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Item 08 – Recommended revisions to the GRI Reporting Principles and related concepts (Paper B)

For GSSB discussion

Date	10 September 2019
Meeting	24-25 September 2019
Project	Review of GRI's universal Standards
Description	This document presents the GRI Standards Division's recommended revisions to the GRI Reporting Principles and related concepts, for the review of the Global Sustainability Standards Board (GSSB).

Contents

Introduction

About this document

This document presents the GRI Standards Division's recommended revisions to the GRI Reporting Principles (for defining report content and report quality). It forms part of the project to review GRI's universal Standards, as approved by the GSSB at its meeting on 25-26 March 2019.

Section 1 presents the methodology followed by the Standards Division.

Section 2 presents the summary of findings.

Section 3 presents the recommended revisions to the GRI Reporting Principles. This section also includes questions addressed to the GSSB asking whether there is agreement about the recommended revisions.

It is advised to have the universal Standards available for reference when reading through the recommended revisions:

- *GRI 101: Foundation 2016*
- *GRI 102: General Disclosures 2016*
- *GRI 103: Management Approach 2016*

Background

The objectives for revising the GRI Reporting Principles and related concepts are to ensure they are aligned with recent developments in the area of responsible business conduct and to provide greater clarity to users on how to apply them.

This work includes revisions to the concepts of stakeholder inclusiveness, materiality, and topic Boundary.

These revisions are informed by the recommendations of the GRI Technical Committee on Human Rights Disclosure (Technical Committee), as well as by research and stakeholder consultation carried out by the Standards Division.

See the Project Proposal for the review of GRI's universal Standards for more information.

Section 1. Methodology

In addition to the recommendations of the Technical Committee, the following activities have informed the recommended revisions to the GRI Reporting Principles and related concepts:

1. Analysis of technical enquires received by the Standards Division since the launch of the GRI Standards. These consisted of 121 enquiries related to the Materiality principle, other GRI Reporting Principles, 'topic Boundary', and GRI's universal Standards
2. Interviews with experts, reporting organizations, and other stakeholders
3. A survey on GRI's universal Standards

4. Review of reports claiming to be prepared in accordance with the GRI Standards
5. Specific research activities: Review of other reporting frameworks and key instruments for responsible business conduct

   The GRI Reporting Principles were compared with the principles and expectations included in financial reporting frameworks, non-financial or sustainability reporting frameworks, and key instruments. Specifically, the following sources were considered:

   Reporting frameworks and guidance:

   - Carbon Disclosure Project (CDP) *Questionnaires and Disclosure Framework*
   - Climate Disclosure Standards Board (CDSB) *Framework for reporting environmental information, natural capital and associated business impacts*
   - European Union (EU) *Directive on non-financial and diversity reporting* (Directive 2014/95/EU) and the related non-binding guidelines
   - International Financial Reporting Standards (IFRS) *Conceptual Framework for Financial Reporting 2018*
   - International Integrated Reporting Council (IIRC) *International <IR> Framework*
   - Sustainability Accounting Standards Board (SASB) *Conceptual Framework*
   - Task Force on Climate-related Financial Disclosures (TCFD) *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures*
   - United Nations Sustainable Stock Exchanges (SSE) *Model Guidance on Reporting ESG Information to Investors*

   Key instruments and guidance for responsible business conduct and governance:

   - International Organization for Standardization (ISO) 26000 *Guidance on social responsibility*
   - Organisation for Economic Co-operation and Development (OECD) *Due Diligence Guidance for Responsible Business Conduct*
   - OECD *Guidelines for Multinational Enterprises*
   - The Institute of Directors in Southern Africa NPC *King IV Report on Corporate Governance for South Africa*
   - United Nations (UN) *Guiding Principles on Business and Human Rights*

See Item 06 – Introduction to recommended revisions to GRI's universal Standards, for more information on the methodology.

In addition, when recommending revisions, the Standards Division has also referred to the Fundamental Principles in the GSSB Due Process Protocol:

> **Fundamental principles**
> The work of the GSSB is to be undertaken solely for a purpose and in a manner that:
>
> I. Complements the GRI's Vision and Mission as approved by the GRI Board of Directors (GRI Board).
>
> II. Promotes the public interest, defined here as follows:
>
> In general, as:
> - those overarching interests of humanity, held in common, that include but exceed the partial interests of individuals or groups.
>
> In the context of sustainability reporting, as:
> - making well-informed decisions – and therefore having easy and timely access to relevant and reliable information on which such decisions might be based;
> - promoting positive (and discouraging negative) impacts on social, ecological, environmental, and economic systems;
> - promoting transparency, fairness, and integrity of processes that affect the public domain; and
> - ensuring that no person or community is overlooked or marginalized – especially if relatively weak in comparison to others.
>
> In forming a view about specific GSSB authoritative pronouncements, the GSSB and DPOC shall have regard to:
>
> a. authoritative intergovernmental instruments and their authoritative interpretations; and/or
> b. documented, widely-held expectations of behavior relating to social, ecological, environmental, and economic responsibilities.

Section 2. Summary of findings

This section presents the findings from the research and stakeholder consultation carried out by the Standards Division (as described in Section 1). For each set of findings, the following is presented:

- The current definition and purpose of the Reporting Principle and related concept;
- A comparison with other frameworks and with expectations set out in key instruments, based on desk research (activity 5);
- Key challenges to using and understanding the principle and related concept, based on stakeholder feedback (activities 1-4).

