IFRS) Foundation press release. "The Standards will help to improve trust and confidence in company disclosures about sustainability to inform investment decisions."
    - A decade earlier, in 2013, the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) – two precursor

organizations that were absorbed into ISSB in August 2022[25] – released their *International Integrated Reporting <IR> Framework* and *Conceptual Framework*, respectively.

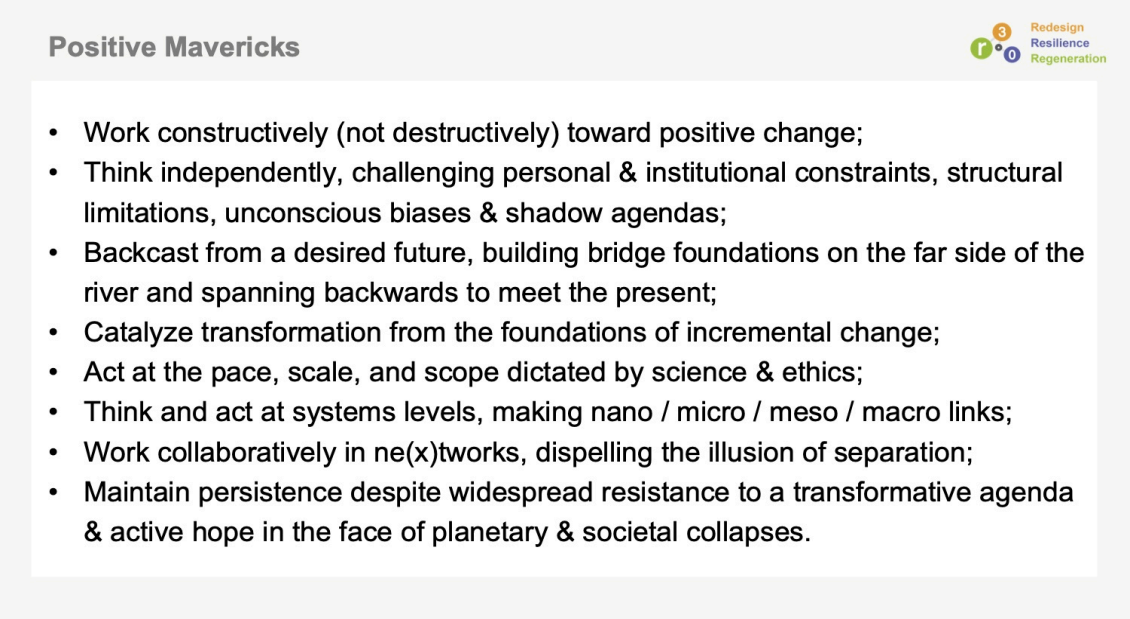
- **ESRS:** On 31 July 2023, the European Commission (EC) announced its adoption of the European Sustainability Reporting Standards (ESRS), which it characterized as "ambitious" in that they "strike the right balance between limiting the burden on reporting companies while at the same time enabling companies to show the efforts they are making to meet the Green Deal Agenda…"
    - A decade earlier, in 2014, the EU entered the sustainability standards space with its Non-Financial Reporting Directive (NFRD), which it slowly developed until 2021 when it shifted framing to a *Corporate Sustainability Reporting Directive* (CSRD) and turbo-charged development.

Clearly, there is a *superficial* case to be made for 2023 representing a *gala* year for sustainability reporting, building on a prior decade of *exciting* development. ***This case just doesn't withstand scrutiny*.**

[25] IIRC and SASB had merged into the Value Reporting Foundation the previous year, in June 2021.

6.0 End Matter: *Positive Maverick Thinking*

This ***Common Good Resource Paper*** is part of r3.0's ***Positive Maverick Thinking*** series, comprising ***Common Good Resources***, ***White Papers***, ***Opinion Papers***, and ***Case Studies***. The term "Positive Maverick" was coined by our good friend Raj Thamotheram, founder of Preventable Surprises (an r3.0 Advocation Partner), applied to the finance field. We at r3.0 generalized the term to apply broadly, as encompassed in the below graphic. We hope that our work inspires you to become a Positive Maverick (or realize that you already are one!)



Common Good Resources

- Bill Baue. 2023. *Sustainability Context Annotated Bibliography*.
- Bill Baue. 2023. *An Inquiry Invitation: Is the Science Based Targets initiative Science Based?*

White Papers

- Bill Baue. 2020. *From Monocapitalism to Multicapitalism: 21st Century System Value Creation*

Opinion Papers

- Ralph Thurm. 2021. *The Big Sustainability Illusion – Finding a Maturation Pathway for Regeneration & Thriving*
- Ralph Thurm & Bill Baue. 2021. *Maturation Pathways for Designing a Wellbeing Economy – A r3.0 Opinion Paper for WEAll*

Case Studies

- Ralph Thurm & Sophia Orbach. 2022. *The First 'True' Sustainability Report? The Case of GLS Bank, Following the r3.0 New Impetus and Context-based Multicapital Reporting*