



**BEYOND VOLUNTARY LAISSEZ-FAIRE REPORTING:
TOWARDS A EUROPEAN ESG DISCLOSURE
FRAMEWORK**

*Note, based on the submission by the
Global Reporting Initiative (GRI) to the European Commission,
at the occasion of the final European Workshop on disclosure of
environmental, social and governance information*

February 2010

Ten reasons for moving beyond mere voluntary ESG disclosure

This note is based on a submission to the European Commission, made on behalf of the GRI Board and Secretariat, representing a global network of over 20.000 sustainability and ESG experts from business, civil society, accountancy, labor and academics.

GRI welcomes the 2009/2010 initiative of the European Commission to host European workshops on disclosure of environmental, social and governance (ESG) information. It is very timely to consider ESG disclosure measures beyond the voluntary level. We can think of ten reasons for doing this:

1. EU promises

It is now almost a decade since the EU committed itself to strongly advance sustainability reporting. At the 2002 UN World Summit on Sustainable Development (WSSD), all governments endorsed the need to ‘enhance corporate environmental and social responsibility and accountability’, and among others recommended the GRI.¹ At the European level, the EU Lisbon Agenda was relevant in this context. And European Commission Green Papers, Communications, Recommendations and Statements from 2002 onwards (the latest one in 2009²) announced action on accountability and transparency and referred to the GRI. In addition, the 2007 European Parliament Resolution on CSR also called for urgent steps towards a stronger CSR regime, and support for the development of the Global Reporting Initiative.³

2. The crises

As a result of the financial crisis, the general public has lost confidence in the market’s ability to protect the public interest and calls for a stronger government intervention and clear government policies on ESG issues.⁴ Increasingly, public opinion links the financial crisis with sustainability related crises, such as climate change.

3. Existing directive too weak

The EU Modernization Directive⁵ has been weakly implemented. It has mostly focused on environmental matters, and far less on social and governance aspects.

¹ WSSD, Plan of Implementation, paragraph 18.

² The State of Sustainability Reporting in Europe: Commission Statement, March 2009: “The Commission actively supports initiatives such as the GRI” (paragraph 5, some reflections and conclusions).

³ European Parliament resolution of 13 March 2007 on corporate social responsibility: a new partnership (2006/2133(INI)).

⁴ Edelman Trust Barometer, 2009.

⁵ Directive 2003/51/EC, OJ L 178, 17.7.2003, pp. 16 – 22 (Directive of the European Parliament and of the Council of 18 June 2003 amending Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings).

It is also very differently and unevenly applied over Europe, as research is indicating.⁶

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 (France, Denmark, The Netherlands and Spain). It has been demonstrated that in countries with mandatory reporting the number of companies that issue ESG (mostly GRI based) reports increases substantially.⁷

5. Europe in the new world order

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. Both EU and Chinese government policy documents and statements indicate that CSR and ESG disclosure are perceived as an indicator of competitive advantage. There are signs, however, that Europe's leading position in the field of ESG disclosure will not remain the benchmark. Recently the Chinese and Indian governments made policy steps in ESG. The Chinese State-Owned Assets Supervision and Administration Commission of the State Council (SASAC) issued a CSR Guideline which includes ESG reporting.⁸ The Indian Government created the Indian Institute of Corporate Affairs, which among others will deal with ESG disclosure. And in the USA the Securities and Exchange Commission (SEC) recently took an unprecedented step in issuing a "Commission Guidance Regarding Disclosure Related to Climate Change".

6. Majority of multinational enterprises still opaque about their performance

Of all 82.000⁹ Multinational Enterprises globally, some 3.000 issue sustainability reports; which leaves an overwhelming majority of 79.000 companies opaque about their sustainability performance.

7. Investors and analysts get involved

Investors and analysts are starting to assess investor value through ESG information.

8. Uncertainty and lack of clarity for enterprises

There has been a lack of consistent expectation from governments and the European Commission on ESG reporting, which, together with the proliferation of

⁶ Tineke Lambooy, Marie-Eve Rancourt, Private Regulation: Indispensable for Responsible Corporate Conduct in a Globalizing World?, Bocconi School in Law & Globalization (Bocconi Sch. L. Student-Ed. Papers ed., VDM Publishing Saarbrücken, 2009).

⁷ *Entreprise pour l'environnement*, Orée, Orse, Assignment Report submitted to the government, Critical review of how companies are applying French legislation on social and environmental reporting, 2004, p. 54; Swedish Ministry of Enterprise, Energy and Communications, Annual Report State-owned Companies (2008).

⁸ No. 01, 2008, Notification on Issuance of "The Guideline on Fulfilling Social Responsibility by State-Owned Enterprises", 29 December 2007.

⁹ UNCTAD, World Investment Report, 2009.

ESG instruments has caused confusion amongst business, their stakeholders and report readers.

