



Item 03 – Sector Program Description

For GSSB approval

Date	22 January 2019
Meeting	7 February 2019
Program	Sector Program
Description	<p>This document describes objectives, scope and process of Sector Program, for approval by the GSSB.</p> <p>In accordance with the Due Process Protocol the Sector Program Description has been shared with the GRI Stakeholder Council and the GRI Board after the GSSB meeting on 29 November 2018.</p> <p>The Sector Program Description has been revised based on input during the GSSB meeting on 29 November 2018, as well as collated comments from the GRI Stakeholder Council (see Annex 2).</p>

This document has been prepared by the GRI Standards Division. It is provided as a convenience to observers at meetings of the Global Sustainability Standards Board (GSSB), to assist them in following the Board's discussion. It does not represent an official position of the GSSB. Board positions are set out in the GRI Sustainability Reporting Standards. The GSSB is the independent standard-setting body of GRI. For more information visit www.globalreporting.org.

About this Proposal

A draft Sector Program Description was prepared in November by the Standards Division, and circulated for comments and feedback from the GSSB, the GRI Stakeholder Council and GRI Board. Initial feedback from the GSSB included:

- A recommendation to consider other frameworks beyond the SDGs within the Sector Program, such as the OECD Due Diligence Guidance;
- A recommendation to develop a template for the Sector Standards.

In addition, a GSSB subcommittee, whose members are Evan Harvey, Kirsten Hovi, and Vincent Kong, is meeting regularly to advise the Standards Division on the direction of the Sector Program.

This document is the final proposal for the Sector Program Description, for approval by the GSSB.

Changes since previous version

This Sector Program Description has been revised based on input during the GSSB meeting on 29 November 2018, as well as with collated comments received via email from the GRI Stakeholder Council (see [Annex 2](#) for a full set of those comments). The GRI Board did not submit feedback.

The following changes have been made:

- Text has been reduced, condensed and streamlined in ll. 40-48 to make clearer the overall rationale of the program.
- Text has been revised in ll. 57-58 and l 39-41 to reflect that the Sector Program pilot will now include two sectors, Oil and Gas and Agriculture.
- Text and a diagram have been added in ll. 74-81 to explain how issues surfaced within the Sector Program will inform the development of topic-specific Standards within the GRI Standards.
- Text has been added in ll. 87-89 to address how the Sector Program will leverage the contents in the G4 Sector Supplements.
- Text has been amended in l. 90 and l. 130-31 to clarify that some sector projects may involve technical committees rather than project working groups.
- Text has been added in ll. 104-05 to explain that the evolution of the Sector Standards and GRI Standards is a mutually reinforcing, two-way process.
- Text has been added in ll. 113-15 to clarify that the predominant criterion for prioritization is the impact of a sector.
- Text has been reduced in ll. 121-25 to streamline the discussion on external sector classification systems.
- Table 3 has been replaced in ll. 34-35.

38 Program Purpose

39 As reported by the [Sustainable Development Goals Report 2018](#), urgent and accelerated actions are needed to
40 address global challenges facing the economy, the environment and society.¹ More clarity is needed on which
41 issues constitute a sector's most significant impacts from a sustainable development perspective.²

42 A firm foundation providing authoritative information on sectoral impacts can help to focus sustainability reporting
43 on the issues that matter most from a sustainable development perspective, leading to a stronger foundation for
44 sustainable decision-making.

45 Furthermore, the Sector Program can help surface emerging issues for future development in the Standards, which
46 will help the GSSB deliver on its commitment to continuously improve the GRI Standards. The Sector Program
47 will help to complete the reporting framework provided by the GRI Standards.

