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Item 04 – Universal Standards: management statement

For GSSB discussion

Date	9 April 2020
Meeting	23 April 2020
Project	*Review of GRI's universal Standards*
Description	This document contains proposals for a management responsibility statement to be incorporated into GRI's universal Standards. You are kindly asked to review the content and proposals and provide any feedback **during the meeting on 23 April 2020**.

Review of GRI's universal Standards

As part of the project to review GRI's universal Standards, the possible incorporation of a required management 'sign-off' statement into the GRI Standards was discussed during the GSSB meeting on 24-25 September 2019. The GSSB agreed that the GRI Standards Division (SD) would undertake further investigation into the feasibility of such a requirement.

The SD has therefore interviewed a range of stakeholders including those representing regulators, stock exchanges, the accountancy and audit profession, and policymakers and performed further research. Based upon this input the SD makes proposals to the GSSB for the consideration of incorporating a management statement in this paper.

Background

Since the GRI Standards were launched in October 2016 there has been increasing interest by many stakeholders in the reporting of sustainability information. This includes the reporting process itself, the reporting frameworks and disclosures used, and that the resulting reported information is accessible, relevant, and reliable. In many jurisdictions the reporting of sustainability information is now being mandated for larger corporates and public interest entities.

Policymakers, stock exchanges and regulators are increasingly mandating some form of non-financial/CSR reporting or specified sustainability disclosures or metrics for specific organizations, with some requiring the use of GRI Standards (e.g., Taiwan Stock Exchange) or recommending GRI Standards (e.g., Malaysian Stock Exchange). Others also require statements from management, such as the EU Non-Financial Reporting Directive (NFRD) and the Hong Kong Stock Exchange's (HKEX) Listing Rules – more detail on these is provided below in the section on findings.

Reasons for incorporating a management 'sign-off' or responsibility statement into the GRI Standards include:

- increased scrutiny of sustainability reporting by regulators, investors, and other stakeholders;
- improvement in quality and credibility of sustainability reporting;
- involvement with and accountability for non-financial reporting by senior management/governance bodies;
- acknowledgement by senior management/governance bodies of the impacts an organization has on the economy, environment, and people.

Current requirements

Claims

Currently the GRI Standards require an organization to include a statement to indicate their use of the GRI Standards when the Standards are applied for their sustainability reporting. When an organization has met the minimum requirements to be in accordance with the GRI Standards, it is required to state the following claim in its reporting:

"The reported sustainability information has been prepared in accordance with the GRI Standards" ***(in accordance claim)***. Refer to clause 3.1 in *GRI 101*.

When the organization uses only selected GRI Standards or parts of the Standards to report specific topics (e.g., emissions, occupational health and safety), and not the full set of GRI Standards, it is required to state the following claim (appropriately adapted for the Standard(s) used):

"This material references *GRI 305: Emissions 2016* and *GRI 403: Occupational Health and Safety 2018*" ***(GRI-referenced claim)***. Refer to clause 3.3 in *GRI 101*.

The requirements for stating the appropriate claim do not stipulate who within an organization needs to assume responsibility for the claim, only that it is incorporated into their reporting.

Statement from senior decision-maker

Disclosure 102-14 requires organizations to report "a statement from the most senior decision-maker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and its strategy for addressing sustainability."

This statement is focused more on the organization's sustainability strategy than it is about the reporting process or the reported information that results from applying the GRI Standards.

Summary of findings

Interviews

The main themes arising from discussions with stakeholders:

- All interviewees were supportive of a management responsibility statement, but differed on what that statement should include and who should be required to make it;
- All interviewees agreed that the statement should include compliance with the GRI Standards;
- Not all interviewees were in agreement that the statement should extend to responsibility for reported information in terms of its 'quality' and 'veracity' or that it represents a 'true and fair' view of the organization's material topics, related impacts, its management of those impacts and its related performance;
- Suggestions for who within an organization should be required to take responsibility for the statement/claim included:
    - the CFO (so that the same individual was responsible for both financial and non-financial reporting, the CFO would seem most appropriate in the USA)
    - the entire Board of Directors (since this would ensure an enterprise-wide due process for risk assessment, scoping, internal reporting, internal controls and policies needed to ensure quality in the GRI reporting processes);
    - management and the Board of Directors;

- management with oversight from Board of Directors which could be designated to a committee (not necessarily the finance/audit committee as they may not have the right skill set);
- it is for the organization to determine who takes responsibility and the requirement should ask them to state who this is (in some jurisdictions it may be determined by law or regulation, or the responsibility may be seen to carry legal responsibility);