9. GRI Board calls for mandatory reporting

In March 2009 the GRI Board issued its Amsterdam Declaration,¹⁰ calling 'on governments to take leadership by introducing policy requiring companies to report on ESG factors or publicly explain why they have not done so' thus following the 'report or explain' principle, inspired by the recent Danish law on reporting.¹¹

10. The time is ripe!

As Professor Mervyn King stated in his address to the EU ESG Working group on January 29, 2010 'there is no time for a regulatory *Business as Usual* approach'. After decades of voluntary laissez-faire reporting the time is ripe to stronger regulatory action and to follow the good examples of several EU governments who have introduced binding measures or legislation on ESG disclosure for some portion of their corporate sectors.

Latest information on GRI and ESG reporting

The GRI Framework is the most widely used comprehensive sustainability reporting framework in the world.¹² Over 3.000 individual experts from across business, civil society and labor participated in the development of the current generation of the GRI Sustainability Reporting Framework, the G3. This resulted in Guidelines which are more user-friendly and adapted to the diverse reporting needs.

Research conducted by KPMG in 2008 shows that 79 % of the Global 250 largest companies disclose ESG data and that 77% of those use GRI to do so. Of the 100 largest companies in the 22 countries surveyed, 45% disclose ESG data and of those 69% use GRI. This is a substantial increase from their 2005 International Survey of Corporate Responsibility Reporting, which indicated that 52% reported in the G250 and only 33% in the N100 among the surveyed countries.¹³

GRI provides a consolidated reporting framework that builds on relevant internationally accepted legal frameworks (e.g. the ILO conventions), the most widely used normative frameworks and principles (e.g. OECD MNE Guidelines, UN

¹⁰ Available at <http://www.globalreporting.org/CurrentPriorities/AmsterdamDeclaration/> (last visited 9 February 2010).

¹¹ Art. 99a Danish Financial Statements Act, available at http://www.csr.gov.dk/graphics/Samfundsansvar.dk/Dokumenter/Proposal_Report_On_Social_Resp.pdf

¹² KPMG, International Survey of Corporate Social Responsibility Reporting 2008, p. 4; UNEP, KPMG, Carrots and Sticks for Starters, Current Trends and Approaches in Voluntary and Mandatory Standards for Sustainability Reporting, 2006, p. 4.

¹³ KPMG, International Survey of Corporate Social Responsibility Reporting 2008.

Global Compact, etc.) as well as theme specific reporting guidelines (e.g. CDP), all of which are referred in the Technical Protocols of the Guidelines.

Several international and regional organizations and initiatives reference GRI.¹⁴ GRI has been formally invited to participate in the review of the OECD Guidelines for Multinational Enterprises. GRI is a collaborating center of the United Nations Environmental Programme and has a formal alliance with the UN Global Compact, as well as a MOU with UNCTAD.

GRI regularly releases supplements addressing specific sectoral needs, such as the Financial Services and Energy Utilities Sector Supplements, published for general use in 2009 after extensive due process and multi stakeholder development work. The Mining and Metals and Food Processing, as well as the NGO Sector Supplements will be launched in spring 2010. Sector supplements in progress include the construction sector, oil and gas, the media, as well as large events (including Olympic Games).¹⁵

The GRI framework undergoes ongoing development work to reflect stakeholder perspectives, the latest research and United Nations insights and agreements. In 2009 GRI collaborated with the UN Global Compact and Realizing Rights: 'The Ethical Globalization Initiative' to provide guidance of Human Rights reporting by business. This work was launched at the "Protect, Respect, Remedy" Swedish EU Presidency Conference on CSR and Human Rights. The results launched will be taken forward and will be incorporated into the G3 Guidelines.

There is a growing number of GRI Certified Training Partners around the world. In 2009 training partners have offered over individual trainings to 2.100 professional practitioners globally. Although many training partners are outside of Europe, in Europe alone GRI has certified partners in Spain, and is in the process of certifying partners in Denmark, Finland, Sweden, Austria, Germany, Greece, Italy, Portugal and Switzerland. Calls for the Benelux, France, Ireland and the United Kingdom are currently open.

GRI also co-publishes research publications regarding business sustainability, such as the recent "Getting It Right: Expert Perspectives on the Corporate Response to Climate Change" co-published with ACCA during the UNFCCC COP 15 Conference in Copenhagen.

¹⁴ Amongst others the OECD (Commentary OECD MNE Guidelines, III. Disclosure), WSSD Implementation Plan (paragraph 18), G8 Summit 2007, Heiligendamm ('Growth and Responsibility in a World Economy', Summit Declaration, 7 June 2007, paragraph 84.), United Nations Global Compact (Policy for the 'Communication of Progress', 3 April 2009), United Nations Principles of Responsible Investment (Principle 3).

¹⁵ At the EU ESG Workshops presentations were held by stakeholders involved in the respective sector supplements for the Media (the Guardian), the NGO sector (Greenpeace), and the Public Agency sector (Austrian Ministry of Environment and Agriculture).

Ten governments¹⁶ have a formal reference to GRI in their governmental corporate responsibility guidance documents and/or policies.