48 High-Level Requirements

49 The GSSB will approve high-level requirements for the Sector Program. The Standards Division has identified the
50 following high-level requirements:

- 51 • **Process:** The Sector Program is to follow the [Due Process Protocol](#), including a multi-stakeholder
52 process for content development as well as exposure to public comment.
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- 54 • **Deliverables:** The Sector Program intends to produce regular releases of Sector Standards, beginning
55 with the commencement of two pilot projects in Q1 2019 (see Items 04 – Project Proposal for an Oil
56 and Gas Sector Standard and 05 – Project Proposal for an Agriculture Sector Standard). The Standards
57 Division will propose the number and sequencing of sectors to be covered in the Sector Program for the
58 approval of the GSSB.
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- 60 • **Quality:** Publications are to be well evidenced, and to have excellent technical quality and clear
61 definitions. Sector Standards are intended to be clear and user friendly to promote uptake among
62 corporate reporters, as well as other stakeholders that use sustainability reporting to empower
63 sustainable decision-making.
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- 65 • **Authority and Credibility:** Sector Standards will demonstrate the necessary characteristics to be
66 received as authoritative and credible.
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69 **Enhancement of the technical features of the GRI Standards:** The Sector Program is to support the
70 enhancement and expansion of the GRI Standards by explaining a sector's impacts and stakeholder expectations,
71 including surfacing issues not previously covered in the GRI Standards.
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73 The Standards Division will make proposals to the GSSB for the development of new or the revision of existing
74 Standards. The GSSB will consider and prioritize these proposals during the regular reviews of the GSSB work
75 program as per the [Due Process Protocol](#). Diagram 1 on the following page illustrates how the identification of
76 issues within the sector program are intended to drive the development of Topic-Specific Standards.
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¹ United Nations, [The Sustainable Development Goals Report 2018](#), accessed on 23 October 2018.

² For example, the World Business Council for Sustainable Development's (WBCSD's), [Materiality in Corporate Reporting – A White Paper focusing on the food and agriculture sector 2017](#), accessed on 23 October 2018, has highlighted inconsistencies in identified material issues in sustainability reporting in the food sector.

78 Diagram 1: Issues identified within the Sector Program drive development of Topic-Specific Standards



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81 Sector Program Process

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83 The process for developing Sector Standards is expected to involve:

- 84 • conducting preliminary desktop research on issues of relevance to a given sector, leveraging the sector
85 work of other organizations as well as G4 sector supplements, and providing inputs to draft development;
- 86 • forming a multi-stakeholder, expert Project Working Group or Technical Committee;
- 87 • surveying the Group for identification of significant impacts and stakeholder expectations and analyzing
88 survey results;
- 89 • vetting identified issues and their descriptions through a multi-stakeholder process (draft development),
90 using a combination of virtual and in-person group meetings as well as one-on-one meetings, as warranted;
- 91 • exposure of draft Sector Standards to public comment and incorporation of public feedback;
- 92 • finalization and release of the Sector Standard.

93 It is currently anticipated that an average sector project lifecycle is approximately 15 months. The process and
94 timelines will be field tested during the pilot project. Learnings from the pilot project may cause changes in scope
95 or process that may impact the project lifecycle.

96 The project cycle is expected to repeat, incorporating lessons learned, for subsequent sectors. After the desired
97 sector coverage is achieved, the Sector Program will transition to a recurring maintenance cycle. Sector Standards
98 will continue to evolve to align with the GRI Standards and to reflect developments and emerging issues within
99 sectors. In turn, evolution in the GRI Standards will in part be driven by information delivered within the GRI
100 Sector Program.

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105 Program scope

106 The Standards Division has conducted preliminary analysis on sector coverage and will propose the number and
107 sequencing of sectors to be covered in the Sector Program for the GSSB's approval. The GSSB will decide the
108 sectors to be covered by the program and the order of these sectors within the GSSB Work Program,
109 incorporating public feedback on the Work Program.

110 The Standards Division will include the following criteria to prioritize sectors:

- 111 • the economic, environmental and social impacts of the sector (the predominant criterion);
- 112 • the strength of the literature on a sector's impacts and role in sustainable development;
- 113 • the number of existing GRI reports from the sector.

114 In addition, the Standards Division has reviewed several sector classification systems in its analysis of sector
115 coverage, to determine whether adopting an existing external sector classification system would be beneficial for
116 the Sector Program. The Standards Division has also reviewed documentation and stakeholder feedback gathered
117 by GRI in previous years on this issue. (More detail on external sector classification systems and stakeholder
118 feedback related to these is provided in Annex I: Sector Classifications.)

119 The Standards Division recommends against adopting an external sector classification system for the Sector
120 Program. The Standards Division recommends and has developed a preliminary naming system that uses 'common
121 denominator' names (e.g. mining, oil and gas, agriculture) that are intended to be recognizable to all stakeholders,
122 regardless of the classification systems they use, to avoid privileging some stakeholders while creating barriers or
123 challenges for others.

