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Ref.: SG/PRJ/LFU/IDS/

Dear Ms. Arbex,

Re: Second Public Comment Period for the development of G4 Sustainability Reporting Guidelines - GRI Exposure Draft on Sustainability Reporting Guidelines (G4)

- (1) FEE (the Federation of European Accountants) is pleased to provide you below with its feedback on the Exposure Draft of the next generation of GRI Sustainability Reporting Guidelines (G4), as part of the Second Public Comment Period¹ for the development of G4 Sustainability Reporting Guidelines (“the Exposure Draft”).
- (2) Our response to this consultation is restricted to those areas of the Exposure Draft most relevant for FEE to comment on. We have responded to all the questions for general comment and a selection of the specific questions, as well as included other general comments related to assurance. The detailed feedback on the Exposure Draft is included as an Appendix to this letter.
- (3) In summary:
 - (i) We believe that the greater focus on materiality is improving the current GRI sustainability guidelines. However, in our view further improvements can be made to assist organisations further on how to determine materiality and clarify further that organisations should only disclose material items. Further use of diagrams could also help to understand the relationship between the different concepts and guidance elements, to illustrate and enhance reporters’ understanding of the new concepts and criteria;

¹ FEE issued a Comment Letter on the First Public Comment Period for the development of G4 Sustainability Reporting Guidelines on 16 November 2011, see at:
http://www.fee.be/publications/default.asp?library_ref=4&content_ref=1454

(ii) We support GRI's commitment to develop specific supporting guidance and other materials for small and medium sized entities (SMEs). Without such supporting aids it would be difficult to expect the G4 Guidelines, as proposed, to apply to all organisations regardless of size or experience in reporting. Indicators are increasingly specific and increasing in number, thus demanding more extensive and more sophisticated reporting systems. This creates a further barrier for smaller organisations. Discontinuing the Application Levels as they presently exist in the G3 and G3.1 versions of the Guidelines might also prevent SMEs from preparing a G4 Sustainability Report. Consideration should be given for SMEs to have a lighter regime;

(iii) Assurance on Sustainability Reports should be strongly recommended by GRI. However, GRI should not develop or propose criteria for appropriate assurance procedures. The preparation of draft standards on assurance aspects should be left to the responsible standard setters for assurance issues.

For further information on this letter, please contact Leyre Fuertes, Project Manager from the FEE Secretariat, on +32 2 285 40 76 or via email at leyre.fuertes@fee.be.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Philip Johnson', with a long horizontal stroke extending to the right.

Philip Johnson
President

Appendix – Feedback on GRI Exposure Draft on Sustainability Reporting Guidelines (G4)

Our feedback below relates to those areas of the Exposure Draft most relevant for FEE to comment on. We have referenced for each relevant section in our feedback the question and/or section of the Exposure Draft that our response relates to.

Please note that we have attempted to make a choice between the “yes” or “no” options provided for each question, however these responses should be read in light of the detailed comments.

GENERAL QUESTIONS

1. Do you believe that the greater focus on materiality introduced in the G4 Exposure Draft will assist organizations in better defining report content, boundaries and issues so as to contribute to better and more relevant reports (as opposed to longer reports)?

Yes

No, please clarify:

- (4) Yes since we agree that there should be greater focus on materiality to evolve from GRI's G3 Sustainability Reporting Guidelines. However, in our view further guidance would still be needed to assist organisations further on how to determine materiality. In this context, the Guidelines could also clarify further that organisations should only disclose material items.
- (5) More detailed guidance specifying what is material would assist organisations to apply these guidelines. This could include a clearer linkage with topics raised through stakeholder engagement and more strategic scenario planning, as well as internal processes of how to rank and prioritise these identified topics in order to come to the most material ones.
- (6) We also note that some sustainability reporting practices aim to report on all requirements of the Guidelines - possibly seeking to be more transparent and achieving better reporting. The major disadvantage of that approach is giving the same level of relevance to all issues whether more or less material to the organisation and/or its stakeholders. The focus on materiality is paramount to ensure that reporters will not seek to report on all the elements of the guidelines if not relevant but will focus on what is material (in conjunction with the other reporting principles for defining content). In practice, there are organisations that wrongly think that they must report on every proposed disclosure item. This is why in our view GRI should make it clearer that only material disclosure items have to be included in the Sustainability Report.
- (7) Furthermore, as FEE noted when commenting to GRI on the First Public Comment Period for the development of G4 Sustainability Reporting Guidelines, it is important to strike the right balance between comparability and materiality of the reported information. One way to define materiality further could be for the Guidelines to address the importance of a materiality assessment linking it to the corporate strategy. Organisations should be able to apply a common guidance on materiality to ensure that the reported information is comparable while remaining based on their specific circumstances.

