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Item 05. Background on review of *GRI 201: Economic Performance*

For GSSB discussion

Date	7 March 2017
Meeting	21 March 2017
Description	This paper provides background information related to the review of *GRI 201: Economic Performance*. The paper provides input for the GSSB to discuss two main areas during their March 2017 meeting: first, whether to expand the scope of the review to also include *GRI 202: Market Presence* and *GRI 203: Indirect Economic Impacts*; and second, whether to move ahead with developing new content related to Tax and Payment to Governments.

Background

In December 2016 the GSSB approved and published its three-year Work Program for 2017-2019, including a schedule of priority standards to review in 2017. These Standards were selected based on stakeholder feedback and a consideration of national and international developments. *GRI 201: Economic Performance* was prioritized for review based largely on feedback received from GSSB members during the 'Transition to Standards' initiative in 2016, suggesting that the existing disclosures in *GRI 201* require further clarification and revision. This content-related feedback was determined to be out-of-scope for the transition from G4 to Standards, and was therefore logged as input into the next set of review projects.

In the GSSB Work Program, it is also explicit that the review of *GRI 201: Economic Performance* should 'consider the inclusion of new content related to Tax and Payments to Governments.' Corporate tax disclosure continues to be raised by GRI's network as an issue of increasing importance, and its prominence is supported by recent national and international developments, such as the OECD's requirements on country-by-country reporting[1] and the current EU Proposal[2] to require detailed mandatory public tax reporting for large companies. It is also closely tied to issues of poverty alleviation and wealth inequality, since corporate tax payments are a critical way for businesses to contribute to sustainable local economies.

Input requested from the GSSB

In order to move ahead with the proposed review of *GRI 201: Economic Performance*, there are two distinct areas where the GSSB is requested to provide input:

1. **Expanding the scope of review**: The GSSB is asked to determine whether the scope of this project should also consider (in addition to *GRI 201*), the closely-related disclosures in *GRI 202: Market Presence* and *GRI 203: Indirect Economic Impacts;*
2. **Development of new content related to tax**: The GSSB is also asked to confirm whether the Standards Division/ GSSB should proceed with looking to develop new disclosures related to Tax and Payment to Governments, and if so, to discuss what form this could take

This paper sets out relevant background information on each area, based on initial research by the Standards Division.

[1] Available at: http://www.oecd.org/tax/beps/beps-actions.htm
[2] Available at: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52016PC0198

Discussion Topic 1: Expanding the scope of the review to include GRI 202 and GRI 203

Context

To inform the GSSB discussions on this review project, the Standards Division carried out some initial high-level research into reporting practice related to GRI's economic disclosures. Since the content in *GRI 201: Economic Performance*, *GRI 202: Market Presence* and *GRI 203: Indirect Economic Impacts* are closely-related, and the distinctions between each topic can be ambiguous, this research considered all G4 indicators (G4-EC1 to G4-EC8) that are now included in these three Standards. All of these G4 indicators were transitioned to the GRI Standards without any revisions, except for G4-EC5 (now Disclosure 202-1) on ratios of standard entry level wage compared to local minimum wage.[3]

Table 1: Overview of GRI 201, GRI 202, GRI 203 and associated disclosures

Standard	*Disclosures*
GRI 201: Economic Performance	• Disclosure 201-1 Direct economic value generated and distributed *(formerly G4-EC1)* • Disclosure 201-2 Financial implications and other risks and opportunities due to climate change *(formerly G4-EC2)* • Disclosure 201-3 Defined benefit plan obligations and other retirement plans (*formerly G4 EC-3)* • Disclosure 201-4 Financial assistance received from government (*formerly G4-EC4)*
GRI 202: Market Presence	• Disclosure 202-1 Ratios of standard entry level wage by gender compared to local minimum wage *(formerly G4-EC5)* • Disclosure 202-2 Proportion of senior management hired from the local community *(formerly G4-EC6)*
GRI 203: Indirect Economic Impacts	• Disclosure 203-1 Infrastructure investments and services supported *(formerly G4-EC7)* • Disclosure 203-2 Significant indirect economic impacts (*formerly G4-EC8*)