Overall assessment of the principles

Current Reporting Principles in the GRI Standards

Reporting Principles for defining report content	
Stakeholder Inclusiveness	The reporting organization shall identify its stakeholders, and explain how it has responded to their reasonable expectations and interests.
Sustainability Context	The report shall present the reporting organization's performance in the wider context of sustainability.
Materiality	The report shall cover topics that: • reflect the reporting organization's significant economic, environmental, and social impacts; or • substantively influence the assessments and decisions of stakeholders.
Completeness	The report shall include coverage of material topics and their Boundaries, sufficient to reflect significant economic, environmental, and social impacts, and to enable stakeholders to assess the reporting organization's performance in the reporting period.
Reporting Principles for defining report quality	
Accuracy	The reported information shall be sufficiently accurate and detailed for stakeholders to assess the reporting organization's performance.
Balance	The reported information shall reflect positive and negative aspects of the reporting organization's performance to enable a reasoned assessment of overall performance.
Clarity	The reporting organization shall make information available in a manner that is understandable and accessible to stakeholders using that information.
Comparability	The reporting organization shall select, compile, and report information consistently. The reported information shall be presented in a manner that enables stakeholders to analyze changes in the organization's performance over time, and that could support analysis relative to other organizations.
Reliability	The reporting organization shall gather, record, compile, analyze, and report information and processes used in the preparation of the report in a way that they can be subject to examination, and that establishes the quality and materiality of the information.
Timeliness	The reporting organization shall report on a regular schedule so that information is available in time for stakeholders to make informed decisions.

Comparison with other frameworks and with expectations set out in key instruments

The Standards Division evaluated how many of the consulted sources (listed in the previous section) made a reference to each principle, even if the definitions used were different. The Standards Division found the following:

- All sources covered the principle or concept of materiality, in the sense of identifying and prioritizing relevant matters or not omitting information that could influence decisions of report users.
- Two principles received limited mentions: Stakeholder Inclusiveness (mentioned by less than 40% of the sources consulted) and Sustainability Context (mentioned by about 20%). This means that only a few sources explicitly require the reporting organization to identify its stakeholders and explain how it has responded to their reasonable expectations and interests, and require the report to present the reporting organization's performance in the wider context of sustainability. All other principles are mentioned by at least half or more of the sources consulted.

The following specific differences between the GRI Reporting Principles and other sources were also identified:

- GRI's definition of **materiality does not consider risks and opportunities, and impacts on the business** (e.g., financial performance, operational results, reputation). For GRI, the identification of material topics is focused on the organization's significant impacts on the economy, the environment, and society, i.e., the impacts outwards (together with evaluating the substantive influence on the assessments and decisions of stakeholders).

  However, it is important to note that this is mainly a point of contrast with sources that focus on the information needs of investors or providers of capital. GRI's focus on impacts outwards is more in line with the instruments for responsible business conduct (e.g., UN Guiding Principles, OECD Guidelines, ISO 26000).

  Further, some sources use different terminology, such as 'relevance', to refer to this concept. In some sources the concept is also more focused on providing relevant information to users and to serve their decision-making needs, than on identifying and prioritizing material topics to report.
- Some of the reporting frameworks pointed to **Completeness** in the sense of reporting a **complete dataset(s)** (e.g., all information necessary, no details omitted, holistic picture, enough data and information to understand and interpret performance). In these cases, the concept of 'completeness' is not clearly related to the coverage of material topics as in the GRI Standards.
- Different sources mention explicitly that reports should be **concise**, that is, they should provide sufficient context to make disclosures understandable without burdening the user with less relevant (or immaterial) information, and should favor the use of plain language and avoid boilerplate text.
- Different sources use wording such as '**neutral**' and '**fair** consideration to favorable and unfavorable aspects' to convey the idea that reported information should not unduly influence decision-making and should deal with both positive and negative aspects without overemphasizing either, in order to portray a balanced picture to report users. This is also related to the principle of 'faithful representation' mentioned by sources that focus on the information needs of investors.

- Some sources, mainly those focused on the information needs of investors, explicitly require reporting of **future-oriented information** or information that has predictive value (i.e., which portrays expected future outcomes or can be used to predict future outcomes).
- The OECD Due Diligence Guidance mentions that information should be provided in a **culturally sensitive** way.
- The UN Guiding Principles explicitly note that public communications (on how organizations address their human rights impacts) should 'not pose **risks to affected stakeholders**, personnel or to legitimate requirements of commercial confidentiality'.

Key challenges identified

The following challenges to using and understanding the principles for defining report content were identified:

- **Purpose of the principles is unclear:** It is unclear if the principles are limited to the identification of material topics or should guide choices on defining report content more generally, and whether they also apply to the selection of disclosures.

  Stakeholders questioned whether some of the principles should be disclosures, rather than principles, in particular the principles of Stakeholder Inclusiveness and Sustainability Context. For example, Stakeholder Inclusiveness should not be expected for the report preparation process only, but it should be an ongoing activity of the organization.

  It was suggested that considerations around identifying material topics should be described separately from reporting principles, and that the principles should be focused on the qualitative characteristics of reported information (not on identifying material topics).

- **The interaction between the principles needs clarification:** The principles are closely linked: the application of Stakeholder Inclusiveness and Sustainability Context are necessary for identifying the material topics. Presenting the principles separately may undermine this linkage.

  Further, the principle of Completeness is generally understood as the expectation that the report contains all material topics, which some stakeholders consider to be redundant in relation to the principle of Materiality (i.e., if the Materiality principle is applied well, the organization should have identified all relevant material topics).

- **Lack of awareness and application of the principles:** Practical application may be lacking because practitioners overlook the principles and jump straight to the disclosures, e.g., focusing on which topic-specific disclosures they should report. There seems to be more evidence of application of those principles that are covered by general disclosures in *GRI 102*, e.g., the disclosures on stakeholder engagement.

- **Lack of guidance on the practical application of the principles:** The principles are found challenging to apply and there is widespread request for more examples and good practices for applying them. Specifically, there is strong demand for more guidance on how to apply the Materiality principle, such as a step-by-step guide describing procedures to define material topics and defining clear minimum expectations as to what the process entails. Guidance was also requested on how to identify 'significant' impacts.

Materiality principle and definition of ‘impact’

Current definition and purpose

The Materiality principle states, **‘The report shall cover topics that: reflect the reporting organization’s significant economic, environmental, and social impacts; or substantively influence the assessments and decisions of stakeholders.’** The guidance explains that ‘In sustainability reporting, materiality is the principle that determines which relevant topics are sufficiently important that it is essential to report on them’, and that a topic can be relevant based on only one of these dimensions. The guidance also elaborates on the factors that can be considered when assessing whether a topic is material and provides an example matrix for illustration.

The aim of this principle is also further explained in the guidance: ‘Applying this principle ensures that the report prioritizes material topics. Other relevant topics can be included, but with less prominence. It is important that the organization can explain the process by which it determined the priority of topics’.