124 The Standards Division will recommend a sector name and key to predominant external sector classification
125 systems at the project proposal stage for each proposed sector (e.g. Item 04 – Project Proposal for an Oil and
126 Gas Sector Standard). The GSSB can approve the draft name and key when approving a draft standard for public
127 comment, taking into account feedback from the Project Working Group or Technical Committee, and can
128 consider public feedback on the name and key when approving a Sector Standard for final release.

129 An example of a key for the agriculture sector is provided in Table 3 below.

130 Table 3: Key linking agriculture sector within the Sector Program to GICS, ICB and ISIC equivalents

Classification Standard	Classification No.	Classification Name
GICS	302020	Food Products
ICB	45102010	Farming, Fishing, Ranching & Plantations
	45102035	Sugar
ISIC	A1	Crop and animal production, hunting and related service activities (excludes tobacco)
	A3	Fishing and aquaculture

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Next Steps – Pilot Project

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137 The Sector Program will begin with two pilot projects to field test the sector strategy, streamline processes and
138 build team capacity (e.g. Item 04 – Project Proposal for an Oil and Gas Sector Standard and Item 05 –Project
139 Proposal for an Agriculture Sector Standard).

140 After the pilot is completed and lessons learned, the intention is to scale up to running multiple projects
141 concurrently to allow completion of desired sector coverage. Scale-up depends on securing additional resources.

142 The GSSB will approve sector projects before commencement, will approve the membership of Project Working
143 Groups and/or Technical Committees, will provide feedback on content development, will approve draft Sector
144 Standards for public exposure, and will approve all final Sector Standards.

145 Table 4: Sector Project Milestones

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Summary Milestones	Due Date
<i>Significant events in the program e.g., the completion of key deliverables or beginning/completion of a project.</i>	
GSSB approval of Program Description	7 February 2019
GSSB approval of Oil and Gas and Agriculture Sector Project Proposals and Terms of Reference	7 March 2019
Commencement of Pilot Projects: Appointment of Project Working Groups	Call for nominations for Project Working Group on 25 March 2019
GSSB approves Project Working Group memberships via electronic vote	26 May 2019
GSSB approves draft Sector Standards for public exposure (Pilot Projects)	21 November 2019
Public comment period	9 December 2019 – 8 March 2020
GSSB approves final draft of Sector Standards (Pilot Projects)	June 2020

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Annex I Sector classifications

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149 The GSSB discussed the workplan for the GRI Sector Program in November 2015 and April 2016 meetings,
150 including the potential selection of an external sector classification system for GRI's Sector Program.

151 In 2015, the Standards Division conducted a limited initial stakeholder consultation with 25 stakeholders to
152 determine the suitability of using an external sector classification system within GRI's Sector Program.
153 Stakeholders were not asked to gauge cost or feasibility.

154 The consultation focused on three options deemed likely to be most suitable for the Sector Program:

- 155 • the Global Industry Classification Standard ([GICS](#)), a proprietary classification developed by Standard &
156 Poor's and MSCI;
- 157 • the Industry Classification Benchmark ([ICB](#)), a proprietary classification developed by Dow Jones and
158 FTSE Russell;
- 159 • the International Standard Industrial Classification of All Economic Activities ([ISIC](#)), a public classification
160 developed by the United Nations.

Stakeholder feedback received in 2015 revealed three predominant viewpoints. Stakeholders either:

- 161 • exhibited a strong preference for classification systems commonly used by investors such as GICS or ICB,
162 which were designed for investment purposes;
- 163 • exhibited a preference for the United Nations sector classification ISIC, which is non-proprietary and
164 designed to enable international statistical analysis; or,
- 165 • had no knowledge of the classification systems in question, recommended alternative classification
166 systems, or questioned the benefit of selecting an external sector classification system for use in the
167 Sector Program.

168 Characteristics of sector classification systems

169 Sector classification systems organize and classify companies hierarchically, with larger groups of companies
170 containing aggregations of smaller groups. For example:

- 171 • GICS includes sectors>industry groups>industries>sub-industries;
- 172 • ICB includes industries>supersectors>sectors>subsectors; and
- 173 • ISIC includes sections>divisions>groups>classes.

