Promoting Greater European and International Corporate Responsibility and Accountability

Mainstreaming ESG Reporting

Input for the European Multistakeholder Forum on CSR Plenary Meeting, 29 – 30 November 2010

by the
Global Reporting Initiative (GRI)
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What is GRI?
The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world’s most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide.

Vision
GRI’s vision is that disclosure on economic, environmental, and social performance should become as commonplace and comparable as financial reporting, and as important to organizational success.

Mission
GRI’s mission is to create conditions for the transparent and reliable exchange of sustainability information through the development and continuous improvement of the GRI Sustainability Reporting Framework.

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GRI calls on the European Members States and the European Commission to set minimum reporting requirements

1. **GRI calls for legislation.** Governments have to take mandatory measures. GRI argues for ‘smart regulation’. Regulators should establish **minimum reporting requirements**, but leave enough space for voluntary disclosure and innovation:

   *All large and medium-sized companies in OECD countries and large emerging economies should be made to report publicly on their Environmental, Social and Governance (ESG) performance, or explain why if they do not. At the European level, this could be done by a European regime inspired by the Danish example.*

2. **Harmonization.** At the same time regulators should play a role against fragmentation by reinforcing the demand and call for **harmonization of guidance, aiming for an international reference level.** GRI believes that the EU can play a key role in this development.

   GRI is engaging with various players in the reporting field in an effort to harmonize guidance as much as possible, even if it represents the perspective of specific groups of stakeholders such as investors. As part of this effort, GRI and DVFA/EFFAS have entered into dialogue with the aim of exploring possibilities for harmonization and cooperation.

3. **What kind of regulatory instrument should be used at the EU level?** This is a question to be studied carefully. Potentially a new EU directive could be created, or the existing Modernization Directive could be revised, in order to include stronger and more up to date ESG disclosure norms, taking into consideration the use of the six principles for ‘smart regulation’.
1 Introduction

1.1 GRI welcomes the initiative of the European Commission to host a plenary meeting of the European Multistakeholder Forum on CSR on 29–30 November 2010, to provide an opportunity for stakeholders and the European Commission to exchange views on the possible new Communication on CSR. GRI is pleased that the Communication on CSR will address the question of ESG disclosure.1

1.2 GRI has already sent a submission regarding the transparency of CSR-related performance information to the European Commission for the final workshop on environmental, social and governance (ESG) disclosure in February 2010: Beyond Voluntary Laissez-Faire Reporting: Towards a European ESG Disclosure Framework.2 This submission is still valid. The present input to the Multistakeholder Forum on 29–30 November 2010 complements the submission published in February 2010.

1.3 Since February 2010 there have been some big strides in the world of ESG reporting, providing great opportunities. These most recent developments are summarized below.

2 Most recent developments in the context of the Global Reporting Initiative

2.1 In May 2010, GRI held the 2010 Amsterdam Global Conference on Sustainability and Transparency, which attracted more than 1200 delegates from 77 countries around the world. 200 global leaders from business, politics and civil society debated in more than 50 sessions on how to achieve a transition to a sustainable economy. GRI announced two key propositions at the conference:

- By 2015, all large and medium-sized companies in OECD countries and large emerging economies should be required to report on their Environmental, Social and Governance (ESG) performance and, if they do not do so, to explain why;
- By 2020, there should be a generally accepted and applied international standard which will effectively integrate financial and ESG reporting by all organizations.

Support for the propositions was clear. GRI is now looking to start the process of developing a new, more robust generation of GRI Guidelines, G4, to mainstream ESG reporting and to pave the way for companies to prepare an Integrated Report.

2.2 Linking up: The GRI Guidelines are often used in conjunction with other reporting frameworks, guidance and guidelines. Since February 2010 GRI has entered into several important new strategic partnerships and created linkage documents, which enable companies to understand conceptual overlaps and implement them in the reporting process, in an effort to promote harmonization of guidance:

- United Nations Global Compact (UN GC). In May 2010 UN GC and the GRI signed a Memorandum of Understanding (MoU) to align their work in advancing corporate responsibility and transparency. Under the terms of the agreement, GRI will develop guidance regarding the Global Compact’s ten Principles and Issue Areas to integrate in the next iteration of its Sustainability Reporting Guidelines. At the same time, the Global Compact will adopt the GRI Guidelines as the recommended reporting framework for its signatories.

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Organization for Economic Cooperation and Development (OECD). GRI has been formally invited to participate in the update of the OECD Guidelines for Multinational Enterprises. In December 2010 GRI will sign an MoU with the OECD in order to establish a program of cooperation, initially for a period of three years, to promote greater understanding, visibility and use of the OECD Guidelines and the GRI Sustainability Reporting Framework, to exploit synergies and complementarities between the two instruments, and to develop cooperation between the parties in other areas of mutual interest.

Earth Charter Initiative (ECI). In May 2010 GRI signed an MoU with the ECI to create an environment where there is a broad-based increase in sustainability reporting around the world using the GRI Framework, inspired and driven by an ever-deeper understanding of the principles and considerations set out in the Earth Charter.