- It was stated that it is not clear what a report that claims to be 'GRI-referenced' is and what the difference between this and a report that claims to be 'in accordance' is;
- The 'GRI-referenced' claim should clearly convey that the associated report is not an 'in accordance' report, and a suggestion that organizations should disclose the reasons for not preparing an 'in accordance' report.
- Concerns were raised that the 'GRI-referenced' approach is adding credibility to a report which may not be justified, and adding a management statement to each of the claims may address this;
- Implementation of international or transnational frameworks (e.g., IFRS or the EU NFRD) differ by country due to varying levels of maturity, culture, legislation, and enforcement across different jurisdictions;
- The placement of the statement can have a significant impact, including:
    - the Board can be unaware of a sustainability report being published, unless this statement is included in the management report (usually part of the annual report including the financial statements),
    - if a separate sustainability report is published, the statement of responsibility should be included with that report and not be located in, for example, a management report within the annual report.
- The requirements for the responsibility statement in the GRI Standards cannot contradict local regulations in certain jurisdictions (for example, specific requirements are placed on who is responsible in each EU Member State for the information required under the local implementation of the EU NFRD and this will often be that information incorporated into the GRI Standards sustainability report);
- Actual responsibility for sustainability reporting within organizations varies;
- Requiring a management responsibility statement can have implications for reporting in the following ways:
    - it can result in better quality information being reported;
    - it can result in a more conservative approach which could result in less information being reported, but at the same time would result in less 'spurious' reporting and poor-quality disclosure;
    - it could lead to 'easier' targets being reported;
    - boards can restrict more forward-looking information as they look to avoid any litigation or monetary fines and actions.

Note that most interviewees had experience with, and were more focused, on larger and/or public interest entities (listed companies, large insurers, banks, etc). Any proposal would have to apply to all types of organizations including smaller and or private entities, as well as non-corporates.

Other research

A review of other corporate reporting frameworks (financial and non-financial) and other regulations identified that there is a wide range of requirements for management responsibility statements or similar. Details are provided in Annex 1. Important findings include:

- EU NFRD – this requires the governing board to have collective oversight for drawing up and publishing information that meets the requirements.
- HKSE – requires a statement of board involvement with ESG reporting.
- IIRC – this requires those charged with governance to acknowledge their responsibility for the integrity of the report, that they have applied their collective mind to the preparation and presentation of the report, and that they opine or conclude whether the report is presented in accordance with the <IR> Framework.
- CDP – a question at the end of the questionnaires asks for the details of the person that has signed off (approved) the responses, although it does not specify who this needs to be.
- For organizations that are required to report non-financial/CSR information which is required to be referenced in a director's or management report within their statutory annual report or financial report, it can be expected that the referenced information (whether integrated into one overall report or published separately) is subject to a level of oversight by management and/or relevant governance bodies of the reporting organization, regardless of where within the organization the non-financial/CSR information is generated and prepared. This also applies to those frameworks, which whilst voluntary request the information be incorporated into mainstream financial filings (e.g., (CDSB, SASB).
- Financial reporting frameworks (IFRS and US GAAP) do not require a responsibility statement, but implementation in each jurisdiction (e.g. Companies Acts and Accounting Regulations) usually stipulates this and these requirements differ.

Proposed revisions

Responsibility statement

The statement and its location

Based upon the research and interviews conducted, it is recommended by the SD that the senior decision-maker of an organization reporting using the GRI Standards shall acknowledge responsibility for the organization's use of the GRI Standards in the GRI content index as set out below.

For reporting in accordance with the GRI Standards

***"[title of senior decision-maker of the organization]* acknowledges responsibility for the following statement of use:**

> **the information reported by *[name of organization]* for the *[reporting period]* has been prepared in accordance with the GRI Standards".**

For reporting with reference to the GRI Standards

***"[title of senior decision-maker of the organization]* acknowledges responsibility for the following statement of use:**

> **the information reported by *[name of organization]* for the *[reporting period]* has been prepared with reference to the GRI Standards cited in this content index".**

The requirement for the responsibility statement will be included in Section 3 of *GRI 101: Using the GRI Standards*, which lists the requirements for using the GRI Standards to either report in accordance with the GRI Standards or with reference to the GRI Standards.

Requiring the responsibility statement to be included in the content index (which is required for both reporting 'in accordance' with and 'with reference' to the GRI Standards) ensures that the statement will be consistently and prominently located.

Who assumes responsibility?

Based upon research and interview findings, there appear to be practical problems with specifying an exact individual or body who should make the responsibility statement for all organizations using GRI Standards. This is because of varying legislation and regulation in different jurisdictions, as well as the varying types of organizations who use the GRI Standards for reporting, their different needs and levels of importance they attach to their sustainability reporting. For a large publicly listed multinational the expectation is that they should have a senior executive or the board of directors to take responsibility for the report, whereas a small nonprofit organization may deem it appropriate to be a member of the management team.

It is therefore proposed that it is the statement is made by the organization's senior decision-maker. For some organizations this will be determined by applicable legislation or regulation, whereas for others, the organization will need to determine who their senior decision-maker is. Guidance will be provided to this effect in *GRI 101*.

Public comment

During the public comment period for the exposure draft of the universal Standards, the SD proposes to ask the following questions:

- Should the GRI Standards require the senior decision-maker of the organization to include a statement acknowledging their responsibility for the reported information being prepared in accordance with or with reference to the GRI Standards?
- Should the statement be extended to the quality and veracity of the reported information?