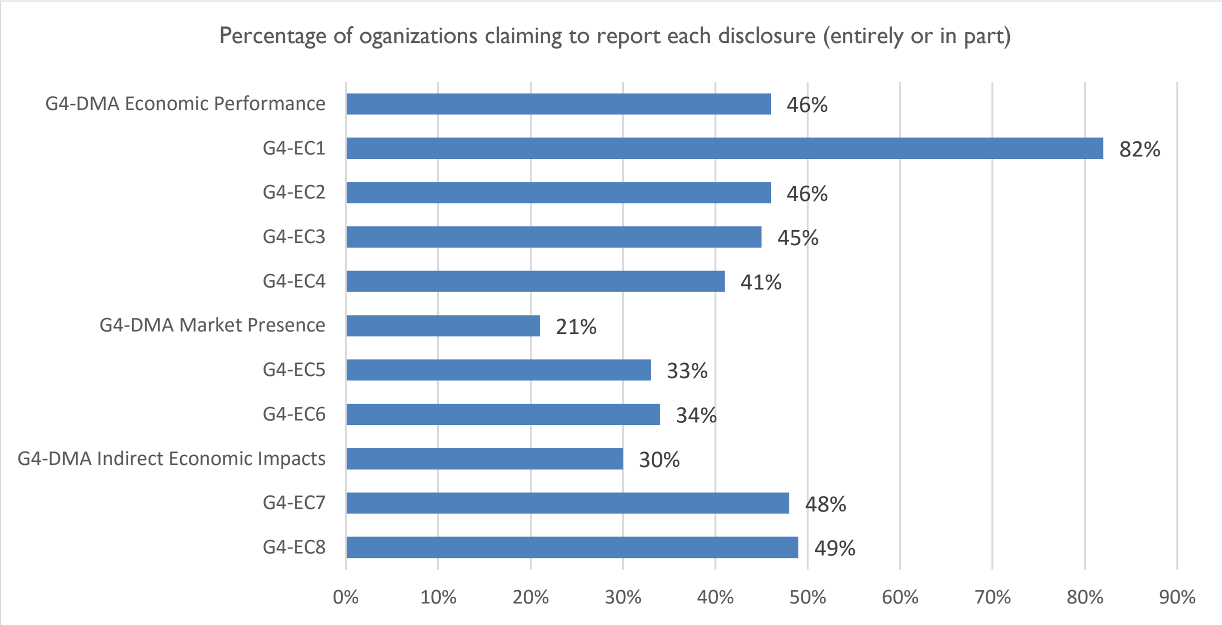
The research analyzed data from GRI's Benchmark tool to assess how frequently the relevant G4 indicators are reported, and also included an in-depth review of a small sample of six sustainability reports for additional context.

See Annex A for the list of reports reviewed and a summary of high-level findings for each disclosure.

[3] This disclosure was revised based on the 'Employee/worker' terminology review. The term 'workforce' has been changed to employees, and a new requirement has been added: 'When a significant proportion of other workers (excluding employees) performing the organization's activities are compensated based on wages subject to minimum wage rules, describe the actions taken to determine whether these workers are paid above the minimum wage'

Table 2 presents a summary of how frequently each of the corresponding G4 indicators is claimed to be reported, based on the sample of over 3000 reports in the GRI Benchmark tool.[4]

Table 2: Frequency of reporting by disclosure



Initial findings

This data shows that G4-EC1 (direct economic value generated) is by far the most widely-reported out of this set of indicators, followed by G4-EC7 (on infrastructure investments and services supported) and G4-EC8 (significant indirect economic impacts). Most organizations already have the information required by G4-EC1 available through their financial reporting. The two disclosures under Market Presence are very infrequently reported compared to other economic disclosures. This is likely due at least in part to the fact that 'Market Presence' is not a clearly-defined topic, and therefore very few reporters are likely to identify this as material for their organization. It could also suggest that the indicators themselves are not deemed useful for reporters, although further investigation would be needed to verify this.