174 Individual corporate entities are assigned to GICS and ICB by those who maintain the classifications. ISIC, on the
175 other hand, does not assign individual corporate entities, though entities may be assigned by nations or
176 governments to classes or groups within ISIC for the purposes of statistical analysis.

177 Investment-based classification systems

178 Investment-based sector classification systems such as GICS and ICB group companies together based on market
179 or production-related characteristics. An investment-based sector classification system groups together
180 companies that are expected to more tightly correlate in terms of financial performance rather than the overall
181 market.³ These groupings are used in investment strategies. For example, an asset manager might decide to

³ See, for example, Investopedia, [GICS Vs. ICB: Systems For Classifying Stocks 2018](#), accessed 23 October 2018 and ETF.com, [Test-Driving Industry Classifications 2009](#), accessed 23 October 2018.

182 underweight or overweight a particular sector as part of an investment strategy. Where a company is grouped
183 may impact how its shares are bought, sold or traded. For example, planned movement of telecom companies
184 within the GICS classification system to Communications Services in 2019 is anticipated affect the weight of these
185 companies within certain indices.⁴

186 Investment-based classification systems are:

- 187 • proprietary and cannot be used without licensing fees;
- 188 • complex and difficult to develop and maintain, as they assign individual entities to groupings;
- 189 • hardwired into databases and IT infrastructure;
- 190 • ingrained within investment organizations, habituating frequent users to certain terminologies.

191 These factors drive stakeholder affiliation with a classification system. Stakeholders within research and investment
192 institutions are strongly attached to the classification system used in their daily work.

193 The investment-based sector classification landscape is evolving and changing. Updates to classification systems as
194 business evolves also mean that it is more difficult to anticipate which sector nomenclature will remain valid in 3-
195 5 years. For example, both GICS and ICB are undergoing revisions within the next 1-2 years.⁵ Predetermining a
196 sector classification for a Sector Program intended to run for multiple years would have unforeseen implications
197 as these shifts occur.

198 United Nations-based classification system (ISIC)

199 The United Nations International Standard Industrial Classification of All Economic Activities (ISIC) is non-
200 proprietary. It is designed and maintained by the United Nations Statistics Division for the public good. The
201 development and maintenance is governed by the Committee for the Coordination of Statistical Activities,
202 including 45 international and supranational organizations, by the Principles governing international statistics
203 activities. ISIC is available free of charge on the ISIC webpages of the UN Statistics Division.

204 ISIC is designed for economic analysis and policy-making and is used by governments as a framework for statistical
205 analysis. The fourth revision of ISIC occurred in 2008, adding more granularity to allow stakeholders to be more
206 specific in statistical analysis. For example, ISIC's Manufacturing section has 28 separate divisions, which are further
207 broken down into groups and classes: Division 33 (Repair and installation of machinery and equipment) is further
208 subdivided into two groups (Repair of fabricated metal products, machinery and equipment; and Installation of
209 industrial machinery and equipment), and the Repair group is further divided into six classes. ISIC's granularity in
210 some sense treats business entities as 'pure plays' engaged in a single business activity, which is becoming a rarity
211 in the corporate landscape.

212 Most nations worldwide have adapted ISIC to their national statistics systems, though some nations may also use
213 their own classifications systems for statistical analysis (e.g., SIC codes in the UK, SIC/NAICS Code in the USA,
214 and GB/T 4754-2011 in China).

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216 In terms of updates, ISIC is considerably more stable (i.e., has fewer updates) than investment-based classifications.
217 However, this means that ISIC may diverge significantly from investment-based classification systems over time,
218 increasing a sense of unfamiliarity among reporters or report users that are accustomed to investment-based
219 classifications.
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⁴ See Business Insider Netherland, [GICS Sector Reclassification 2018](#), accessed 23 October 2018 and Fidelity, Know your sectors and industries. Available at: <https://tinyurl.com/ybfbh14>. [Accessed See Business Insider Netherland, [GICS Sector Reclassification 2018](#), accessed 23 October 2018 and Fidelity, [Know your sectors and industries 2018](#), accessed 23 October 2018.

