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Item 02 – Relationship between GRI Standards and other reporting standards

For GSSB discussion

Date	9 June 2023
Meeting	15 June 2023
Description	This paper provides an update on the work to inform the position of the Global Sustainability Standards Board (GSSB) regarding the relationship between the GRI Standards and other reporting standards, particularly the upcoming standards by the International Sustainability Standards Board (ISSB) and the European Sustainability Reporting Standards (ESRS) in the European Union.

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Introduction

This paper presents an update on the work informing the position of the Global Sustainability Standards Board (GSSB) regarding the relationship between the GRI Standards and other reporting standards. In particular, the upcoming standards by the International Sustainability Standards Board (ISSB) and the European Sustainability Reporting Standards (ESRS) in the European Union.

This update includes a proposed text based on Box 1 of *GRI 1: Foundation 2021* that explains the relationship between the GRI Standards and other standards.

Proposed text on the relationship between the GRI Standards and other reporting standards

Background

Box 1 in *GRI 1: Foundation 2021* explains the link between sustainability reporting and financial and value creation reporting. Since the release of *GRI 1* in 2021, the reporting landscape has significantly evolved. The IFRS Foundation has set up the International Sustainability Standards Board (ISSB) with the mandate to develop standards for reporting sustainability-related financial information to investors. In the European Union, the Corporate Sustainability Reporting Directive (CSRD) has been adopted and will be underpinned by mandatory European Sustainability Reporting Standards (ESRS) based on double materiality.

The changing reporting landscape calls for assessing and explaining how the GRI Standards relate to these developments and identifying contents that may require updating. This includes Box 1 in *GRI 1* and potentially section 5.1 Aligning sustainability reporting with other reporting in *GRI 1*, among others. The positioning of Box 1 within section 2 of *GRI 1* may also necessitate revision.

To inform the GSSB’s position on this matter, the Standards Division proposed a text based on the existing Box 1 in *GRI 1* and the near-final versions of the IFRS Sustainability Disclosure Standards and ESRS. This work was presented at the GSSB meeting on 20 April 2023 for an initial discussion.

As noted during the 20 April meeting, the proposed text does not constitute the final version for insertion in the GRI Standards. It is intended to inform the GSSB's position on the relationship between the different standards. Any proposed changes to the GRI Standards must follow the GSSB Due Process Protocol.

The proposed text has been shared with the ISSB and EFRAG for comment. The proposed text is intended to inform the GSSB's own position on the matter; it is not an official position of the ISSB or EFRAG.

IFRS Sustainability Disclosure Standards

The IFRS Sustainability Disclosure Standards under development (expected to be published at the end of June 2023) require an entity to disclose material information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's business model or strategy and consequently its cash flows, access to finance, or cost of capital over the short, medium, or long term (i.e., affect its prospects). In the context of sustainability-related financial disclosures, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which provide information about a specific reporting entity. Sustainability-related risks and opportunities arise from the entity's dependencies and impacts on resources and relationships.

European Sustainability Reporting Standards

The European Sustainability Reporting Standards under development (expected to be adopted as Delegated Acts in the summer of 2023) adopt the concept of double materiality, which has two dimensions:

- Impact materiality: 'A sustainability matter is material from an impact perspective when it pertains to the undertaking's material actual or potential, positive or negative impacts on people or the environment over the short-, medium- and long-term time horizons.'
- Financial materiality: 'information is considered material for primary users of general-purpose financial reporting if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that they make on the basis of the undertaking's sustainability statements.

  A sustainability matter is material from a financial perspective if it triggers or may trigger material financial effects on the undertaking. This is the case when it generates or may generate risks or opportunities that have a material influence (or are likely to have a material influence) on the undertaking's cash flows, development, performance, position, cost of capital, or access to finance in the short-, medium- and long-term time horizons.'

The draft ESRS state that, 'In general, the starting point is the assessment of impacts.' 'Irrespective of their being financially material, impacts are captured by the impact materiality perspective.' The ESRS also require considering how the undertaking 'is affected by its dependence on the availability of natural and social resources at appropriate prices and quality, independently of its potential impacts on those resources.'

Proposed text

The proposed text presented to the GSSB on 20 April 2023 has been revised based on GSSB feedback and to improve its clarity. The following key changes have been made:

- In the third paragraph, it has been clarified that:
  - impacts can give rise to sustainability-related risks and opportunities for an organization in the short, medium, or long term;
  - identifying impacts is a necessary first step in identifying risks and opportunities that arise from impacts (rather than in identifying all risks and opportunities, as impacts are one source but not the only source of risks and opportunities).
- An example has been added of risks and opportunities that arise from dependencies, independent of the organization's own impacts, in the fourth paragraph.
- The fifth and seventh paragraphs are new to provide more guidance on how the GRI Standards and IFRS Sustainability Disclosure Standards can be used together.
- The term 'prospects' has been deleted and the term 'primary users' has been clarified based on the terminology of IFRS, in the sixth paragraph.
- In the last paragraph, it has been clarified that:
  - while most impacts will result in risks and opportunities, sustainability reporting with the GRI Standards is independent of considering sustainability-related risks and opportunities, based on the existing text of Box 1 in *GRI 1: Foundation 2021* and *GRI 3: Material Topics 2021*;
  - the material topics determined with the GRI Standards cannot be deprioritized by applying materiality definitions of other reporting standards.