The in-depth review of a sample of reports also suggests that the distinctions between the GRI topics of Economic Performance, Market Presence, and Indirect Economic Impacts are not clearly defined and are often not well understood by reporters. Many companies use selected disclosures from these Standards, but combine them with reporting on other material topics. For example, G4-EC1 (on direct economic value generated) is often reported as part of overall financial information, while G4-EC8 on indirect economic impacts is often reported as part of Local Communities or a similar topic.

[4] The size of the sample is of 3396 G4 reports published from 2013 until 2016, from 88 different countries, located in 6 regions, with a declared 'in accordance' options (Core or Comprehensive), that have been included in the GRI Sustainability Disclosure Database. "Reported Entirely" is equivalent to "claims to be reported" and both refer to "A reference/direct answer for the Standard Disclosure is given in the Index". Only the reporting claims made in the GRI Content Index have been taken into account; further information such as assurance statements, content of the report, etc., has not been analyzed. G4 Reports are sustainability/Integrated reports based on the GRI G4 Sustainability Reporting Guidelines for which there is a GRI Content Index available. The data available in the database is collected by GRI in collaboration with its data partners and captures all reports of which GRI is aware.

Furthermore, this initial research suggests that disclosures from *GRI 202* and *GRI 203* are often inconsistently or partially-reported, even when companies claim to be reporting fully. For example, out of four reports that claimed to be reporting G4-EC5 (now Disclosure 202-1, on ratios of standard entry level wage compared to minimum wage), none of the companies fully reported all elements of this disclosure. As another example, although G4-EC7 (now Disclosure 203-1, on infrastructure investments and services supported) is relatively frequently reported, our analysis of a sample of reports shows that companies are all reporting this in very different ways, and many of them are grouping this together with reporting on community impacts. This makes comparability of information very challenging, and suggests that the disclosure may not fit well under the title of 'Market Presence'.

Annex A sets out further observations on current reporting practice against each indicator, based on the sample of reports reviewed.

Proposed next steps

Given the inconsistent quality of reporting against GRI's current economic disclosures and the strong overlap between the content in *GRI 201, GRI 202* and *GRI 203*, the **Standards Division therefore recommends to the GSSB that the scope of this review project be expanded to include all three standards, rather than focusing only on *GRI 201***.

Expanding the scope of this project will allow these Standards to be reviewed in a holistic way, and will take advantage of convening a Working Group that has expertise relevant for all three Standards. If the GSSB focuses this current review only on *GRI 201* and then opens *GRI 202* or *GRI 203* for review in the next few years, the Standards Division would need to re-engage the same network of experts, which could be challenging.

Expanding this review could potentially lead to a recommendation from the Working Group to consolidate, merge, and/or re-title these Standards in order to more accurately reflect the intent of each topic and to better align with reporting practice. This would likely require a staged process, in which the Working Group first makes recommendations on the type of content that should be covered under GRI's Economic topics, and then reviews/ develops individual disclosures. Depending on the overlap across topics, this second part of the process could involve several distinct Technical Committees, or could be done through a single Working Group.

Broadening the scope of the review will inevitably require more effort and could impact the anticipated project timelines. However, the Standards Division believes this approach is still likely to be more efficient than running a separate review project for each of the three Standards in the future.

