Global
Reporting
Initiative (GRI)

17th June 2022

United States Securities and Exchange Commission (SEC)

100 F St NE, Washington, DC 20549, United States

Rules to Enhance and Standardize Climate-Related Disclosures for Investors

To the United States Securities and Exchange Commission (SEC),

GRI would like to commend the SEC for taking forward this initiative towards increased transparency on such an important topic. As providers of the world's most widely used sustainability reporting standards, we welcome the opportunity to share our views on the proposed rules. Please therefore find our key recommendations below.

Climate as a singular issue

GRI has concerns with an approach of providing a limited core set of indicators on a singular topic, given that Sustainable Development and external and financial impacts cannot be seen through a narrow lens, such as climate. Adopting a 'Carbon Tunnel' approach excludes a large number of crucial, cross cutting issues and topics, such as Biodiversity, Waste and Water, and Human Rights. It is particularly crucial that the connection between Climate and Human Rights is not ignored, such as displacement, access to water and sanitation, access to a clean, safe and healthy environment.[1]

These issues and topics are also connected in terms of financial materiality, as there are many social, governance and environmental risks and opportunities that can affect financial materiality and value creation. Over half (55%) of Global GDP depends upon high functioning biodiversity and ecosystem services, whilst on fifth of countries globally are at risk of ecosystem collapse, according to a report from the Swiss Re Institute.[2] However, according to KPMG research from December 2020, less than a quarter of large companies at risk from biodiversity loss disclose on the topic.

[1] Notably this was recognized by the UN Human Rights Council in their Resolution 48/13 in October 2021.

[2] https://www.swissre.com/media/press-release/nr-20200923-biodiversity-and-ecosystems-services.html

Mandating a set of disclosures only on climate may exclude a large number of crucial social, governance and environmental risks and opportunities. For example, Climate Disclosures would not cover the risks associated with unsafe working conditions that can lead to fatalities or chemical spillages and subsequent financial impacts. We are seeing in practice how Sustainability related issues have an impact on the financial situation of companies. The World Economic Forum's Global Risks Report 2022 put climate action failure, extreme weather events and biodiversity loss and ecosystem collapse as the top three global risks over the next 10 years.

The impacts of sustainability and non-financial risks can be challenging to quantify and measure. Potentially significant risks cannot easily be differentiated between those that do and those that don't affect enterprise value and estimating financial consequences of sustainability impacts is challenging and can lead to undesirable changes in behavior. Sometimes there is a need to report on topics not yet requested by stakeholders for risk and impact management purposes. Mandating an extremely specific and narrow set of Disclosures may further the difficulties of reporting on newly emerging risks, potentially impacting the usefulness of these Disclosures. While mandating a narrow set of disclosures might in the short term improve comparability, it does not lead to the creation of a comprehensive reporting system. Furthermore, this does not provide the ability to quickly adopt new standards or update existing standards to address changing societal demands and/or regulatory developments.

Double Materiality

We believe Double Materiality to be at the heart of Sustainability reporting because Double materiality speaks to the fact that risks and opportunities can be material from both a financial and non-financial perspective. The concept requires to manage sustainability issues that impact the ability of organizations to generate returns, while equally acknowledging the impact that they have on the environment and society. In other words, issues or information that are material to environmental and social objectives can have financial consequences over time.

At GRI, our position is that the scope of sustainability reporting must include the full range of a company's external impacts on the world, which go beyond financially material factors. In this context, each direction of the notion of double materiality needs to be considered in its own right. Impacts on society and the environment cannot be deprioritized on the basis that they are not financially material or vice versa. A company should start with the assessment of the larger ESG landscape followed by the identification of the subset of information which is financially material to the company and of interest to the investor stakeholder groups.

Companies need to understand their impacts on the world before they can understand the impacts on the company, including the associated (financial) risks. Workers interests are business interests and therefore investor interests, so there should be a broader dimension of accountability towards stakeholders. The relationship between risks and impacts may be less important to some but essential to others, and the impact can be more or less acute depending on the topic. Investors are becoming increasingly aware of environmental, social and governance (ESG) related risks and impacts and are assessing the capabilities of companies to manage those, which can therefore impact the value of a company.