Feedback was also received on developing a visual about the relationship between the different perspectives and reporting standards. This visual has not yet been developed.

Proposed text based on Box 1 on page 9 of *GRI 1: Foundation 2021*

Box 1. Impact materiality, financial materiality and double materiality in sustainability reporting

The GRI Standards enable organizations to report information about the most significant impacts of their activities and business relationships on the economy, environment, and people, including impacts on their human rights. Such impacts are of importance to sustainable development and to an organization's stakeholders, such as investors, workers, customers, or local communities. This perspective is also referred to as 'impact materiality'. It has been adopted in the European Sustainability Reporting Standards as one of the two dimensions an undertaking needs to report on and is expected to see more widespread adoption in regulatory approaches around the world.

The impacts of an organization can also affect the availability, quality, and affordability of the resources and relationships it depends on. Thus an organization's impacts can result in its own risks and opportunities. These risks and opportunities can affect the organization's business model or strategy and, consequently, its cash flows, access to finance, or cost of capital over the short, medium, or long term. For example, an organization's high use of non-renewable energy contributes to climate change and could, at the same time, result in increased operating costs for the organization due to legislation that seeks to shift energy use toward renewable sources. Or, an organization's track record of respecting human rights and promoting gender equality at work helps attract skilled workers, increasing the organization's reputation and thus helping increase customers' demand for its products and services.

An organization's impacts can thus give rise to sustainability-related risks and opportunities in the short, medium, or long term. Most, if not all, of the impacts of an organization, will eventually translate into risks and opportunities. Therefore, understanding these impacts is a necessary first step in identifying risks and opportunities that result from an organization's impacts.

An organization's dependencies on resources and relationships are also a source of risks and opportunities, independent of the organization's impacts on those resources and relationships. For example, when an organization's business model depends on water and the quality of the water it depends on is affected by the polluting activities of other organizations upstream in the river basin.

Information about the risks and opportunities that arise from an organization's impacts and from the organization's dependencies on resources and relationships are reported under IFRS Sustainability Disclosure Standards. The material topics and related impacts determined with the GRI Standards provide crucial input for identifying the risks and opportunities that arise from an organization's impacts.

The IFRS Sustainability Disclosure Standards require disclosing material information about all sustainability-related risks and opportunities that could reasonably be expected to affect an organization's business model or strategy and consequently its cash flows, access to finance, or cost of capital over the short, medium, or long term. This includes the sustainability-related risks and opportunities arising from the impacts of the organization on the economy, environment and people. Information is material if omitting, misstating, or obscuring that information could reasonably be expected to influence decisions of primary users of general purpose financial reports (that is, existing and potential investors, lenders, and other creditors).

The use of the GRI Standards and the IFRS Sustainability Disclosure Standards provide a comprehensive overview of an organization's sustainability-related impacts, risks and opportunities. The perspectives that each of these standards bring are relevant in their own right and complement each other.

The European Sustainability Reporting Standards have adopted ‘financial materiality’ as the second dimension an undertaking needs to report on. The combination of impact and financial materiality is referred to as ‘double materiality’ under the European Sustainability Reporting Standards.

While most, if not all, of the impacts of an organization will eventually translate into risks and opportunities, sustainability reporting with the GRI Standards is independent of considering sustainability-related risks and opportunities. It is therefore important for the organization to report on all the material topics that it has determined using the GRI Standards. These material topics cannot be deprioritized on the basis that they do not result in risks and opportunities for the organization or by applying materiality definitions of other reporting standards.

Feedback and next steps

This revised text is a draft and is presented for further comments and discussion by the GSSB at the 15 June 2023 meeting.

The final standards of the International Sustainability Standards Board (ISSB) and the European Sustainability Reporting Standards (ESRS) are not yet available, and thus further updates to the text may be required in the future. The ISSB and EFRAG will be invited to provide input on the revised text.

In addition, GRI is developing a set of technical Questions & Answers with the ISSB to explore key questions on the interoperability between the GRI and IFRS standards. Questions include, who are the information users of GRI and IFRS standards, what is the role of investors as stakeholders and information users in GRI reporting, and when are disclosures about impacts material to investors. A further question could be, how does the process for determining material topics outlined in the GRI Standards connect to the process by which the reporting organization identifies sustainability-related risks and opportunities under IFRS reporting. These Q&A will further inform the proposed text.