Discussion Topic 2: Developing new disclosures on Tax and Payments to Government

Context

The global discussion around tax transparency has gained momentum in recent years, with leading intergovernmental organizations, civil society groups, and labor representatives calling for increased disclosure on corporate tax payments. A recent study by RobecoSAM indicated that only 17% out of 830 companies surveyed were currently reporting publicly on tax payments at a country level, and most of these were only operating in a single country.[5]

Greater tax transparency is critical to help prevent companies from exploiting gaps in tax rules and to help ensure that companies pay tax in the regions where they generate profits. This issue is also closely linked to wealth inequality and poverty alleviation, since corporate tax payments play a critical role in helping governments to fight poverty and inequality. However, when companies seek to avoid paying tax in the regions where they generate profits, they deprive local governments of important income. A recent report by Oxfam, for example, found that developing countries lose around $100bn annually as a result of corporate tax avoidance schemes.[6]

Relevant legislation – current and proposed

Under the OECD/ G20 Base Erosion and Profit Shifting (BEPS) Package[7], many large multinational enterprises are already required to report detailed, country-by-country tax information to tax authorities (but not publicly). BEPS has been adopted by 94 countries or jurisdictions, with the first exchanges taking place early in 2017. It is expected that an estimated 10,000 large companies (with revenues over 750 million EUR) would be impacted by the BEPS legislation.

The EU has also proposed new legislation that would require large companies based in and operating in the EU to *publicly report* on tax payments on a country-by-country basis. This proposal to amend the existing EU Directive 2013/34/EU[8] was developed following a 2015 public consultation on corporate tax transparency requirements, and is part of the Commission's overarching 'Action Plan for Fair and Efficient Corporate Taxation in the EU.'

However, according to experts working in the tax disclosure field, there is no indication at the moment that this proposal is likely to be approved by the EU in the near term.

To date, the only legislation requiring detailed public reporting of tax payments applies to the financial and extractives sectors in certain regions. The EU's Capital Requirements Directive IV covers much of the financial sector (mainly banks), and includes a country-by-country tax reporting obligation. Similarly, the Extractive Industry Transparency Initiative ('EITI') Standard applies to the extractives sector and is implemented in 51 countries around the world. It requires applicable companies to publicly disclose all material taxes and payments to governments. However, the tax information required under these initiatives is less detailed than that required to be reported to tax authorities under the OECD BEPS legislation.

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[5] RobecoSAM, '*The Sustainability Yearbook 2015'*, January 2015. Available at: yearbook.robecosam.com

[6] Oxfam, 'Tax Battles: The dangerous global Race to the Bottom on Corporate Tax', December 2016, available at: https://www.oxfam.org/sites/www.oxfam.org/files/bp-race-to-bottom-corporate-tax-121216-en.pdf

[7] Available at: http://www.oecd.org/tax/beps/beps-actions.htm

[8] Available at: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52016PC0198

GRI's potential role in tax disclosure

The importance of greater tax transparency and the link with the sustainable development agenda is undeniable. However, corporate financial reporting does not yet require the level of public disclosure on tax that is needed to improve transparency and to thus drive more equitable tax structures.

The GRI Standards, as the world's most widely-adopted framework for sustainability reporting, could play a key role in helping to drive greater transparency on tax and payments to governments. Taking a clear stand on tax reporting would position the GRI Standards at the forefront of this high-profile sustainability issue, and could raise overall awareness about tax issues and sustainability reporting. Developing new disclosures related to tax reporting is likely to be supported by GRI's stakeholders from civil society, labor, and investment, but will probably be much more controversial with business stakeholders. Many companies already collect detailed, comparable country-by-country tax information for reporting to tax authorities; therefore, the amount of effort required to disclose this information publicly is likely to be minimal. However, many companies consider their tax information to be highly confidential, and it remains to be seen whether they would strongly resist greater public reporting (even on a voluntary basis).

If the GSSB decides to move ahead with developing new content on tax, it will also require a clear argumentation and communication on why the GRI Standards are crossing into a space that is traditionally perceived to fall within financial reporting.