Companies and investors addressing the real impacts of their business on people and the planet will be ahead of the curve when these legislations come into force. They will also attract and retain the best talent, pull in cheaper financing, establish a crucial differentiating factor with their competitors and avoid potential lawsuits, backlash, boycotts, delays, protests, and supply chain issues. Most importantly, they will make a substantive contribution to the life of millions, to a fast and fair transition towards low carbon societies, to the SDGs, and to a just recovery post-COVID-19. The longer the investment horizon of the investors, the more important this understanding becomes. Good reporting is therefore crucial for assessing and benchmarking their performance.

When it comes to financial materiality, GRI strongly recommends aligning this definition with the approach of the International Sustainability Standards Board (ISSB), which focuses on 'enterprise value', rather than on general 'value creation' and 'capitals'. This alignment will also help drive the consistent application of financial materiality globally.

Two Pillar Structure

Two sustainability reporting developments are happening that take a different approach on materiality. The European Sustainability Reporting Standards (ESRS) will be based on double materiality, for a multi stakeholder audience (which includes investors). The European Financial Reporting Advisory Group's Project Task Force on European Sustainability Reporting Standards is leading the technical work to develop those standards. In July 2021, GRI and EFRAG signed a Statement of Cooperation, agreeing to share technical expertise to co-construct new EU sustainability reporting standards and contribute to further global convergence.

The standards for the disclosure of sustainability-related financial information are being drafted by the International Sustainability Standards Board (ISSB) of the IFRS Foundation and will be based on financial materiality. GRI has also entered into a MoU with the IFRS Foundation, to ensure our respective sustainability-related standards are aligned. To effectively achieve corporate transparency, duplication and unnecessary reporting burden must be minimized. This is something that GRI, given our bridging role between the IFRS' International Sustainability Standards Board and EFRAG, is uniquely placed to help achieve.

In our view, the approaches of the IFRS and the EU are not competing but complementary forces. Different standards have different purposes for different audiences. Standards with a sole purpose to inform investors are built on a different concept from impact standards that inform a broader group of stakeholders.

The GRI Standards are the only global standards with an exclusive focus on impact reporting for a multi-stakeholder audience - making it an essential factor in the shaping of a reporting structure based on double materiality. As such, GRI has a key role in working with EFRAG and the ISSB to build this comprehensive global set of sustainability reporting standards - covering the information needs of investors as well as other stakeholders.

It is in the interest of all stakeholders to create a corporate reporting system based on two pillars - for financial and sustainability reporting - with a core set of common disclosures and each pillar on an equal footing. The ultimate goal should be one set of standards globally underpinning both the financial and impact materiality perspective, as two key perspectives interconnected.

In the spirit of achieving a consistent global corporate reporting system that achieves corporate transparency without duplication and unnecessary reporting burden, in response to request for comment number 189, it is our view that the SEC reporting provision for climate-related disclosure should be structured to encompass reports made pursuant to the International Sustainability Standards Board

(ISSB) climate-related disclosure standards. Acceptance of corporate reporting that satisfies the ISSB climate-related disclosure standards should be extended to all registrants.

Incorporating and drawing from existing standards

We believe it is important that reporting organizations have a clear understanding of the available reporting frameworks, as each have different reporting needs depending on a range of factors such as sector, stakeholders, impact, and sustainability context. It is important to ensure that companies are not faced with an increased reporting burden, something which could be perpetuated by mandating specific standards or protocols for certain topics.

It is also important to note that increased reporting burden can be potentially placed not only on companies who are new to reporting, but also those who are already reporting on outward and inward impacts, if there is not alignment and incorporation of existing standards. The 2020 KPMG Survey of Sustainability Reporting shows[3] that a record number of companies, spanning sectors and geographic regions, are voluntarily choosing to disclose their sustainability impacts – with the GRI Standards the most widely used for reporting. Across all companies surveyed, the GRI Standards is the only sustainability reporting framework that can demonstrate widespread global adoption with around three-quarters (73%) of the G250 and two-thirds (67%) of the N100. 51% of S&P 500 Companies report using GRI, compared with 14% SASB, and 5% TCFD. Furthermore, out of the Russel 1000 Companies, 52% report using GRI, compared with 39% SASB and 17% TCFD.[4]

Comparability of data is also crucial for investors to be able to make informed decisions, and also for companies to understand their impacts, risks, and opportunities against those of their peers. At the same time, it is also important that there is adaption based on considerations such as country, region, and industry.