In the GRI Standards, unless otherwise stated, **‘impact’** refers to the **‘effect an organization has on the economy, the environment, and/or society, which in turn can indicate its contribution (positive or negative) to sustainable development’**.

Note 1 to the definition of ‘impact’ states that ‘In the GRI Standards, the term ‘impact’ can refer to positive, negative, actual, potential, direct, indirect, short-term, long-term, intended, or unintended impacts.’

Note 2 to the definition of ‘impact’ states that ‘Impacts on the economy, environment, and/or society can also be related to consequences for the organization itself. For example, an impact on the economy, environment, and/or society can lead to consequences for the organization’s business model, reputation, or ability to achieve its objectives.’

Comparison with other frameworks and with expectations set out in key instruments

As mentioned in the previous section, the main difference with other reporting frameworks is that the GRI’s definition of materiality focuses on impacts of the business outwards. This is in line with the instruments for responsible business conduct (e.g., UN Guiding Principles, OECD Guidelines, ISO 26000). On the other hand, frameworks aimed primarily at the information needs of investors or providers of capital focus on **risks and opportunities, and impacts on the business** (e.g., financial performance, operational results, reputation).

Key challenges identified

The following challenges to using and understanding the Materiality principle and the definition of ‘impact’ were identified:

- **The principle is unclear:** The definition can be difficult to understand, especially for less-experienced users. The dimensions (‘significant economic, environmental, and social impacts’ and ‘substantively influence the assessments and decisions of stakeholders’) are poorly described and vague. There is also unclarity about how to set the threshold for identifying a topic as material.

The guidance gives too much leeway to interpretation, which may lead to superficial materiality assessments. The process is subjective and with the current flexibility organizations can easily manipulate it and ignore certain relevant topics.

Practitioners also struggle when explaining the principle to their stakeholders (internal and external), making it difficult to engage them in sustainability strategy development and implementation.

The term 'materiality' can be difficult to understand and can also be problematic given the other uses of this term (e.g., in financial reporting). For instance, the term can be problematic in conjunction with the legal definition of the US Securities and Exchange Commission. It was suggested to use other terms, such as 'relevant themes' or 'salient issues', to help reporters understand the principle or to signal GRI's distinct approach to materiality.

- **The definition of 'impact' is unclear and too broad:** Note 2 to the definition of 'impact' is confusing and opens the door to focus on the impact on the organization (as it implies that this is 'nearly' the same). The use of 'indirect impacts', 'potential impacts', 'unintended impacts', and 'long term impacts' makes the definition too broad.

- **Impacts on the business versus impacts on others:** There is unclarity as to whether the identification of impacts and material topics should take into account the impacts on the business, in addition to the organization's impacts outwards, on sustainable development.

  Stakeholders raised that, in practice, organizations interpret 'materiality' or 'significant impact' as risk to the business instead of risk to people and the environment, and that most sustainability reports fail to take into account impacts on others. Organizations often interpret the principle as a matrix of what is important to its stakeholders and what is important to the business. It was noted that, while there has been an uptake in organizations placing a greater emphasis on impacts on others, they hesitate to focus materiality assessments on the impacts on others.

  It is important to note that there are opposing views about whether the concept of 'impact' in GRI should also cover impacts on the business. For instance, 80% of respondents to the survey on the universal Standards (who answered this question) consider both impacts on their business (e.g., operations, financials, reputation) and impacts on others (e.g., workers, consumers, members of local communities, ecosystems) when identifying significant impacts. They explain, for example, that focusing on impacts on the business is investor-oriented and speaks to the ambition of shifting markets to sustainable objectives, and that considering both impacts on the business and on others is needed to get a complete view. It was also noted that it could be useful to include consideration of external factors that influence the organization's resilience or ability to create value in the short, medium, and longer term.

  On the other hand, respondents who only consider impacts on others (17%) noted that additionally considering impacts on the business shifts priorities entirely, undermines the sustainability report, and can lead to a self-referential report.

- **Separation of identification of impacts from identification of stakeholder views:** The GRI Materiality principle separates impact assessment from the identification of stakeholder views, which leaves materiality assessments particularly vulnerable to biases based on stakeholder selection.

  The example matrix provided in the Standards shows the two dimensions of the Materiality principle: 'significance of impacts' and 'influence on stakeholders' as opposing axes. Having 'influence on stakeholders' as a stand-alone dimension may lead to too much attention being given to stakeholder engagement over other ways/steps to identify material topics (e.g., application of impact assessment methodologies, desk research, life cycle assessments). The matrix also leads organizations to prioritize impacts only if the consulted stakeholders highlight them (i.e., they focus on the top-right quadrant of the materiality matrix), instead of recognizing that a topic can be relevant – and so potentially material – based on only one of the dimensions.

Additionally, it was noted that an organization's responsibilities and expectations should be defined by means such as laws, shared values, and established best practice; these responsibilities, and what an organization reports, should not be defined on the basis of consulting stakeholders the organization has chosen itself.

- **Interaction with other sustainability reporting frameworks:** It is difficult to use GRI's definition of materiality in combination with other reporting frameworks. The multiple definitions of materiality across different frameworks leads to confusion.

  The matrix with the two axes is perceived as constraining; it could be more adaptable or open to convergence with other reporting frameworks.

  Organizations may be required to report information in compliance with other reporting frameworks (e.g., TCFD, SASB), investor surveys (e.g., the Dow Jones Sustainability Indices, MSCI's environmental, social and governance indexes), or legal requirements, which cannot be omitted regardless of the outcomes of the materiality assessment. This leads to more topics/disclosures being reported than the topics identified as material, and to a tendency to rate identified impacts with regard to the risk to the business (which is the focus of many of these frameworks).

- **Unclear how to determine 'significant' impacts:** It is not clear how to discern what a 'significant' impact is, or how to combine negative and positive impacts (e.g., not clear whether they should be equally weighted). There is demand for guidance on how to determine 'significant' impacts. Additionally, it was noted that such guidance should include a science-based approach.