Carbon Disclosure Project (CDP). In July 2010 GRI and CDP published a linkage document between GRI’s Reporting Guidelines and CDP’s Questionnaire. It outlines how reporters can use or adapt the same data effectively in both reporting processes.

International Finance Corporation (IFC). In June 2010 GRI and IFC launched a Good Practice Note entitled “Getting More Value out of Sustainability Reporting”. The Good Practice Note links GRI’s internationally recognized Sustainability Reporting Framework and IFC’s Sustainability Framework, which includes Environmental and Social Performance Standards for private sector investment.

International Standardization Organization (ISO). In November 2010 GRI launched a linkage document outlining synergies between ISO 26000 and the GRI Sustainability Reporting Guidelines. GRI has actively participated in the international multi-stakeholder ISO 26000 development process from the start.

Updates regarding the GRI Sustainability Reporting Framework in line with reporting trends. The GRI Sustainability Reporting Framework is continuously improved as knowledge of sustainability issues evolves, and the needs of reporters and report users change.

In 2010, GRI has focused on revisions in four thematic areas: Community Impact, Human Rights, Gender and Report Content & Materiality. The human rights related revisions address the policy framework put forward by the UN Special Representative of the SG on Business and Human Rights, John Ruggie. The launch of this revised version of the GRI Guidelines – G3.1- is expected in the first quarter of 2011.

Improving the disclosure on performance with respect to supply chains. In October 2010, GRI formed an international multi-stakeholder Working Group which will prepare recommendations on how to further improve the disclosure guidance on performance with respect to supply chains. For information, GRI has run a project called “Global Action Network for Transparency in the Supply Chain” since 2008, partially supported by the German governmental agency GTZ, to support large companies to disseminate reporting practice in their supply chain.

Some sectors face specific social and environmental issues. GRI produces Sector Supplements to address these specific issues. Essentially, Sector Supplements are the G3 Guidelines reviewed by experts from the sector in order to offer sector-specific guidance, helping to make sector reports more relevant and easier to produce. The five finalized Supplements – Financial Services, Electric Utilities, Mining & Metals, Food Processing and NGO, were downloaded more than 5,600 times between January and June 2010, reflecting the demand for sector-specific reporting guidance.

National context might be important for reporters. GRI is implementing a pilot project in Brazil to test the complexity and importance of such guidance developed in a multistakeholder project, to complement the current Guidelines, and offer better guidance to reporters from a specific country.
2.4 Expanding Regional Representation.

- GRI has established and further expanded local presence in several key countries. In addition to Focal Points set up in Brazil, Australia, China and India, a US Focal Point was launched recently. The aim is to meet the needs of stakeholders in different regions more effectively. A focal point in Southern Africa is planned for 2011, and the GRI will further explore regional representation in Latin America, South-East Asia, and the MENA region.

- GRI has expanded its GRI Certified Training Partners network, which now covers all European countries (including Eastern Europe), South and central America, US and Canada, India, South Africa, Korea, Japan, Australia, New Zealand, China and Chinese speaking countries, South East Asian countries, Turkey, Arabic countries and Israel.

- To ensure best practice in reporting is accessible to organizations in developing markets, in the summer of 2010 GRI developed a Sustainable Development Strategy with the objectives of (1) increasing ownership in the Global South of disclosure as a key to poverty reduction, natural resource protection, human rights and biodiversity, (2) strengthening the sustainability performance of local business actors, (3) empowering stakeholders in the Global South, and (4) increasing the transparency of multinationals on their social and environmental footprint and performance.

2.5 Evidence for sustainability reporting. GRI contributed to two high-profile research projects into reporting trends, launched at the Amsterdam Global Conference on Sustainability and Transparency in May 2010.

- The Transparent Economy is based on research lead by Volans, a sustainability consultancy thinktank, in cooperation with GRI, analyzing the trends that will drive reporting until 2020.

- Carrots and Sticks – Promoting Transparency and Sustainability is a coproduction of GRI, UNEP, KPMG Sustainability, and University of Stellenbosch Business School to provide readers with an easy reference and overview of mandatory and voluntary approaches to sustainability reporting and assurance throughout the world.

3 Reasons for moving beyond voluntary ESG-Sustainability disclosure

3.1 In its February 2010 submission GRI stated that there is no time for a regulatory ‘Business as Usual’ approach.

3.2 The increase in ESG disclosure uptake would be too slow and run serious risk of being fragmented if the current hybrid European situation continues, where each EU member state has its own mix of CSR and ESG policy instruments, and where in some EU member states a mere laissez-faire situation can be found.

3.3 The fragmentation and proliferation of local, regional, national and sector types of guidance, without any centralized alignment, can work against the production and usage of information published in the reports by investors, governmental agencies and other stakeholders alike.

3.4 EU governments take the lead: Several EU governments have introduced or are in the process of introducing binding measures or legislation on ESG disclosure for some portion of their corporate sectors.