Preparing companies in USA for upcoming reporting obligations

We are also concerned with the potential impact on the companies in the United Stated that will also be subject to obligations under European Sustainability Reporting Standards, currently being drafted by EFRAG. As per the Corporate Sustainability Reporting Directive (CSRD), non-EU based companies with subsidiaries in the EU are subject to the requirements of the CSRD, as well as companies not established in the EU but with have securities on EU-regulated markets. Furthermore, those companies falling under the scope of the CSRD will also be requesting information from those in their supply and value chains. Alongside the upcoming reporting requirements in the EU Sustainability Reporting Standards, further obligations on companies will come from the EU Sustainable Corporate Governance Directive (Environmental and Human Rights Due Diligence).

Given that these disclosures will be matching those required under the Corporate Sustainability Reporting Directive (CSRD), it is crucial that companies are sufficiently prepared, otherwise they will risk exclusion

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[3] KPMG, The time has come, The KPMG Survey of Sustainability Reporting 2020, https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/11/the-time-has-come.pdf

[4] KPMG, The time has come, The KPMG Survey of Sustainability Reporting 2020, https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/11/the-time-has-come.pdf

from the value chain. It is also important to note that neither of these Directives are yet finalized, and there is a possibility their scopes will still be widened.

In addition, the ISSB Standards will also entail obligations on reporting organizations after some years. Furthermore, given that GRI and EFRAG will be co-constructing Standards, the information that will be required from companies that are part of the value chain under EU reporting, will be largely aligned with the GRI Standards. With the rapidly developing legislative reporting landscape, it is therefore crucial that companies are able to adequately prepare. This cannot be done so without having an understanding of the current standards and frameworks, as these are being used as the foundations for the Standards of the EU and the ISSB. Furthermore, these EU Standards will also place big emphasis on double materiality, which speaks to the fact that risks and opportunities can be material from both a financial and non-financial perspective.

Sector Specific Standards and Disclosures

Sustainability reporting enables an organization to publicly disclose its most significant impacts and how it manages these impacts. However, reporting by individual organizations has been inconsistent in addressing a sector's key challenges and impacts. Possible reasons for this include for example, lack of clarity on a sector's most significant impacts. At present, there is no comprehensive globally applicable framework based on an inclusive consensus on which sustainability impacts are material for specific types of companies or industries. Practice shows that companies operating in the same industry identify largely overlapping sustainability issues for their reports, but not exactly the same issues are seen as material, either to companies or investors.

The GSSB initiated the GRI Sector Program in 2019 to develop standards that are specific to certain sectors. The Sector Standards will identify and describe one or more sectors' most significant impacts from a sustainable development perspective. They are intended to focus sustainability reporting on the impacts that matter most, as well as reflect stakeholder expectations for a sector's sustainability reporting. The organization is required to determine its material topics based on its specific circumstances. Using the GRI Sector Standards supports the organization in this process. The Sector Standards provide information for organizations about their likely material topics

GRI has defined 4 sector clusters of priority, based on both footprint and impact: Oil and gas, Mining, Coal, Agriculture, Aquaculture and Fishing.

The Sector Standards will:

• Describe the sustainability context for a sector;

• Outline topics that are likely material for a reporting organization in the sector based on the sector's most significant impacts; and

• List appropriate disclosures to report on those topics.

In this way, the Sector Standards will clarify the reporting that is expected of organizations in a given sector and assist them in identifying material topics and what to report for each material topic.

Disclosure filing, auditing

The GRI Standards recommend that reporting organizations obtain independent external assurance and require the organization's policy and practice regarding seeking external assurance to be reported. There are two types of assurance engagement a practitioner can perform: • Reasonable assurance reduces the risk of the engagement to an acceptably low level in the given circumstances. The conclusion is usually provided in a positive form of expression and states an opinion on the measurement of the subject matter against previously defined criteria.

Limited assurance engagements provide a lower level of assurance than the reasonable assurance engagements. The conclusion is usually provided in a negative form of expression by stating that no matter has been identified by the practitioner to conclude that the subject matter is materially misstated. Reasonable assurance should be adopted as this would be commensurate with the level of assurance provided through statutory audits of financial statements and will give information users increased confidence that the reported information is prepared in accordance with the stated criteria.

Concluding Remarks

We would like to thank you for enabling stakeholder engagement through this process, and we invite you to continue this work.

GRI looks forward to seeing the development of this process, and we remain available for further engagement, and to provide any input or expertise regarding the next iteration of this initiative. GRI is committed towards further strengthening alignment between the GRI Standards, and those of EFRAG and the ISSB and we look forward to further discussing our feedback, and our recommendations proposed in this submission.

Sincerely,

Peter Paul van de Wijs

Chief External Affairs Officer, Global Reporting Initiative