- **Alignment with concept of 'severity' and 'likelihood' from key instruments:** The principle is not aligned with the concept of prioritizing impacts based on severity and likelihood from key instruments such as the UN Guiding Principles and the OECD Due Diligence Guidance.

- **Lack of reporting of negative impacts:** Organizations tend to focus on positive impacts in their reports (disregarding or giving little attention to negative impacts). It was suggested that materiality should instead focus on the negative impacts, and that reporting on positive impacts should come as second priority.

- **Feasibility:** A materiality assessment is a significantly time-consuming exercise. It is difficult to define and compare impacts, especially when they are of different types (e.g., comparing socio-economic impacts to environmental impacts). It is also difficult to define or quantify impacts beyond those of the organization. Business relationships are not always factored into materiality assessments, given the difficulty of gathering this information.

  Organizations in the services sector struggle with applying this principle, partly because the guidance is focused on large manufacturing companies.

Other challenges identified included the following:

- **Disconnect with the organization's management systems and business strategy:** There is no clear integration between enterprise risk management and materiality processes, which may lead organizations to apply them separately and miss the connection between sustainability and business strategy.

It was noted that organizations may be over-emphasizing materiality for the purpose of reporting. Organizations may not understand that impact identification is not a process that is needed only for the sustainability report, but also for strategic analysis. It was also noted that, even for organizations that do not prepare a report, impact identification and stakeholder engagement are necessary for sustainability management.

- **Lack of forward-looking approach in reporting:** There is a tendency to focus only on actual impacts and only look at quantitative data on past events. It was noted that a clearer forward-looking approach would orient disclosure towards the robustness of management systems and the process of learning and improvement needed to minimize impacts in the future.

- **Disconnect between the focus on impacts on others and the metrics in topic-specific Standards:** The principle points to the organization's impacts on others, but it is confusing that some of the disclosures still refer to the impact on the organization (e.g., financial implications and other risks and opportunities due to climate change).

  Additionally, the topic-specific Standards typically require organizations to describe inputs (e.g., use of resources), business activities (e.g., training, recruitment, engagement), and outputs (e.g., emissions, waste and effluents), rather than outcomes or impacts.

- **Unclarity about how to report localized impacts:** It is not clear at what level an organization should report (group level, subsidiary level, or project level). Negative impacts typically play out locally, whereas the reporting is likely to be centralized. It is not clear how reporting organizations are expected to work with this dynamic to ensure meaningful reporting, especially when reporting on actions to avoid and address negative impacts. This is related to issues concerning 'topic Boundary' (discussed in the next sections).

Stakeholder Inclusiveness principle and definition of ‘stakeholder’

Current definition and purpose

The Stakeholder Inclusiveness principle states that ‘**The reporting organization shall identify its stakeholders, and explain how it has responded to their reasonable expectations and interests.**’

‘Stakeholder’ is defined as an ‘**entity or individual that can reasonably be expected to be significantly affected by the reporting organization’s activities, products and services, or whose actions can reasonably be expected to affect the ability of the organization to successfully implement its strategies and achieve its objectives**’. Further, ‘stakeholders can include those who are invested in the organization, as well as those who have other relationships to the organization’.

Comparison with other frameworks and with expectations set out in key instruments

The principle is covered in similar ways in other frameworks and instruments. In comparison to GRI, some instruments focus the definition of stakeholders on those that have an interest in any decision or activity of the organization or on those that are affected/impacted by the organization, and exclude stakeholders that affect the organization.

Framework	Stakeholder Inclusiveness / Definition of ‘stakeholder’
EU Directive non-binding guidelines	The guidelines state that ‘companies are expected to consider the information needs of all relevant stakeholders’ and that ‘companies should provide relevant, useful information on their engagement with relevant stakeholders, and how their information needs are taken into account.’
International <IR> Framework	The principle ‘3C Stakeholder relationships’ indicates that ‘an integrated report should provide insight into the nature and quality of the organization’s relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.’ ‘Stakeholders’ is defined as ‘Those groups or individuals that can reasonably be expected to be significantly affected by an organization’s business activities, outputs or outcomes, or whose actions can reasonably be expected to significantly affect the ability of the organization to create value over time. Stakeholders may include providers of financial capital, employees, customers, suppliers, business partners, local communities, NGOs, environmental groups, legislators, regulators, and policy-makers.’
ISO 26000	The framework indicates that ‘information should be responsive to stakeholder interests’ (clause 7.5 on Communication social responsibility). The standard further explains that organizations should be transparent regarding ‘its stakeholders and the criteria and procedures used to identify, select and engage them’ and ‘an organization should respect, consider and respond to the interests of its stakeholders’ (clause 4.5 on Respect for stakeholder interests). ‘Stakeholder’ is defined as ‘individual or group that has an interest in any decision or activity of an organization’.

OECD Due Diligence Guidance	The guidance explains that 'due diligence is informed by engagement with stakeholders' and defines the enterprise's stakeholders as 'persons or groups who have interests that are or could be impacted by an enterprise's activities.'
SSE Model Guidance	The principles of 'Clarity of purpose' and 'Responsibility and responsiveness' explain that during the reporting process, it is important for the company to consider how it has 'engaged with relevant investors to find out what they are interested in', and that these 'investors are [also] interested in how the company communicates with other stakeholders'. They further explain that 'systematic stakeholder engagement enhances receptivity and the usefulness of corporate ESG information.'
UN Guiding Principles	Principle 18 indicates that the process to identify and assess human rights impacts should 'Involve meaningful consultation with potentially affected groups and other relevant stakeholders, as appropriate to the size of the business enterprise and the nature and context of the operation.'

Key challenges identified

The following challenges to using and understanding the Stakeholder Inclusiveness principle and the definition of 'stakeholder' were identified:

- **Definition of 'stakeholder' is too broad and affected stakeholders' views are not considered in practice:** The definition of 'stakeholder' is too broad, which leads organizations to overlook engagement with relevant/important stakeholders. In practice, stakeholders consulted in materiality assessments are often drawn from the policy level (e.g., experts), and the perspectives of affected stakeholders are often not considered.

  The use of 'can reasonably be expected' and 'significantly affected' is found to be unclear. It is also unclear why the organization's impact on the stakeholder is described as having to be significant, while the impact of the stakeholder's actions on the organization is not described as having to be significant.