⁵ GICS – MSCI, [GICS Structure Change 2018](#), accessed 09/11/18 and FTSE Russell, [Industry Classification Benchmark 2017](#), accessed 23 October 2018]

221 Generally speaking, corporate reporters as well as investors who commonly use information from sustainability
222 reporting in decision-making are less accustomed to working with ISIC. Governments and international agencies,
223 on the other hand, are less accustomed to working with GICS and ICB. Selecting one external classification system
224 may therefore add confusion for stakeholders accustomed to other classification systems.

225 Stakeholder feedback summary

226 Sector classification systems were discussed informally in individual meetings with 25 stakeholders in 2015. The
227 stakeholders included labor, investors, ratings agencies, companies, civil society, as well as two internal
228 stakeholders within GRI who actively engage with governments and international organizations.

229 The feedback reflects three different stances: pro-investment-oriented classifications; pro-internationally oriented
230 classification; and unfamiliarity or uncertainty that the Sector Program requires an external classification to fulfil
231 its purpose and to serve the public interest.

232 Feedback in favor of investment-based classification systems

233 Below are representative quotations from stakeholder feedback in favor of investment-based classification systems.
234 The feedback notes the importance of investors as sustainability report users, and notes that reporting
235 organizations may be more comfortable with an investment-based classification. The feedback also sees frequent
236 updating on investment-based classifications as a benefit.

237 “The language used by GICS and ICB might be closer to how companies speak about themselves.”

238 “Strong preference for GICS because it is focused on investors and adopts a market-oriented approach.”

239 “GICS is updated more frequently, for the last time in 2014. The business world is changing often and
240 new sectors are being created as we speak. ICB was last updated in 2007 and ISIC in 2008, which is a
241 very long time ago.”

242 “The system should have a relation to investors and analysts, as they are the main driver of sustainability
243 reporting.”

244 “GRI should consider the system that is currently most widely used for investors.”

245 “GICS or ICB is preferable as it is easy for companies to relate to.”

246 “The link to integrated reporting may be easier if a system is chosen that is used for financial reporting.”

247 Feedback in favor of UN-based classification system (ISIC)

248 Below is a sample of feedback in favor of the United Nations-based classification system ISIC. The feedback
249 responds favorably to ISIC as non-commercial and promoting the public interest, and notes that the choice of an
250 investment-based classification system might be seen as problematic by non-investor stakeholders.

251 “The UN ISIC system seems the most neutral for GRI to base its sector standards on. It is expected that
252 stakeholders in the Labor constituency find this classification acceptable for GRI to use.”

253 “It seems important to recognize that ISIC was developed for the public interest and not so much for a
254 commercial purpose. A system that is designed for stock exchanges and investors might have a negative
255 connotation for some target groups.”

256 “The preference is for ISIC. It is designed in the interest of the public (rather than) revenue generation.”

257 Feedback expressing unfamiliarity/uncertainty with the proposed classification 258 systems

259 Below is a sample of feedback suggesting lack of familiarity or uncertainty regarding the usefulness of selecting a
260 classification system. The feedback suggests that for some stakeholders, classification systems are not within their
261 frame of reference, and that adopting a single classification system may not be helpful or necessary for the Sector
262 Program.

263 “(We were) not familiar with ICB, GICS, or ISIC before.”

264 “The ideal approach would be to ask each company who their competitors are and to compare them
265 with those.”

266 “Often sectors are difficult to assign and there is much overlap and differences between one sector.”

267 “Perhaps it is possible to use GICS and ISIC at the same time?”

268 “The choice of classification depends on what you are going to use it for.”

269 “It is doubtful whether any of these systems is suitable for GRI purposes, as these are designed for other
270 purposes.”

271 “It is important that GRI clarifies the problem that we are trying to solve.”

272 Proposal: A more flexible approach

273 Proprietary classification systems are important for investment purposes, and a non-proprietary international
274 framework is important for statistical and economic analysis. However, the purposes served by both types of
275 classification system are different from and the purpose of GRI’s Sector Program.

276 GRI’s sector program needs to name and define particular groups of businesses that are similar in terms of business
277 activities and sustainability impacts, in order to develop contents for these businesses. GRI’s sector program also
278 needs to identify and define sectors in a way that resonates with corporate reporters and those who use
279 sustainability reporters for decision-making. Finally, GRI’s sector program may need to name and define entities
280 that are not usually covered in sector classification systems, such as universities, public agencies or non-
281 governmental organizations.