Appendix – Feedback on GRI Exposure Draft on Sustainability Reporting Guidelines (G4)

- (8) Given the emphasis placed by GRI on the new Technical Protocol: “Content and Boundaries” introduced in the Exposure Draft, it should be referred to in the section that describes and introduces the reporting principles.
- (9) Further use of diagrams could also help to understand the relationship between the different concepts and steps suggested in the guidelines.

2. Is the G4 Exposure Draft (including the new structure) clear and understandable in terms of what is expected of organizations for the sustainability report to be in accordance with the guidelines?

- Yes
- No, please clarify:

- (10) Yes, the proposed Guidelines are clear in terms of what is expected of organisations, but we believe that this aspect of the guidelines could be further improved. What is needed to be reported can vary significantly from organisation to organisation. Accordingly, it should be given greater prominence to the elements of the guidance that help reporters decide on the contents of the report. For example, we recommend moving the guidance provided in the technical protocol on defining report content and boundaries to be dealt with in the general principles and guidance for defining report content and boundaries (currently section 2 of the Exposure Draft, pp. 14-21) in one section at the beginning of the ED. We also note however that we identify an important dilemma in relation to the question of whether to change from application levels to the proposed “in accordance with” regime - See our comments in this respect under the specific question below relating to Application Levels. The final guidelines should seek to resolve this dilemma and support its reasoning.

3. Does the G4 Exposure Draft clearly explain the interaction between the guidelines, the technical protocols and the sector supplements?

- Yes
- No, please clarify:

- (11) Yes, but as noted above, it would be helpful having further use of diagrams linking all guidance elements.
- (12) Clarifications may be required in relation to the period when G3 and G4 overlap – for example, it may be that indicators of G4 address what is covered in the Sector Supplements developed for G3. This is particularly relevant when looking at value chain / supply chain issues. We also encourage the further development of sector supplements.

4. Do you think that the G4 Guidelines can apply to organizations of various sizes in your region?

- Yes
- No, please clarify:

- (13) No. Indicators are increasingly specific and increasing in number, thus demanding more extensive and more sophisticated reporting systems. This creates a barrier for smaller organisations. See also our comments on the appropriateness of the discontinuation of the Application Levels and the impact this discontinuation can have on SMEs under the specific question below relating to Application Levels.
- (14) We acknowledge GRI's plans to recognise the specific needs of SMEs and we support the commitment to develop specific supporting guidance and other materials for SMEs. Without such supporting aids it would be difficult to expect the G4 Guidelines, as proposed, to apply to all organisations regardless of size or experience in reporting. Alternatively, consideration should be given for SMEs to have a lighter regime.

5. Do you believe that the G4 Guidelines will drive the cost effective preparation of a sustainability report for all organizations?

- Yes
- No, please clarify:

- (15) Yes. Although there is an exercise organisations will need to go through to implement the Guidelines, the preparation of the report should become more effective. In the short term, the G4 Guidelines will increase resource use for report preparation, regarding content definition and also more specific indicators, meaning at least initially increased costs. Hopefully organisations will gain efficiencies over time with an improved understanding and application of the guidance.

6. Have the proposed G4 Guidelines achieved a proper balance between the economic, governance, environmental and social indicators?

- Yes
- No, please clarify:

- (16) A conclusion on proper balance is not straightforward to answer. For instance, it can very much depend on which stakeholder perspective is considered when answering. We commend GRI for the progress made in this area but we also feel that further work is needed in this respect. For example, some might view that despite being an important driver for sustainability, the economic indicators (and aspects) are not sufficiently emphasised. Also, although in the profile disclosures, there is a large emphasis on governance with perhaps far too detailed information on these topics.

