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Item 02 – Narrow-scope amendments to GRI 1: Foundation 2021 and GRI 3: Material Topics 2021 – Discussion paper

For GSSB discussion

Date	26 March 2024
Meeting	9-10 April 2024
Project	Narrow-scope amendments to *GRI 1: Foundation 2021* and *GRI 3: Material Topics 2021*
Description	This discussion paper outlines possible narrow-scope amendments to *GRI 1: Foundation 2021* and *GRI 3: Material Topics 2021* as a result of changes to the reporting landscape, regulatory developments, and advances in digital reporting. The GSSB is invited to provide feedback on these developments and to consider the need to start a standard-setting project to implement these narrow-scope amendments following the GSSB's Due Process Protocol.

Contents

Introduction

The Global Sustainability Standards Board (GSSB) has, over the course of 2023, discussed the changing reporting landscape and developed its position on how the GRI Standards relate to other reporting standards. This includes the International Sustainability Standards Board (ISSB) standards and the European Sustainability Reporting Standards (ESRS).

This paper outlines the need for possible narrow-scope amendments to *GRI 1: Foundation 2021* and *GRI 3: Material Topics 2021* to clearly articulate the position of the GRI Standards in the reporting landscape. It also proposes additional narrow-scope amendments to respond to recent regulatory developments and to account for digital reporting advances.

The GSSB is invited to provide feedback on the possible amendments to *GRI 1* and *GRI 3* outlined in this paper, and on the need and timing to start a standard-setting project to implement them following the GSSB's Due Process Protocol, including public exposure.

Reporting landscape developments and the role of the GRI Standards

Context

Box 1 in *GRI 1* explains the link between sustainability reporting and financial and value creation reporting. Since the release of *GRI 1* in 2021, the reporting landscape has significantly evolved. The IFRS Foundation has set up the International Sustainability Standards Board (ISSB) with the mandate to develop standards for reporting information about sustainability-related risks and opportunities to investors. In the European Union (EU), the Corporate Sustainability Reporting Directive (CSRD) has been adopted and is underpinned by mandatory European Sustainability Reporting Standards (ESRS) based on double materiality. Currently, more mandatory regulatory developments are emerging.

The changing reporting landscape calls for assessing and explaining how the GRI Standards relate to these developments and identifying contents in *GRI 1* that may require updating. To inform the GSSB's position on this matter, the Standards Division proposed a text based on the existing Box 1 in *GRI 1,* which was discussed at the GSSB meetings on 20 April 2023 and 15 June 2023. The proposed text was also shared with the ISSB and EFRAG for comment.

Possible amendments to GRI 1 and GRI 3

The evolving landscape requires the update of Box 1 in *GRI 1* and possibly sections 1.1 'Purpose of the GRI Standards', 1.2 'Users', and 5.1 'Aligning sustainability reporting with other reporting'. The positioning and format of Box 1 within Section 2 of *GRI 1* may also necessitate revision, for example, by positioning its content more prominently in Section 1. A summarized version of Box 1 is also included in *GRI 3: Material Topics 2021*, which would also necessitate updating accordingly.

The proposed text included in this paper incorporates the latest feedback from the GSSB provided during the meeting on 15 June 2023 (shown in track changes) but does not constitute the final version for insertion in the GRI Standards. Any proposed changes to the Standards must follow the GSSB Due Process Protocol and will consider ongoing discussions with the ISSB, EFRAG, and other parties the GSSB may deem appropriate before publishing the text for public exposure.

The GSSB is invited to provide feedback on:

- whether the latest proposed text (shown in track changes) adequately reflects the comments from the GSSB made during the meeting on 15 June 2023 to clarify the meaning of 'risk and opportunity';
- whether and, if so, which specific jurisdictional developments to reference in this text;
- which other sections of *GRI 1* and *GRI 3* may necessitate updating to clarify the role of the GRI Standards in the reporting landscape.