Options to integrate tax disclosure into the Standards

Bringing new disclosures on tax into the GRI Standards could take several forms, depending on the level of detail desired, and how widely-applicable these disclosures should be. The starting list of options below is not exhaustive, and these are not exclusive (e.g. multiple options could be pursued):

a) High-level disclosures on the organization's approach to tax strategy could be included in *GRI 102: General Disclosures.* Under the current structure of the Standards, this would make these disclosures applicable to either all companies preparing a report in accordance with the Standards, or only those preparing a Comprehensive report.

b) Disclosures related to tax could be incorporated within an existing topic-specific Standard, such as *GRI 201: Economic Performance.* This would mean that under the current structure, organizations would likely report these disclosures only if they have identified Economic Performance as a material topic. Since companies preparing a Core report are only required to report at least one disclosure from the Standard, it is possible that additional disclosures on tax could be infrequently reported.

c) A new topic-specific standard could be developed on *Tax and Payments to Governments*; this would likely be added to the 200 Series (Economic Topics). Having a dedicated Standard on tax would likely raise the profile of the issue and would also enable this Standard to be used separately for reporting just on tax (e.g. following the 'GRI-referenced' approach). However, one downside is that for organizations preparing a report in accordance with the Standards, they would typically only use this standard if 'Taxes' was determined to be a material topic – which could enable many companies to opt out of these disclosures.

The Standards Division provides these example structures only as input to the GSSB discussions; not for a decision at this time. It is likely that if the GSSB decides to move ahead with developing new content on tax and payment to governments, the exact form that would take would need to be determined later in the process, once a dedicated Technical Committee or Project Working Group has made a recommendation on the content to be included.

Proposed next steps

Based on the importance of tax transparency, and the unique role that GRI can play in this space, **the Standards Division recommends that the GSSB move ahead with developing new content related to tax disclosures**. Given the very specific focus of this work and the fact that existing requirements for reporting to tax authorities provides a strong starting point for disclosures, the Standards Division would suggest that the GSSB look to form a dedicated Technical Committee, rather than a multi-stakeholder Project Working Group to develop draft recommendations.

The output of this Technical Committee would then be shared back with the GSSB to review and to determine how best to integrate it into the existing structure of the GRI Standards. A public consultation period could then be held, in line with Due Process requirements, to seek stakeholder views on the draft content.

Running this work as a separate project, but in parallel with the review of *GRI 201: Economic Performance,* will make it possible to identify areas of synergy or overlap with other economic disclosures. And, it will enable the GSSB to structure the revised Economic topics in the most logical and accessible way possible.

Annex A: Current Reporting Practice for Economic Indicators

This table presents a summary of high-level observations on reporting practice against selected G4 indicators, based on an in-depth review of six sustainability reports. It should be noted that this small sample size is intended just to provide useful examples and anecdotal information to inform the GSSB discussions about the scope of the review project for *GRI 201: Economic Performance*. Further research on a larger sample size of reports can be carried out once the scope of this review project is confirmed.

The sample of reports reviewed is set out in Table 3, and Table 4 provides a summary of findings against each G4 indicator:

Table 3: Sample of reports reviewed

Organization	Sector	Country	Size	Type of GRI Report
3M	Conglomerates	USA	MNE	G4 - Core, 2016
Deutsche Bank	Financial Services	Germany	MNE	G4 - Core, 2016
BHP Billiton	Mining	Australia	MNE	G4 - Comprehensive, 2016
KPMG	Commercial Services	Singapore	MNE	G4, Core, 2016
Heineken	Food and beverage	Netherlands	MNE	G4- Core, 2016
Royal Dutch Shell	Energy	Netherlands	Large	G4 – Core, 2016