3.5 Europe in a new world order: Other parts of the world have moved on, and will continue to work towards higher standards. Europe has developed a critical mass in the field of CSR and ESG disclosure and should use it to offer a competitive model vis à vis other regional and growing markets.

3.6 The majority of multinational enterprises are still opaque about their performance.

3.7 Investors and analysts are starting to assess investor value through ESG information.
4. **GRI calls on the European Members States and the European Commission to set minimum reporting requirements**

4.1 GRI calls for legislation. Governments have to take mandatory measures. GRI argues for ‘smart regulation’. Regulators should establish minimum reporting requirements, but leave enough space for voluntary disclosure and innovation:

*All large and medium-sized companies in OECD countries and large emerging economies should be made to report publicly on their Environmental, Social and Governance (ESG) performance, or explain why if they do not. At a European level, this could be done by a European regime inspired by the Danish example.*

4.2 **Harmonization.** At the same time regulators should play a role against fragmentation by reinforcing the demand and call for harmonization of guidance, aiming for an international reference level. GRI believes that the EU can play a key role in this development.

In order to move in this direction, in the context of the next generation of the Guidelines and the development of an Integrated reporting Framework, GRI is establishing broader alliances to promote harmonization.

GRI is engaging with various players in the reporting field in an effort to harmonize guidance as much as possible, even if it represents the perspective of specific groups of stakeholders such as investors. As part of this effort, GRI and DVFA/EFFAS have entered into dialogue with the aim of exploring possibilities for harmonization and cooperation.

4.3 In the February 2010 submission GRI suggested six guiding principles for smart policy decisions on how to build a European ESG disclosure regime. Presented here is an updated version of them:

1. Be pragmatic and build on what already works in some European countries.
2. Do not reinvent the wheel – build on existing disclosure experience, and integrate tested instruments.
3. Stakeholder involvement must be built into the process and any resulting instruments: this is key to get legitimacy, value and acceptability.
4. Go international – any national regimes or national or local indicators should be avoided, as a majority of the European entities operate across national borders.
5. Materiality. The choice of the report content is an important step in the reporting process. The description of the elements that lead a company in choosing its report content is as important as the choice of which Key Performance Indicators (KPIs) or performance indicators are used to report its performance. KPIs alone cannot give a complete overview on companies’ performance and management approach, which will certainly be related to risks for business and society.
6. Apply internationally accepted Principles and Guidance on content, quality and boundary, e.g. the GRI Sustainability Reporting Framework.

4.4 **What kind of regulatory instrument should be used at the EU level?** This is a question which should be carefully studied. Potentially a new EU directive could be created, or the existing Modernization Directive could be revised, in order to include stronger and more up to date ESG disclosure norms, taking into consideration use of the above mentioned six principles for ‘smart regulation’.
5. **Looking ahead – GRI’s Priorities for the future**

5.1 **Report or explain why not – for reinforcement of ESG-sustainability disclosure practice**

All large and medium-sized companies in OECD countries and large emerging economies should be made to report publicly on their Environmental, Social and Governance (ESG) performance, or explain why if they do not.

5.2 **Integrated Reporting – for reporting on ESG-sustainability issues by all financial reporters**

On 2 August 2010, GRI and the Prince’s Accounting for Sustainability Project (A4S) announced the formation of the International Integrated Reporting Committee (IIRC). An integrated report presents information about an organization’s financial performance with information about its ESG performance in an integrated way. It gives long and short term investors and other stakeholders information to assess a company’s performance in all of these areas. As the global leader in the field of non-financial reporting guidance, GRI co-leads the development of this framework. GRI’s Guidelines will shape the ESG content for the integrated reporting architecture developed by the IIRC.

5.3 **How to mainstream ESG reporting and to harmonize ESG and sustainability reporting practices around the world**

- In October 2010, the GRI Board of Directors decided that GRI will start working on a new version of the GRI Guidelines - the **GRI G4 Reporting Guidelines** - to publish a final draft by the end of 2012.
- In line with GRI’s mission to mainstream ESG reporting, a key aim of the G4 Guidelines is to **harmonize** Environmental, Social and Governance (ESG) and sustainability reporting practices around the world.
- In order to be fit for mainstreaming, the **G4 Guidelines will need to be “standard ready”**; robust enough to support higher levels of assurance and help companies to produce reports that are trusted by markets and stakeholders.
- The current sustainability challenges and the digital era are creating an unprecedented demand for information, to give a real overview of business performance. GRI is convinced that this can be achieved if **harmonization of current standards** starts, increasing transparency through comparability.
- Another key aim for G4 is to **be a stepping stone for companies preparing an integrated report** based on the framework currently in development by the International Integrated Reporting Committee (IIRC).
- Through this new generation of the GRI Guidelines, ‘G4’, GRI will continue to guide companies and stakeholders in this field.

GRI counts on the participation and engagement of its networks and other members of the reporting community to achieve these goals.