Proposed text based on Box 1 on page 9 of *GRI 1: Foundation 2021*

Box 1. Impact materiality, financial materiality and double materiality in sustainability reporting

The GRI Standards enable organizations to report information about the most significant impacts of their activities and business relationships on the economy, environment, and people, including impacts on their human rights. ~~Such impacts are of importance~~These impacts are identified and reported using *GRI 3: Material Topics 2021*. The reported impacts are important to sustainable development and to an organization's stakeholders, such as investors, workers, customers, or local communities. This perspective is also referred to as 'impact materiality'. It has been adopted in the European Sustainability Reporting Standards as one of the two dimensions an undertaking needs to report on and is expected to see more widespread adoption in regulatory approaches around the world.

The most significant impacts of an organization can also affect the availability, quality, and affordability of the resources and relationships it depends on. Thus, an organization's impacts can result in ~~its own~~ risks and opportunities for the organization. In this context, 'risks and opportunities' is used to refer to the negative and positive effects on an organization's prospects (e.g., financial risk, market risk, operational risk, reputational risk); it does not refer to the likelihood of a negative or positive impact (e.g., risk to society, risk to the environment).

~~These~~The risks and opportunities that arise from an organization's impacts can affect the organization's business model or strategy and, consequently, its cash flows, access to finance, or cost of capital over the short, medium, or long term. For example, an organization's high use of non-renewable energy contributes to climate change and could, at the same time, result in increased operating costs ~~for the organization~~ due to legislation that seeks to shift energy use toward renewable sources. Or, an organization's track record of respecting human rights and promoting gender equality at work helps attract skilled workers, increasing the organization's reputation and thus ~~helping increase~~boosting customers' demand for its products and services.

An organization's impacts can thus give rise to sustainability-related risks and opportunities in the short, medium, or long term. ~~Most~~Nearly all, if not all, of the most significant impacts of an organization~~,~~ will eventually translate into risks and opportunities. Therefore, understanding these impacts is a necessary first step in identifying risks and opportunities that result from an organization's impacts.

An organization's dependencies on resources and relationships are also a source of risks and opportunities, independent of the organization's impacts on those resources and relationships. For example, when an organization's business model depends on water ~~and the quality of the water it depends on~~that is affected by the polluting activities of other organizations upstream in the river basin.

Information about the risks and opportunities that arise from an organization's most significant impacts and ~~from~~ the organization's dependencies on resources and relationships are reported under the IFRS Sustainability Disclosure Standards. The material topics and related impacts determined with the GRI Standards provide crucial input for identifying the risks and opportunities that arise from an organization's impacts.

The IFRS Sustainability Disclosure Standards require disclosing material information about all sustainability-related risks and opportunities that could reasonably be expected to affect an organization's business model or strategy and consequently its cash flows, access to finance, or cost of capital over the short, medium, or long term. This includes the sustainability-related risks and opportunities arising from the impacts of the organization on the economy, environment, and people. Information is material if omitting, misstating, or obscuring that information could reasonably be expected to influence decisions of primary users of general purpose financial reports (that is, existing and potential investors, lenders, and other creditors).

The use of the GRI Standards and the IFRS Sustainability Disclosure Standards ~~provide~~provides a comprehensive overview of an organization's sustainability-related impacts, risks, and opportunities. The perspectives ~~that each of~~ these standards bring are relevant in their own right and complement each other.

The European Sustainability Reporting Standards have adopted 'financial materiality' as the second dimension an undertaking needs to report on. The combination of impact and financial materiality is referred to as 'double materiality' under the European Sustainability Reporting Standards.