  Further, the definition of 'stakeholder' is not aligned with key instruments for responsible business conduct, which focus on those whose interests are or may be affected by the organization.

  A stakeholder needs to have an identifiable interest (or 'stake') in order to be considered a 'stakeholder'. In the second part of the GRI definition of 'stakeholder' ('can reasonably be expected to affect the ability of the organization to successfully implement its strategies and achieve its objectives') there is no such identifiable interest involved. Whether someone can affect the organization can be a threat or an opportunity, but that should not define them as a stakeholder.

- **Too much emphasis on stakeholder engagement for the purpose of reporting:** The Stakeholder Inclusiveness principle may lead organizations to identify stakeholders' views only for the purpose of defining report content, overlooking the value of stakeholder engagement for the ongoing identification and management of impacts. This may also be reinforced by the 'influence on stakeholders' being a stand-alone dimension in the Materiality principle. It was suggested to give greater emphasis to stakeholder engagement during the organization's operation or processes than during the report preparation.

- **Feasibility:** In general, it is difficult to ensure that consultation includes all relevant stakeholders and that engagement methods are accessible. It is difficult to identify the relevant stakeholders especially when impacts are not directly related to particular stakeholders.

  Stakeholder engagement can be very costly, including in terms of time and effort, which makes it unfeasible for organizations with limited resources. Additionally, for a multinational company, it can be difficult to ensure engagement with a representative sample and to consolidate all the data collected.

It is not clear how to avoid bias in selecting stakeholders, and whether each stakeholder should be treated equally or there should be a weighting applied to specific stakeholders in order to identify the material topics, which would also be difficult to determine objectively (e.g., weighting of stakeholders that have an active stake in the company versus third parties).

Reaching stakeholders can be difficult or they might not be interested in communication, as they may not be well aware of, committed to, or very active in the sustainability agenda.

Stakeholders, even within one stakeholder group, can be very diverse and have conflicting views. It is not possible to ensure that the views of stakeholder groups are correctly reflected in the analysis.

Additionally, it is not clear in which ways an organization should explain 'how it has responded to its stakeholders' reasonable expectations and interests'.

- **Balancing stakeholders' expectations and conciseness of the report:** When the number of relevant stakeholders is large, the report becomes very long. This may discourage potential readers, as they may not have the time or know-how to read or understand it. It is difficult to achieve a balance between stakeholder expectations and conciseness of the report.

Sustainability Context principle

Current definition and purpose

The Sustainability Context principle states that **'The report shall present the reporting organization's performance in the wider context of sustainability.'** The guidance further elaborates that 'This involves examining its performance in the context of the limits and demands placed on economic, environmental or social resources, at the sectoral, local, regional, or global level.'

Comparison with other frameworks and with expectations set out in key instruments

Framework	**Reporting boundary**
ISO 26000	'the report should present the organization's goals, operational performance, products and services in the context of sustainable development'
SASB Conceptual Framework	'Relevant across an industry. The SASB addresses topics that are systemic to an industry and/or represent risks and opportunities unique to the industry and which, therefore, are likely to apply to many companies within the industry.' 'Applicable: Metrics are based on definitions, principles, and methodologies that are applicable to most companies in the industry based on their typical operating context.'

Key challenges identified

The following challenges to using and understanding the Sustainability Context principle were identified:

- **The scope of this principle is unclear:** The explanation of the principle is quite technical and the scope is unclear (e.g., whether a global organization should refer to local or global contexts). This leads to different interpretations. Descriptions of the application of this principle in reports are vague and far-fetched and do not link the material topics to the business context. In practice, organizations typically simplify this principle, using it to identify key trends (such as megatrends, industry trends, and regulatory trends), and do not always explain how the context impacts key concepts such as materiality, performance, or strategy.
- **Challenging and costly to apply in practice:** It is challenging to apply the principle in practice. Applying the principle requires a significant amount of resources to find relevant information from recognized sources, and it is difficult to quantitively measure or to qualify the context (e.g., an organization would be expected to present its absolute loading of a certain pollutant in relation to the capacity of the regional ecosystem to absorb the pollutant, and this capacity could be difficult to measure, especially for a global organization).
- **Environmental focus:** Many organizations understand this principle to be limited to the environment.
- **Lack of disclosure to evidence its application:** Sustainability Context (as well as Completeness) is not as well reflected in reports (compared to Materiality and Stakeholder Inclusiveness) because they are not covered at the disclosure level (e.g., in *GRI 102*).

Relevance of the principle

There were also differing views as to the value of the Sustainability Context principle.

Some stakeholders find the principle to be very important and useful, but suggested the following changes:

- Have a clearer connection between the Sustainability Context and Materiality principles, or merge the two (e.g., "how did you determine the material topics taking into account the sustainability context?"); others suggested that it makes sense to separate Sustainability Context from Materiality.
- Revert to the GRI G2 Guidelines articulation of the concept: 'The reporting organisation should seek to place its performance in the larger context of ecological, social, or other limits or constraints, where such context adds significant meaning to the reported information.'
- Clarify that this principle refers to latest scientific consensus on planetary boundaries and social floors/norms and boundaries, instead of just megatrends, which is what organizations typically tend to focus on.
- Make integration of sustainability in overall business strategy and risk management a part of describing the sustainability context: how are the material topics connected to the organization's core business (strategically, operationally)?
- This principle would make more sense as a disclosure for each material topic (it could be part of the management approach).
- Mention an organization's contribution to the Sustainable Development Goals (SDGs) explicitly and to other relevant frameworks (e.g., future fit goals, science-based targets).
- Include a discussion within the sustainability report on industry-wide impacts.
- Consider including explanations about what the expected minimum contextual disclosures should entail.

Other stakeholders suggested that Sustainability Context is not as important as other principles (such as Stakeholder Inclusiveness and Materiality), and some suggested it should be deleted.

A member of the labor constituency indicated that Sustainability Context is not a universal concept. While it may be appropriate to the environmental dimension, which is related to finite resources (however, it is still challenging to apply), it does not work with the economic and social dimensions where the nature of limits is not always apparent or relevant.