Table 4: Summary Finding by Indicator/ Disclosure

Indicator	Observations about current reporting practice
G4 Aspect Economic Performance (now *GRI 201: Economic Performance*)	
G4-EC1 Direct economic value generated and distributed *(now Disclosure 201-1)*	• All the reports reviewed include information for this indicator either as an overview on performance data, financial summary and results (includes economic performance in terms of revenues, taxes, overall costs, employees, etc.), or as a combination of financial and non-financial figures. • Most reports provide a reference to information in their financial statement or annual report. • Many companies combine information under this indicator with reporting on their contribution to communities and economies (investment, development projects). • Most of the sub-points required under this indicator are reported; however greatest emphasis tends to be put on community investment/ contributions. • Most companies provide data by year but do not provide breakdowns by region, country, or market
G4-EC2 Financial implications and other risks and opportunities for the organization's	• EC2 is normally covered under overall management of risks, opportunities and challenges together with the assessment of sustainable investments. In a couple of cases, companies report it under energy or in a section dedicated to SDGs and climate change challenges • Most companies do not report all the sub-points of this indicator; instead they provide a general position on climate change and its associated risks and impacts. Companies report on how they aim to

Indicator	Observations about current reporting practice
activities due to climate change *(now Disclosure 201-2)*	aim to mitigate their impacts which contribute to climate change. Information framed along SDGs. • In terms of costs of actions taken, this usually covers total amount companies invest to tackle climate change risks, address SDGs, or overall risk management investment. • Key areas covered are: impacts of sustainability investments (risk assessment), management of risks & challenges, list of risks and opportunities from climate change (water, weather, raw materials, etc.).
G4-EC3 Coverage of the organization's defined benefit plan obligations *(now Disclosure 201-3)*	• This indicator is not widely or comprehensively reported; two companies do not report it at all, and two report this indicator either in their financial statement under overall contribution to employees (employee benefits) or under economic sustainability as a contribution to retirement plans. • In one case, this indicator is combined with EC1 and EC2.
G4-EC4 Financial assistance received from government *(now Disclosure 201-4)*	• Poorly-reported indicator; two companies do not report at all. Most provide a statement within the GRI content index, but don't provide any additional information
G4 Aspect Market Presence (now *GRI 202: Market Presence*)	
G4-EC5 Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation *(now Disclosure 202-1)*	• Companies offer mostly tabular representation of information related to performance, remuneration, workforce, employees/ people • Based on the sample of reports, this indicator is either reported as a note or annex, in the GRI content index, or described briefly in the Management approach • None of the companies provides the definition of significant locations of operation as required by the indicator
G4-EC6 Proportion of senior management hired from the local community at significant locations of operation *(now Disclosure 202-2)*	• Relatively poorly and briefly reported indicator. In most cases, it is covered under people/ workforce performance and procedure for local hiring (once as a footnote only). • For one report reviewed, the company does not disclose this information due to confidentially issues; and two additional companies simply do not report any data
G4 Aspect Indirect Economic Impacts *(now GRI 203: Indirect Economic Impacts)*	
G4-EC7 Development and impact of infrastructure investments and services supported *(now Disclosure 203-1)*	• When reporting on EC7, companies disclose most of the information on *GRI EC7-b. Report the current or expected impacts on communities and local economies. Report positive and negative impacts where relevant.* • Key areas covered are social performance, social investment, contribution to economies, working with local communities. Different issues are mentioned under these areas e.g., improvement of the quality of life, local sourcing, supply chain impacts, access to energy, improving road safety, enabling employment within communities, education, science, research. • Majority of the reviewed companies (four cases) report on total amount of contributions, areas covered (education, health, etc.), regions, list projects/programs, and receivers. One even discloses motivation. In three cases, investment/contributions are classified beyond GRI indicator (e.g., cash, **time,** in-kind, donations, management costs, employee volunteering).

Indicator	Observations about current reporting practice
	• Two companies mention payments to government and tax transparency under this indicator. They consider these payments as economic and social impacts and development contribution.
G4-EC8 Significant indirect economic impacts, including the extent of impacts *(now Disclosure 203-2)*	• Overall, companies' reporting is framed in terms of social investment and contributions, and impact on communities. Some companies report on this indicator as a part of broader themes, e.g SDGs, climate change and environmental projects, number of improved lives, sourcing of resources. • For EC7 and EC8, companies usually report the same information, and within reports the information is typically located within the same section.

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