~~While most~~Nearly all, if not all, of the most significant impacts of an organization will eventually translate into risks and opportunities~~, sustainability reporting with~~. As such, an organization using the GRI Standards is ~~independent~~required to report on its most significant impacts regardless of ~~considering sustainability-related~~whether the organization identifies, or over which timeframe it identifies, that those impacts will lead to risks and opportunities~~. It is therefore~~ for the organization. Therefore, it is important for the organization to report on all the material topics ~~that~~ it has determined using the GRI Standards. These material topics cannot be deprioritized on the basis that ~~they do~~the organization identifies that they will not result in risks and opportunities for the organization or by applying materiality definitions of other reporting standards.

Regulatory developments

Context

Over the past 25 years, companies and jurisdictions alike have become more conscious about the need to be transparent about corporate impacts. The number of companies voluntarily publishing a sustainability report has been steadily rising. The recently published report by the International Federation of Accountants (IFAC) on the state of play around sustainability disclosure and assurance shows an increase in companies reporting in accordance with the GRI Standards of almost 10% in 2022 compared to 2019[1].

Similarly, jurisdictions and market regulators around the world have increasingly included reporting in their mandatory and voluntary policies. According to the Carrots & Sticks database[2], the most active policy issuers are in Europe (31.5%), followed by Asia Pacific (22.5%). For countries in the Middle East, this represents 2.5%, and in Africa 6%. While North America (7.3%) and South America (9.5%) show slower growth trends in policies, this is expected to grow. This is not least because most of these policies now include forms of value chain reporting that impact companies outside the jurisdictions issuing the policy.

In this context, the GRI Standards are the world's most widely referenced set of standards for sustainability reporting. The Carrots & Sticks database shows that 512 policies in 92 countries reference or require the use of the GRI Standards. For example, all listed companies in Taiwan are mandated to publish a GRI report. The same holds true for banks in Egypt.

Following the yearslong collaboration on the development of the European Sustainability Reporting Standards, the ESRS have achieved a high level of interoperability with the GRI Standards. This achievement is acknowledged in the joint interoperability statement published by GRI and EFRAG in September 2023. GRI has a strong base of reporters in the EU who will now be subject to the EU mandatory regime and will be able to leverage their existing GRI reporting to comply with it. Many new reporters subject to the EU requirements will also be reporting GRI-aligned disclosures as a result of applying the ESRS.

[1] The state of play: sustainability disclosure and assurance, IFAC, AICPA & CIMA, February 2024.

[2] https://www.carrotsandsticks.net

Thanks to the high level of interoperability achieved, entities reporting under the ESRS are considered as reporting with reference to the GRI Standards. GRI and EFRAG published a draft joint interoperability index in November 2023 to show which GRI requirements are complied with by virtue of applying the ESRS to facilitate a straightforward claim of reporting with reference to the GRI Standards. In addition, as acknowledged in the joint statement and in the interoperability index, EU reporters can also use the GRI Standards to report on additional material topics not covered by the ESRS, such as tax, for which organizations can use *GRI 207: Tax 2019*.

Following EU development, more jurisdictions are adopting mandatory reporting regimes that align with the GRI Standards, some starting with climate standards. Governments in the Asia Pacific region have indicated that they are looking to develop a full set of impact or double materiality reporting standards that will adopt or be based on global standards but will also consider the national context and political ambitions. Examples include New Zealand, India, Singapore, and three Chinese Stock Exchanges. GRI is engaging with these jurisdictions and regulators to ideally adopt the GRI Standards for impact reporting or at least align them to the highest extent possible. In the case of the Indian Business Responsibility and Sustainability Report (BRSR) Framework, GRI has already created a linkage document showing the interoperability.

With more jurisdictions using the GRI Standards as a key reference for the development of mandatory sustainability reporting requirements, more and more organizations will be applying the contents of the GRI Standards through these jurisdictional requirements. These organizations can claim to report with reference to the GRI Standards. As a result, the interest from jurisdictions in facilitating reporting with reference to the GRI Standards through mechanisms such as joint interoperability indices or automatic compliance should be expected.