For example, the guidance to the principle suggests reporting on wages and social benefit levels in relation to nation-wide minimum and median income levels, or the capacity of social safety nets to absorb those in poverty. Social and economic institutions such as minimum wages and social security are human creations and as such are qualitatively different from the natural environment. They are created by political choices and are not finite in the sense that natural resources are.[1]

[1] https://www.ituc-csi.org/IMG/pdf/08-05-08_GRI_Guide.final.pdf

Concept of 'topic Boundary'

Current definition and purpose

In the GRI Standards, the topic Boundary is defined as a **'description of where the impacts occur for a material topic, and the organization's involvement with those impacts.'** The guidance states that 'Organizations might be involved with impacts either through their own activities or as a result of their business relationships with other entities. An organization preparing a report in accordance with the GRI Standards is expected to report not only on impacts it causes, but also on impacts it contributes to, and impacts that are directly linked to its activities, products or services through a business relationship.'

Disclosure 103-1 in *GRI 103: Management Approach 2016* requires the organization to report the Boundary for each material topic, which includes a description of where the impacts occur and the organization's involvement with the impacts, as well as any specific limitation regarding the topic Boundary.

Comparison with other frameworks and expectations set out in key instruments

Framework	**Reporting boundary**
CDP	CDP lists the following options for organizations to describe their reporting boundary: Financial control, Operational control, Equity share, Other.
International <IR> Framework	'Determining the boundary for an integrated report has two aspects: • The financial reporting entity (i.e., the boundary used for financial reporting purposes) • Risks, opportunities and outcomes attributable to or associated with other entities/stakeholders beyond the financial reporting entity that have a significant effect on the ability of the financial reporting entity to create value.'
SASB Conceptual Framework	'The reporting boundaries for disclosures that conform with the SASB standards shall include all parent and subordinate entities that are consolidated for financial reporting purposes. Disclosures for consolidated entities shall not be adjusted for minority interests. Unconsolidated entities shall be excluded from the reporting boundaries. However, the entity should disclose information about unconsolidated entities to the extent that the entity considers such information necessary to understand the effect of one or more SASB disclosure topics on the entity's financial condition or operating performance.'

Key challenges identified

The following challenges to using and understanding the concept of 'topic Boundary' were identified:

- **Language is challenging:** The language used to describe the concept is too formal and academic, and difficult to understand. The word 'Boundary' seems to mislead people into thinking of the concept as the geographic boundary of the topic. It was suggested using 'topic scope' instead, or to use no specific terminology for this at all.
- **High variability in reporting:** This concept is understood and reported in a variety of ways, and in some cases not applied or reported at all. For example, some stakeholders interpret this concept as the geographical boundary and others interpret it as the groups of affected stakeholders.

- **Good disclosure is dependent on the impact identification process:** It is difficult to report the topic Boundary if there is no good understanding of impact. In addition, the difference between 'causing' and 'contributing to' impacts depends on points of view. More guidance is needed on identifying and assessing impacts.

- **Relationship to financial boundary:** The relationship between topic Boundary and General Disclosures 102-45 and 102-46, where the organizations can 'choose' the process of defining the boundaries, needs clarification. It was suggested reverting to the concept of report boundary, to mirror financial reporting, and to have requirements and guidance on how the organization evaluates its impacts for material topics (without using the term 'topic Boundary'), or to adopt the approach used in integrated reporting (see previous page).

- **Issues outside of direct control or influence:** Organizations tend to focus on issues of control or direct influence and are reluctant to identify or prioritize other issues, for example, issues in the value chain or issues that concern the smallest entities in the group. The topic Boundary needs to be more explicitly linked to the value and supply chain (e.g., linked to the General Disclosure 102-9 on the description of the supply chain). Organizations should be reporting the specific point or stage of the supply chain where the impact occurs.

- **Delineating the boundary of topic-specific disclosures:** There is a disconnect between the topic Boundary identified by an organization and the actual disclosures required when a material topic has a boundary that extends beyond the organization's operations (e.g., the disclosure asks for information about the organization's employees or operations, but the topic Boundary concerns suppliers). It is unclear what to report in such situations. In some cases, organizations use the reason for omission: 'not applicable' for these GRI disclosures and instead report a more relevant own-developed disclosure (linked to the topic Boundary).

  It is also unclear whether it is acceptable to report information for a disclosure according to where significant impacts occur, or whether information needs to be provided for the organization as a whole (e.g., if significant impacts related to water withdrawal occur only in an organization's production facilities located in zone X, whether it should report water withdrawal only for that facility or for all of its facilities).

- **Placement:** It is confusing that the concept of topic Boundary appears at different points in the Standards (both in *GRI 101* and then again in *GRI 103*). The explanation in *GRI 101* is unclear and too high-level to understand the concept and how to report on it; the explanation in *GRI 103* is clearer because it includes examples.

Finally, it was suggested that the concept needs to be simplified: the Standards could give a number of set options to choose from (e.g., whether the impacts occur in the supply chain, in the production process, or in product use).

Section 3. Recommended revisions

The following are the Standards Division's recommended revisions to the GRI Reporting Principles, based on the research findings presented in Section 2. These revisions aim to make the principles and related concepts more in line with key instruments of responsible business conduct and to improve general reporting practice.

The Standards Division will develop a mock-up of these recommended revisions, following the discussion of the GSSB at its 24-25 September 2019 meeting.

Definition of 'stakeholder'

Recommendation 1: Align the definition of 'stakeholder' with key instruments

It is recommended to align the definition of 'stakeholder' with ISO 26000 and to add a new definition for 'affected and potentially affected stakeholder' in line the OECD Due Diligence Guidance, as follows, and to develop supporting guidance and examples:

stakeholder: individual or group that has an interest in any decision or activity of the reporting organization

affected and potentially affected stakeholder: stakeholder who is or could be negatively impacted by the reporting organization's activities or as a result of the organization's business relationships

This recommendation aims primarily to align the definition of 'stakeholder' with these instruments, and secondly to address the challenges associated with understanding and applying this definition, as outlined on pages 14-15 of Section 2.

Question for the GSSB: Does the GSSB agree with the recommended revisions to the definition of 'stakeholder' (recommendation 1)?