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Corporate reporting framework	Responsibility statement
Climate Disclosure Standards Board (CDSB) Framework (issued by CDSB)	**“REQ-11 Conformance** Disclosures shall include a statement of conformance with the CDSB Framework, or equivalent. Purpose: To inform readers about whether, and to what extent, the principles and requirements of the CDSB Framework, or an equivalent framework, have been applied. In order to assert conformance with the CDSB Framework, an organisation must apply the guiding principles to the environmental information reported and comply with the requirements. In cases where full conformance has not been achieved, management shall identify in the statement those principles and requirements that it has not conformed with, in whole or in part. This shall be accompanied by an explanation of the relevant circumstances, the nature of the omission and the organisation’s plans for full conformance. Unless otherwise stated in the mainstream report, the statement of conformance shall also: • Identify information that is incomplete, or has been prepared under conditions of uncertainty together with an explanation about the nature and degree of omissions/errors/uncertainty; • State whether and to what extent environmental information has been assured (see also REQ-12); and • State the outcome of applying the relevance and materiality principle.” <u>Source</u>: CDSB Framework, 2018 issued by CDSB ***Summary:*** *this requirement does not identify who shall make the statement, apart from in the case where full conformance has not been achieved which requires management to identify those areas of non-conformity. The term ‘management’ is not defined in the CDSB framework and is used generically throughout.*

Corporate reporting framework	Responsibility statement
EU Non-Financial Reporting Directive (NRFD)/Directive 2014/95/EU	**Directive 2013/34/EU** "It is required that the members of the administrative, management and supervisory bodies of an undertaking, acting within the competencies assigned to them by national law, have collective responsibility for ensuring that the ['non-financial statement'] is drawn up and published in accordance with the requirements of this Directive." Source: Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC Text with EEA relevance ***Summary:*** *this requirement inserts the need for management and governing bodies to take responsibility for the non-financial statement, however this requirement can be made stronger upon implementation by individual EU member states.*
International Financial Reporting Standards (issued by the International Accounting Standards Board - IASB)	**IAS 1 Presentation of Financial Statements** "16. An entity whose financial statements comply with IFRS Standards must make an explicit and unreserved statement of such compliance in the notes. An entity must not describe financial statements as complying with IFRS Standards unless they comply with all the requirements of the Standards." Source: IFRS Standards, issued by the International Accounting Standards Board ***Summary:*** *this requirement does not provide any details on who must make the statement. In the EU, Directive 2013/34/EU also applies to the financial statement in the same way as for the non-financial statement. In jurisdictions outside of the EU the implementation as to who takes responsibility for compliance with IFRS varies also and can extend to additional responsibilities for the financial statements, e.g., that the financial statements give a true and fair view of the company's state of affairs.*

Corporate reporting framework	Responsibility statement
International Integrated Reporting Framework (issued by the International Integrated Reporting Council - IIRC)	**1G Responsibility for an integrated report** "1.20 An integrated report should include a statement from those charged with governance that includes: • An acknowledgement of their responsibility to ensure the integrity of the integrated report • An acknowledgement that they have applied their collective mind to the preparation and presentation of the integrated report • Their opinion or conclusion about whether the integrated report is presented in accordance with the Framework. or, if it does not include such a statement, it should explain: • What role those charged with governance played in its preparation and presentation • What steps are being taken to include such a statement in future reports • The time frame for doing so, which should be no later than the organization's third integrated report that references the Framework." Source: IIRC's <IR> Framework issued 2013 ***Summary****: this requirement involves three different elements including the integrity of the report and compliance ith the Framework.*

Corporate reporting framework	Responsibility statement
Stock Exchange of Hong Kong Limited (HKEX)	Key changes to the ESG Guide and related Listing Rules for financial years commencing on or after 1 July 2020 include [summary extract]: Introducing mandatory disclosure requirements to include: • a board statement setting out the board's consideration of ESG matters; • application of Reporting Principles "materiality", "quantitative" and "consistency"; and • explanation of reporting boundaries of ESG reports. Source: www.HKEX.com.hk ESG Guide and Listing Rules amendments to take effect on 1 July 2020 ***Summary***: *this amendment does not explicity reference reporting, but the Listing Rules do state that "The board has overall responsibility for an issuer's ESG strategy and reporting'. On this basis HKEX requires a responsibility statement from the board regarding ESG reporting.*
Sustainability Accounting Standards Board (SASB) Standards (issued by SASB)	**2.1 Identifying Use of the Standards** • "When reporting using a SASB standard, an entity shall cite the relevant SASB standard in order to be in conformance with the standard." Source: SASB Standards Application Guidance Version 2018-10 ***Summary:*** *this requirement does not specify any statement of responsibility, nor who should make the statement.*
United States Generally Accepted Accounting Principles (issued by the Financial Accounting Standards Board – FASB)	"Any entity asserting that a set of financial statements is in compliance with US GAAP complies with all applicable sections of the Codification, including disclosures. However, an explicit and unreserved statement of compliance is not required." Source: KPMG IFRS compared to US GAAP, December 2017, kpmg.com ***Summary:*** *this requirement does not require a statement of compliance, nor responsibility for that compliance.*