Possible amendments to GRI 1

The option to report with reference to the GRI Standards outlined in Section 3 of *GRI 1* includes two use cases. The first use case is for organizations that cannot comply with all the requirements to report in accordance with the GRI Standards. The second use case is for organizations using selected GRI Standards or parts of their content to report information about specific topics for specific purposes, such as complying with a reporting regulation on climate change.

An additional use case could be acknowledged in this section to reflect the latest regulatory developments outlined and the growing reality that many reporters will report GRI-aligned disclosures in responding to (national) mandatory reporting requirements.

This section could highlight that GRI will work with the respective (national) regulators to make the necessary authoritative guidance available, such as interoperability indices, and facilitate reporting with reference to the GRI Standards through digital means. This guidance should also explain how reporters can continue to report in accordance with the GRI Standards, including how they can use the GRI Standards to report on additional material topics not covered by the respective (national) requirements.

Because there are no minimum disclosures that need to be reported in order to report with reference to the GRI Standards, this section could also clarify that there is no minimum level of interoperability required with (national) requirements for organizations to report with reference. Under this option, an organization must comply with three requirements: publishing a GRI content index, providing a statement of use, and notifying GRI.

The three requirements for reporting with reference to the GRI Standards could also be reviewed to assess how they could be further eased for reporters that fall under (national) mandatory reporting requirements. For example, the requirements for publishing a GRI content index (including the content index template included in Appendix 2 of *GRI 1*) could be reviewed to ensure they enable the publication of a joint content index that encompasses the GRI Standards alongside the respective (national) standards (to make clear that a separate standalone GRI content index is not required in order to report with reference).

In addition, an assessment could be made as to how the upcoming GRI Standards XBRL taxonomy could more easily enable the GRI content index and notification process (see next section for more information).

Digital reporting

Context

The reporting landscape is experiencing rapid advances in the area of digital reporting. GRI is currently developing an XBRL taxonomy for the GRI Standards, expected to be released in 2024. At the same time, the filing of sustainability information through digital taxonomies is becoming mandatory by certain national jurisdictions, and other standard-setters developing their own taxonomies. This calls for assessing the potential implications for *GRI 1*, including the requirements to report in accordance with or with reference to the GRI Standards.

As noted in the previous section, the use of the GRI Standards XBRL taxonomy could also facilitate interoperability with national sustainability reporting requirements.

Possible amendments to GRI 1

Possible amendments to *GRI 1* could include changes to Section 1.4 on ‘Reporting format’ to acknowledge the possibility of digital reporting through the GRI Standards XBRL taxonomy.

In addition, Section 1.4 states that an organization can publish or make information accessible across one or more locations (e.g., a standalone sustainability report, web pages, an annual report). It also states that if an organization intends to publish a standalone sustainability report, it does not need to repeat information it has already reported publicly elsewhere, such as on web pages or in its annual report. In such a case, the organization can report a required disclosure by providing a reference in the GRI content index as to where this information can be found (e.g., by providing a link to the web page or citing the page in the annual report where the information has been published). The implications of the XBRL taxonomy on publishing or making information accessible across one or more locations need to be investigated.

The requirements to publish a GRI content index and to notify GRI within Section 3 of *GRI 1*, for both options to report in accordance with and with reference to the GRI Standards, could also be reviewed to assess how the use of the GRI Standards XBRL taxonomy could more easily enable the publishing of the content index and the notification process.

For example, *GRI 1* currently requires organizations to notify GRI of their use of the GRI Standards by sending an email to reportregistration@globalreporting.org. When organizations voluntarily file information with GRI through the use of the GRI Standards XBRL taxonomy, this could fulfill the requirement to notify GRI and forego the need to send an email to reportregistration@globalreporting.org.

At this stage, the Standards Division does not expect the use of the GRI Standards XBRL taxonomy to become a requirement for reporting in accordance with or with reference to the GRI Standards, as this is not common practice among global standard setters. However, it is left up to the discretion of each national jurisdiction that adopts global standards to decide whether to mandate digital filing through a taxonomy.