- (17) We also note that there is a perception that Sustainability Reporting is tending to be overstandardised. With new disclosure requirements, there is a risk for Sustainability Reporting to become checklist-driven. This also raises the question whether G4 resulted in less overlap with governance in other forms of reporting, as material aspects of these topics are already to be disclosed in for instance financial reports. Further work on and developing sector supplements will also help ensure that organisations reflect the most relevant information to their particular circumstances.

SPECIFIC QUESTIONS

Governance & Remuneration

1. Do you consider the proposed disclosures related to Governance & Remuneration disclosures appropriate and/or complete?

- Yes
 No, please clarify:

- (18) No. See our comments above under the proper balance between governance and other disclosures, mainly that there is a large emphasis on governance with perhaps far too detailed information on these topics.

2. Do you have other general comments related to Governance & Remuneration?

- Yes
 No, please clarify:

- (19) See our comment above under the question of whether there is a proper balance between governance and other disclosures, raising the question whether G4 resulted in less overlap with governance in other forms of reporting, as material aspects of these topics are already to be disclosed in for instance financial reports.

- (20) We also believe that there might be some merit in classifying reporting on Governance & Remuneration as one more area of performance reporting together with the economic, environmental and social indicators to see Governance and Remuneration as an aspect of sustainability performance. This is because Governance and Remuneration are directly the result of top management's decisions, having a particular impact on specific key stakeholders (e.g. shareholders, employees and regulators). We believe that these key stakeholders value how organisations are performing in this area (including the way organisations decide to govern themselves and their remuneration is managed).

Boundary

1. Do you think that the new version of the Technical Protocol helps organizations to express better the relationship between material topics and value chain?

- Yes
- No, please clarify:

(21) Yes.

2. Do you think mapping the value chain is a helpful exercise for defining boundaries of material topics?

- Yes
- No, please clarify:

(22) No, in the sense that the identification of relevant topics is different to defining boundaries of material topics. We believe that the mapping of an organisation's value chain(s) is a good concept in achieving the objective to identify relevant topics. However, we do not think that the concept of the value chain is useful to define the boundaries.

(23) In our view, the “consolidation” scope (i.e. the same scope as in the financial reporting) should be the minimum scope to report on. Additionally, depending on the impact of the topics identified, the boundary for disclosure in the case of some topics should be wider, up and down the value chain and clearly documented and justified.

(24) In addition, it is more effective and aligns with “best reporting practice” to adopt a risk-based approach in assessing the significance of impacts (i.e. listing material Aspects (and where the impact occurs within the value chain(s)). Size in isolation does not necessarily equate to significant impact and more emphasis should be given to the probability of such impacts. Perhaps this should be emphasised further in the guidance on materiality.

(25) The section “What does the Technical Protocol – Defining Report Content and Boundaries cover?” proposes to remove the word “content” in the text and to introduce the concept of “scope”, which is confusing in context of the proposed title of the section. We recommend that the text be revised in the light of this consideration.

(26) The “Decision tree for boundary setting” available in the G3 Guidelines is no longer included in the proposed G4 Guidelines. This was a useful decision tool and we recommend a new diagram should be developed to illustrate and enhance reporters' understanding of the new concepts and criteria.

3. Is the difference between the term “Aspect” and “Topic” clear when each term is used in the Technical Protocol?

- Yes
- No, please clarify:

(27) Yes.

Application Levels

1. Do you agree with the proposal to discontinue with the Application Levels and to replace them with criteria that define when a report has been prepared “in accordance with” the G4 Guidelines?

- Yes
- No, please clarify:

(28) There are merits and cons for keeping the Application Levels or replacing them with criteria for a report to be prepared “in accordance with”.

(29) Firstly, if there is a need for a reporting model which encourages organisations to report on sustainability disclosures, keeping a differentiated application scheme through the current Application Levels is a good idea.

(30) Also, the guidelines as proposed would appear to inappropriately mix the potential objective for organisations “to be in accordance with the guidelines” as a driver or incorrect incentive for organisations to decide on the report contents.

(31) In particular, the discontinuation of the Application Levels as they presently exist in the G3 and G3.1 versions of the Guidelines in combination with the new reporting requirements on Governance & Remuneration, which are not listed as a separate indicator category with clear core and additional indicators, makes it practically impossible for privately owned companies and SMEs to state that they are “in accordance with” the GRI guidelines. They would be non-compliant despite fulfilling all other criteria, but not disclosing on this particular requirement. A possible solution would be to classify reporting on Governance & Remuneration as one more area of performance reporting together with all the indicators, giving thus the opportunity for reporters to express reasons for omission but also and perhaps more importantly to see Governance and Remuneration as an aspect of sustainability performance.

