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SUBJECT: GRI comments to the Accountancy Europe publication *'Interconnected standard setting for corporate reporting'*

Dear Mr. Olivier Boutellis,

Dear Ms. Veronica Poole and members of the independent taskforce,

I am reaching out in my capacity of Chief Executive of the Global Reporting Initiative (GRI) – the leading global standards for organizations to report on economic, environmental and social performance. GRI welcomes the recent publication by Accountancy Europe on *'Interconnected standard setting for corporate reporting'* and I would like to offer the following inputs to help inform and strengthen the subsequent dialogue.

As a starting point, the GRI Sustainability Reporting Standards (GRI Standards)[1] have been adopted by most large corporations that disclose of so-called non-financial or environmental, social and governance (ESG) information. The GRI Standards are developed using a public, independent, multi-stakeholder process and are made available as a free public good in 11 languages. Recent studies have concluded that the GRI Standards are used by 75% of the 250 largest reporting companies worldwide.[2]

GRI recognizes the current strong call for harmonization or even full consolidation of ESG reporting standards. Efforts are underway to harmonize where possible, both publicly through the Corporate Reporting Dialogue, and through other bi-lateral and multi-lateral discussions between the leading organizations. We believe that the calls for harmonization at least partially stem from uneven quality in reports and the complex and wide-ranging subjects compiled under the rubric of sustainability.

At this time, ESG reporting is primarily a voluntary exercise and companies are free to choose the topics to report and the completeness of the reporting. Many 'sustainability' reports have become oriented towards story-telling that is focused on enhancing corporate reputation. We share concerns about the uneven quality of reporting and we respectfully submit that reporting quality and the confusion around disclosure standards are very different topics with different solutions.

The accountancy profession has an important role to play in advising companies on ESG reporting as well as auditing and assuring disclosures. The current global pandemic has raised important issues about

[1] https://www.globalreporting.org/standards/
[2] https://assets.kpmg/content/dam/kpmg/xx/pdf/2017/10/kpmg-survey-of-corporate-responsibility-reporting-2017.pdf

the adequacy of corporate disclosure on several ESG topics. While these topics are typically referred to as 'non-financial,' lack of preparedness for this global crisis has severe financial implications for many companies.

Submitted for your consideration are GRI's contributions to the nine criteria proposed in the Accountancy Europe report.

1. Urgency, 2. Global or local solutions and 8. Legal embedding

GRI strongly supports the global applicability of ESG reporting requirements. A globalized system will unlock the value of the information by easing comparability and analysis while minimizing reporting burden. The current pandemic and ongoing existential threats, such as climate change, underscore the importance and urgency of this shared objective. Given the broad adoption of the GRI Standards by issuers, policy makers and regulators worldwide, such global system should build on the GRI Standards and reporting framework.[3] In addition, GRI supports mandatory reporting and assurance requirements for ESG disclosures. As stated above, the current voluntary paradigm has led to uneven quality and completeness of reports.

3. Oversight and 4. Due process of standard setting

The governance structure of GRI was modelled on that of the International Financial Reporting Standards (IFRS) to ensure the independence of the standard setting process. The GRI Standards are developed using a public, multi-stakeholder process. The independently appointed Global Sustainability Standards Board (GSSB) governs the process and the Due Process Oversight Committee (DPOC) assures adherence to the standard setting protocols.[4] Funding for this process is provided solely by the GRI Secretariat, which uses a diversified revenue model to ensure funding has minimal influence on the standard setting process.

5. Responding to stakeholder interests and 7. Materiality lens

GRI welcomes the increasing awareness that reporting on 'non-financial' information needs to go beyond what is considered financially material to the issuer and its investors. The emerging policy to revise the non-financial reporting directive (NFRD) in the European Union is similarly focused on 'double materiality' – a perspective put forward by the European Commission last year.[5]

Representing a range of stakeholder interests has been a core value of GRI since its inception. Because ESG disclosures include environmental and social impacts occurring external to the reporting company, these interests must be represented to determine materiality. Focusing strictly on financial impacts to the reporting company will exclude key sustainability issues that would leave both the companies and investors exposed to risks which, over the long-term, can have significant financial implications. The current global pandemic is a strong example of the importance of full transparency to assess and mitigate risks which can emerge very rapidly.

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[3] The GRI Standards are referenced in 168 policies from 67 countries (source: GRI internal policy database, February 2020). More information will be available in the next edition of the Carrots and Sticks report (June 2020).
[4] https://www.globalreporting.org/standards/gssb-and-standard-setting/
[5] https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf

6. Framework and metrics

Reporting frameworks specify the principles and procedures for ***how*** to create a reliable report. Topic-specific disclosure Standards ('metrics' from the Accountancy Europe paper) set out the specific qualitative and quantitative disclosures for ***what*** a company should report. The GRI Standards contain both a reporting framework (*GRI 101: Foundation*) and topic-specific disclosures (*GRI 102: General disclosures* and the GRI topic-specific Standards – *200*, *300* and *400* series).

Most organizations reporting ESG information employ the GRI reporting framework to determine which material topics to report, the boundary conditions of the report, the sustainability context and other key principles. For example, the importance of disclosures on water usage are determined by assessing the level of regional water stress.[6]

While prescribing a mandatory core set of disclosures has the potential to improve comparability, this must be balanced by careful consideration of the relevance of what a company discloses. Rather than a 'tick-box' exercise, companies must identify relevant disclosures through a robust multi-stakeholder materiality assessment.

9. Role of technology

The value of both financial and non-financial disclosures is increased through digital reporting. Comparability, analysis and reporting burden are all improved with digital tools. While the market for ESG data and analysis already has several for-profit actors, a globalized non-profit system would greatly benefit from end-to-end digitalization based on internationally standardized protocols. Such a system could assess and inform global policy makers on the achievement of the Sustainable Development Goals and provide other public benefits.

Thanks again for raising the awareness of ESG reporting within the accountancy profession. We welcome the support and partnership to improve the practice and thus unlock its value for all stakeholders. I welcome the opportunity to further discuss the points presented in this letter and look forward to a continued dialogue between our organizations.

Sincerely,

Tim Mohin,
Chief Executive, GRI

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6 https://www.globalreporting.org/standards/gri-standards-download-center/gri-303-water-and-effluents-2018/