282 It is pragmatic to be able to make decisions on naming and definition of sectors when needed (at project proposal
283 stage), rather than years in advance of a particular project. A flexible approach will ensure that Sector Standards
284 are named and structured in a way that is appropriate when the project occurs.

Annex 2 Collated Comments from the Stakeholder Council

Overall Comment	<p>The Stakeholder Council has long called for investment in sector standards and welcomes the DRAFT Sector Work Programme and overall believes it to be a strong document.</p> <p>A number of members queried why the ‘sector supplements’ weren’t referenced in this document. We recommend that you articulate:</p> <ol style="list-style-type: none"> 1. how sector standard process will build on the sector supplements (given that the latter are still considered by GRI reporters and other stakeholders); 2. how learnings from the sector supplement process have informed the process set out in this document.
Program purpose	<p>We recommend that the overall rationale (as opposed to benefits) of the sector standards is more clearly articulated. For example, is it to contribute to the SDGs or to provide information to investors, etc?</p> <p>There is an opportunity to simplify the text in this section. The text in the bullet points (lines 6-13) and subsequent paragraph (lines 16-23) all refer to benefits of the Sector Programme. We recommend that these benefits are streamlined, repetition avoided and expressed in no more than six dot points. The statements in lines 15 and 23 could be used as opening and closing statements respectively.</p>
High-level requirements	<p>With respect to lines 44 and 45 we recommend that a mechanism is put in place to ensure new “surfacing issues” covered in the Sector Standards are co-ordinated with revisions to the Global Standards.</p> <p>We recommend that consideration is given to the connection between the existing material topics and the new sector supplements and that this be articulated in this document along with any work already done on a sectoral benchmark analysis of the most material topics from a sector perspective. Will the sector standards (and companies that use them) differentiate between “global issues”, such as those addressed by the SDGs and “sector specific issues” such as noise or aircraft movements for the aviation sector?</p>
Sector Program Process	<p>We recommend that the Project Working Group:</p> <ul style="list-style-type: none"> • Consults outside its membership in developing draft sector standards, reports on that process and analyses the output of that consultation. • Includes academics researching sustainability issues and reporting in particular sectors as academics have critical thinking and research analysis skills. (The academics on the Stakeholder Council could provide names of academics with expertise in particular sectors.)

	<ul style="list-style-type: none"> • Includes industry stakeholders other than companies and sustainability/ESG data users. <p>Re lines 64-5, the opposite is also possible. That is, GRI Standards could evolve to reflect emerging issues identified via Sector Program.</p>
<p>Programme Scope and Sector Classifications</p>	<p>The criteria are expressed as if equally weighted. The Stakeholder Council is strongly of the view that the overriding criteria should be the significance of a sector’s environmental, social and economic impacts.</p> <p>The current number of GRI reporters in the sector should not be a key criterion. It is possible that certain sectors (such as non-industrial sectors) are not publishing GRI reports because they perceive that GRI standards are not specifically designed for them. If the criteria to prioritize sectors is based on the number of reports, we may continue to discourage high impact sectors from making sustainability disclosures or publishing GRI reports.</p> <p>Reviewing the literature is part of the process of assessing a sector’s impact and should be stated as such rather than as a separate criterion in its own right.</p> <p>While there were some dissenting views, overall, we support the proposal not to adopt an external sector classification system. Concerns raised with the proposal related to whether a new classification system would not be followed and simply avoided making a choice amongst existing schemes.</p> <p>We recommend reducing the discussion on sector classifications and focusing on the positive reasons for the chosen classification (rather than perceived problems with other classifications).</p> <p>In addition to mapping to GICS, ICB and ISIC, we recommend mapping to the Sustainable Industry Classification System (SICS), developed by SASB and described on this website: https://www.sasb.org/find-your-industry/</p> <p>We recommend that Annexe I is a separate document not circulated as an annexe to the Sector Work Programme. It is a useful document in its own right but is distinct from the Sector Work Programme. On a minor point we recommend reconsidering the appropriateness of including ‘consumable fuels’ and ‘alternative fuels’ in ‘mining’.</p>