Topic Boundary

Recommendation 2: Clarify the purpose of Disclosure 102-45

Disclosure 102-45 currently requires reporting the entities included in the consolidated financial statements or equivalent documents and whether any entities are not covered in the report.

It is recommended to clarify the purpose of Disclosure 102-45 and its relationship to the financial reporting boundary. In particular, it is recommended to:

- clarify that Disclosure 102-45 aims to answer the question of 'who is reporting', which is distinct to the expectation that an organization reports on impacts it causes, contributes to, or is directly linked to by its business relationships;
- clarify that Disclosure 102-45 is expected to align with the financial reporting boundary and that any exclusions are to be stated. The 'boundary' reported under Disclosure 102-45 would then determine the scope for the information reported in the General Disclosures (e.g., number of employees);

- clarify that even if certain entities are excluded from Disclosure 102-45, e.g., joint ventures or minority investments, the organization would still be required to consider the range of impacts it causes or contributes to through its own activities and the impacts it is directly linked to by its business relationships, when identifying its material topics.

See also Item 10 – Recommended revisions to GRI 102: General Disclosures 2016 (Paper D), pages 11 and 23, for further recommended revisions to Disclosure 102-45.

Recommendation 3: Revise the term 'topic Boundary' and related requirements

It is recommended to make the following revisions to the term 'topic Boundary' and related requirements:

- Remove the term 'topic Boundary'.

- Specify in the Materiality principle that the organization is required to report on significant impacts that it causes and contributes to through its own activities, as well as significant impacts that are directly linked to its operations, products, or services by its business relationships (including entities in its value chain) – to reflect the responsibility of organizations as set out in the UN Guiding Principles and OECD-related instruments.

- Revise Disclosures 103-1-b and c on the topic Boundary, as per the recommendations of the GRI Technical Committee on Human Rights Disclosure: 'A description of the actual and potential negative impacts identified, including how the organization is involved with these impacts, either through its own activities or as a result of its business relationships'.

  Further, provide guidance on what this description can cover (e.g., who are the affected stakeholders or the affected environmental resources or processes, the geographical location or position in the value chain of the entities or suppliers causing the impact).

  See Item 09 – Recommended revisions to GRI 103: Management Approach 2016 (Paper C), page 7.

Recommendation 4: Clarify how to report the topic-specific disclosures according to the identified significant impacts

It is recommended to clarify in *GRI 101* how to report the topic-specific disclosures according to the identified significant impacts, taking into account the following:

- The topic-specific Standards include disclosures according to whether the impacts relate to the organization's activities or business relationships. When the impacts relate to the organization's activities, information will typically be required. However, when the impacts relate to the organization's business relationships, the disclosures may be of a different nature (for example, qualitative only rather than both qualitative and quantitative), or recommended, according to what is feasible and reasonable for an organization to report.

  For example, *GRI 403: Occupational Health and Safety 2018* requires extensive information when the organization has control over the work and/or workplace. However, when the organization has no control, but is directly linked to significant occupational health and safety impacts by its business relationships, information of a different nature is required (e.g., statistics on work-related injuries and ill health are not required in these situations). In *GRI 303: Water and Effluents 2018*, data on water withdrawal, consumption and discharge is required for own operations and is only recommended for suppliers with significant water-related impacts.

- When the topic-specific disclosures specify the scope of information required to be reported (e.g., all employees, all operations, all tax jurisdictions), organizations are expected to provide information for the complete scope. This enables an understanding of an organization's overall performance and impacts and enables comparison of information across organizations. When an organization does not have complete information, it is required to use one of the applicable reasons for omission.
- When the scope of a topic-specific disclosure does not relate to the organization's identified significant impacts (e.g., the disclosure asks for information about the organization's employees, but the significant impacts concern suppliers), the organization may omit the disclosure and use other appropriate disclosures to report on the topic. See Item 11 - Recommended revisions to the GRI reporting model (Paper E), page 17.

Question for the GSSB: Does the GSSB agree with the recommended revisions to 'topic Boundary' (recommendations 2-4)?

Materiality

Recommendation 5: Maintain the focus on impacts outwards: on people, the environment, and the economy

It is recommended to maintain the focus on impacts outwards (on people, the environment, and the economy) in the Materiality principle, in line with the Fundamental Principles outlined in the GSSB Due Process Protocol (see page 5 in Section 1), and to provide guidance to reporting organizations on how to combine different approaches to materiality (e.g., integrated reporting).

In particular, it is recommended to clarify that:

- disclosure about an organization's impacts on people, the environment, and the economy forms a necessary basis for the identification of financially material information.

  Without an understanding, and importantly disclosure, of the impacts an organization has on people, the environment, and the economy, stakeholders cannot make an assessment about whether a financially material risk arises from this type of impacts;
- when combining both approaches in reporting (impacts on the business and impacts of the business outwards), the organization should not leave out significant impacts on people, the environment, and the economy from its reporting if these impacts are deemed to not have a significant impact on the business.

  Information about an organization's significant impacts on people, the environment, and the economy is in itself of value for decision-making by stakeholders, including investors.

This recommendation aims to address the current lack of reporting on impacts outwards, which is crucial for advancing sustainable development. Disclosure of an organization's impacts outwards would provide a basis for assessing an organization's significant impacts on people, the environment, and the economy, as well as for assessing the financially material risks for an organization arising from these impacts.

See also Item 07 – Recommended option for incorporating human rights and due diligence disclosures in the GRI Standards (Paper A), pages 12-13, for the recommendation to replace the phrase 'economic, environmental, and social impacts' in the Standards with 'impacts on people, the environment, and the economy, including impacts on human rights'.

Recommendation 6: Focus Materiality on the ‘impact’ dimension

It is recommended to focus the Materiality principle on the ‘impact’ dimension. This means that a topic would only be material if it reflects an organization’s significant impacts on people, the environment, and the economy. This process would be informed by the views of stakeholders, in particular affected and potentially affected stakeholders, with due regard to the principle of Stakeholder Inclusiveness, but stakeholders’ views alone would not make a topic material.