(32) In addition, we believe that the “in accordance with” clause will make it harder for SMEs to prepare a Sustainability Report. There is also a risk that organisations currently content with preparing GRI Sustainability Reports based on current Application Levels B or C will no longer prepare Sustainability Reports if “full” disclosure is expected to be “in accordance with”, or some organisations might be forced to give up disclosure if the new requirements are too onerous.

- (33) Furthermore, the existence or not of sectors supplements also affects the level of the barrier that companies may have in being recognised for their sustainability reporting. With the proposed approach all companies subject to report on sector supplements will have a higher barrier to state their “in accordance with” compared to other sectors. This is similar in the application levels, with the significant difference that companies can opt for a “lower” (but not necessarily) lowest level of reporting (i.e. with an application level B as opposed to A).

2. Do you support the introduction of transitional provisions to allow new reporters two reporting periods in order for their reports to gradually be in accordance with the G4 Guidelines?

o Yes

o No, please clarify:

- (34) We are concerned that the transitional provisions for first time reporters as proposed (to incrementally apply G4 for two reporting periods, stating their commitment for the report to be fully in accordance with G4 once the transition period is over) could create an unintended incentive to either report all or perform a rushed process for materiality to ensure that, after two years, the report is in accordance with the Guidelines.

OTHER GENERAL COMMENTS ON THE G4 EXPOSURE DRAFT

Assurance

- (35) We welcome the fact that GRI is providing guidance on choices on assurance. In our view, GRI should use this as an opportunity to strongly encourage the use of assurance for the benefit of enhancing the reliability of the information disclosed.
- (36) GRI suggests that organisations can opt for assurance approaches that are not governed by a specific standard – provided that those approaches follow systematic, documented, and evidence-based processes. We suggest that the primary purpose of providing assurance is to increase the level of confidence and trust that readers have in the report, that the report follows the relevant reporting standard and that the data included in it are reliable in accordance with the criteria or “benchmarks” set in the standard. We do not think that a non-standard process would be able to effectively achieve this goal as users would not be able to rely on predetermined known criteria based on which the assurance is provided; a standard based process adds a fair degree of trust to reported information. Therefore, we do not agree with the GRI proposals on the approach to assurance.
- (37) In order to enhance the credibility of reports and achieving a proper level playing field for assurance of sustainability reporting (including a common understanding of what external assurance means), GRI should call for a standard driven assurance process. As the developer of guidance on reporting, GRI should neither develop an assurance standard nor should it perform assurance services.

Appendix – Feedback on GRI Exposure Draft on Sustainability Reporting Guidelines (G4)

- (38) We support the IAASB as the global standard setter for the development of assurance standards. In particular, we note the IAASB's efforts working on the final revised ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information, as a significant step forward in ensuring appropriate standards are in place for the provision of assurance and increase the reliability of the information in this field. We encourage the development of further standards and more specific standards in the area of sustainability reporting. GRI should not develop or propose criteria for appropriate assurance procedures. The preparation of draft standards on assurance aspects should be left to the responsible standard setters for assurance issues.
- (39) The proposed guidelines identify a series of so-called “key qualities” for the external assurance of a report prepared using the GRI Reporting Framework. One of them is to “assess whether the report provides a reasonable and balanced presentation of performance, taking into consideration the veracity of data in a report as well as the overall selection of content” (see the third bullet point on page 11 of the Exposure Draft). This appears to refer specifically to a selection of principles: balance, accuracy and materiality. The proposed guidelines also require as a key quality for external assurance to “assess the extent to which the organisation has applied the GRI Reporting Framework (including the Reporting Principles) in the course of reaching its conclusions” (see the second bullet point on page 12 of the Exposure Draft). Practical reporting experience indicates that the principles referred to above (balance, accuracy and materiality) may require more focus. However, highlighting those principles should not lead to the perception that the other principles (stakeholder inclusiveness, sustainability context, completeness, timeliness, comparability, clarity, reliability) are not relevant from an assurance point of view. We suggest to simplify the key qualities for external assurance to indicate that assurance should address compliance with all reporting principles as well as the reliability of the performance data.