This recommendation aims to address the issues associated with the traditional materiality matrix (where only topics that rank high on both dimensions are prioritized) and the shortcomings associated with the practice of undertaking stakeholder engagement for the purpose of the report, as summarized in Section 2, pages 14-15. This revision would also provide greater clarity on how to apply the Materiality principle and further clarify the relationship between the principles of Materiality and Stakeholder Inclusiveness.

It is further recommended to incorporate in Materiality the concept of prioritizing significant impacts based on an assessment of the severity and likelihood of the identified impacts (with the emphasis on severity for human rights impacts), in line with the UN Guiding Principles and OECD-related instruments.

See also Item 07 – Recommended option for incorporating human rights and due diligence disclosures in the GRI Standards (Paper A), page 20, for recommended revisions to Disclosure 102-46 on the process to identify material topics in line with Recommendation 6.

Recommendation 7: Make reporting on negative impacts the priority of reporting with the GRI Standards

It is recommended to make reporting on negative impacts the priority of reporting with the GRI Standards. While organizations using the Standards may also report on their positive impacts (such as the positive contributions brought about by their products and services), the primary objective of the Standards would be for organizations to report on their negative impacts on people, the environment, and the economy.

The identification of material topics, and the management approach disclosures, would be focused on how an organization identifies and manages its negative impacts on people, the environment, and the economy.

This does not mean that everything an organization reports with the Standards would be negative. It would be clarified that addressing negative impacts requires positive action by organizations, and that the Standards enable organizations to report on how they fulfil expectations of responsible business conduct, and the improvements or effective outcomes of their actions to address negative impacts.

This recommendation aims to address the current lack of reporting on negative impacts, which is also crucial for advancing sustainable development.

See also Item 07 – Recommended option for incorporating human rights and due diligence disclosures in the GRI Standards (Paper A), page 20, for recommended revisions to Disclosure 102-46 on the process to identify material topics in line with Recommendation 7. See also Item 09 – Recommendations for changes to GRI 103 Management Approach 2016 (Paper C), for recommended revisions to *GRI 103*, to align it with the expectation of due diligence.

Question for the GSSB: Does the GSSB agree with the recommended revisions to ‘materiality’ (recommendations 5-7)?

Structure of content

Recommendation 8: Separate instructions for identifying material topics from the GRI Reporting Principles

It is recommended to separate the instructions for identifying material topics from the GRI Reporting Principles. This means that the existing principles for defining report content would be located in a different section and no longer be presented as GRI Reporting Principles; they would instead be presented as instructions for identifying material topics.

This section would explain how to identify material topics, based on the existing principles for defining report content and Recommendations 1-7. This would include:

- identifying actual and potential negative impacts that the organization might cause or contribute to through its activities, and impacts that might be directly linked to its operations, products, or services by its business relationships, during the reporting period;
- considering key sector, product and geographic risks, as well as broader societal expectations, sustainable development goals, and other contextual factors, when identifying impacts;
- prioritizing significant negative impacts based on an assessment of the severity and likelihood of the identified impacts (with the emphasis on severity for human rights impacts);
- seeking to understand the views and concerns of stakeholders, in particular affected and potentially affected stakeholders, when identifying and prioritizing impacts.

This recommendation aims to make clear:

- the distinction between identifying material topics and ensuring the quality of information reported for these material topics;
- the interdependencies between the principles for defining report content and how to apply them in conjunction to identify the material topics;
- that the identification of material topics is to be informed by the organization’s ongoing practice of impact identification and stakeholder consultation, rather than by processes established for the sole purpose of preparing a report.

Recommendation 9: Clarify the ‘purpose’ of reporting with the GRI Standards at the start of GRI 101

It is recommended to have a section at the start of *GRI 101* with the aim to clearly explain the objective of reporting with the GRI Standards, i.e., for organizations to report on their impacts on people, the environment, and the economy, and how they address them.

The first section in *GRI 101* is currently the GRI Reporting Principles, which is found to be quite technical and challenging to understand for users.

Recommendation 10: Focus the GRI Reporting Principles on the qualitative characteristics of the information reported for material topics

It is recommended that the GRI Reporting Principles focus on the qualitative characteristics of the information reported for material topics, and that they include the existing principles for defining report quality (Accuracy, Balance, Clarity, Comparability, Reliability, Timeliness), and two more principles on the relevance and completeness of the information reported for the identified material topics.

These recommended revisions aim to make clear the distinction between identifying material topics and ensuring the quality of information reported for these material topics. They would also make the Standards more consistent with other reporting frameworks, which contain principles on the relevance and completeness of the reported information.

In addition, the findings relating to the comparison with other frameworks and with expectations set out in key instruments for the GRI Reporting Principles overall (lines 117-139) will be considered when revising the guidance for these principles.

The following is a mock-up of the recommended revisions to the GRI Reporting Principles (revisions to the current text of the principles are indicated in track changes):

Accuracy: The reporting organization ~~reported information~~ shall ~~be~~ report information that is sufficiently accurate and detailed for stakeholders to assess the ~~reporting~~ organization's impacts and performance.

Balance: The reporting organization ~~reported information~~ shall report information that reflects positive and negative aspects of ~~the reporting organization's~~ its performance to enable a reasoned assessment of overall performance.

Clarity: The reporting organization shall make information available in a manner that is understandable and accessible to stakeholders using that information.

Comparability: The reporting organization shall select, compile, and report information consistently. The reporting organization ~~reported information~~ shall ~~be presented~~ present information in a manner that enables stakeholders to analyze changes in the organization's impacts and performance over time, and that could support analysis relative to other organizations.

Completeness: The reporting organization shall provide sufficient information for stakeholders to understand the organization's impacts and performance.

Relevance: The reporting organization shall provide information that is important enough for stakeholders to understand the organization's impacts and performance.

Reliability: The reporting organization shall gather, record, compile, and analyze~~, and report~~ information and processes used ~~in the preparation of the report~~ to prepare the disclosures, in a way that they can be subject to examination, and that establishes the quality ~~and materiality~~ of the information.

Timeliness: The reporting organization shall report on a regular schedule so that information is available in time for stakeholders to make informed decisions.

Question for the GSSB: Does the GSSB agree with the recommended revisions to the structure of the principles' content (recommendations 8-10)?