In January 2010 the US Securities and Exchange Commission acknowledged the GRI Guidelines in its *“Guidance regarding disclosure related to climate change”*. The document states that *“Sustainability reports based on the GRI framework are used to benchmark performance with respect to laws, norms, codes, performance standards and voluntary initiatives, demonstrate organizational commitment to sustainable development, and compare organizational performance over time.”*¹⁷

GRI’s Framework is used by leading financial markets institutions like Bloomberg, NASDAQ and Thompson Reuters as the basis of their respective ESG information offerings.

GRI has established local presence in several key countries. So-called focal points have been set up in Brazil, Australia, China and India to more effectively meet the needs of stakeholders in different regions.

India

In 2008, the Indian Government created the Indian Institute of Corporate Affairs (IICA), which among others will deal with ESG disclosure.

In December 2009, India’s Ministry of Corporate Affairs launched voluntary guidelines for responsible business which aim to add value to the operations and contribute towards the long term sustainability of the business. These guidelines also aim to enable business to focus as well as contribute towards the interests of the stakeholders and the society. Pursuant to the guidelines the companies should disseminate information on CSR policy, activities and progress in a structured manner to all their stakeholders and the public at large through their annual reports, their website and other communication media.

The GRI Focal Point was set up in Delhi in January 2010. GRI entered into a strategic alliance with the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) to set up the GRI Focal Point India in the framework of the IICA-GTZ CSR Initiative. The IICA-GTZ CSR Initiative was started by the Indian Institute of Corporate Affairs and the GTZ in 2008 on behalf of the Ministry of Corporate Affairs (India) and the German Federal Ministry of Development Cooperation (Germany) respectively.

For more information about the GRI focal point in India, please contact Dr. Aditi Haldar, Director, GRI Focal Point India: Haldar@globalreporting.org.

www.globalreporting.org/AboutGRI/WhoWeAre/FocalPoints/

¹⁶ Austria, Belgium, Canada, Denmark, Finland, Germany, Netherlands, Norway, Sweden, United States.

¹⁷ Available at <http://www.sec.gov/rules/interp/2010/33-9106.pdf> (last visited 8 February 2010).

GRI's end vision is global integrated reporting: ten years from today

It is attainable and imperative in the GRI's view that ten years from now, by 2020, ESG reporting becomes common place for all medium-sized and large entities. Responsible governance and management requires clarity about a company's impact. There is no compelling reason to allow for irresponsible conduct that undermines good corporate governance and imposes costs on society / the public interest. Disclosure by all provides for a level playing field and will allow markets and society to make informed decisions, thus stimulating the competitive advantage of good performers.

Although ESG disclosures are likely to become available in many different formats in the future, GRI is convinced that **the annual report format** (whether integrated or stand alone) will continue to be the main vehicle for ESG and financial disclosures, for reasons of comparability and legitimacy.

GRI intends to facilitate and moderate the development of **integrated reporting**. Several European companies are pioneering in this new domain: Novo Nordisk, BASF, Telefonica, Philips and Rabobank are but a few examples. GRI believes that this experience will equip companies to work towards the integration of ESG reporting into their annual reports over time.

GRI intends to collaborate closely with the providers of financial reporting standards and key ESG institutions to ensure that the accumulated expertise, experience and trust associated with its Guidelines will be used to the fullest extent in the development of a relevant global integrated reporting framework. In order to advance the 'global integrated reporting agenda' GRI will be one of the founding members of a **new International Committee on Integrated Reporting** that will bring together leading frameworks providers in financial and ESG reporting and their principal stakeholders.

Moving towards a global regime of integrated reporting will take years to go. In his address to the EU ESG disclosure Working Group the GRI Chairman Professor Mervyn King emphasized the need to move fast, since time is running out. This means that the EU will have to take a certain amount of short term and medium term measures to move the agenda in the right direction, away from the current hybrid situation.

China

Strong interest has emerged since 2005 in sustainability/CSR reporting in China. Many of the largest public and private companies have issued sustainability reports.

The 2008 Guidelines from SASAC have had a profound effect on business in China. The directive affects the companies directly under the central government, which constitute most of the largest corporations in the country and are seen as key trend-setters for the rest of industry.

In 2008, the Shanghai Stock Exchange issued Guidelines on Environmental Disclosure by Companies listed on the Shanghai Stock Exchange. These listing requirements have probably had the greatest reach in terms of numbers of companies affected.

Recently GRI opened a focal point in China. This initiative was made possible with support from the Netherlands Ministry of Foreign Affairs.

For more information about GRI in China, please contact Sean Gilbert, China Director: Gilbert@globalreporting.org.

www.globalreporting.org/AboutGRI/WhoWeAre/FocalPoints/ and:

www.globalreporting.org/Home/LanguageBar/Chinese.htm

Six guiding principles for smart policy decisions on how to build a European ESG disclosure regime

It is crucial that the following six guiding principles are respected, which are based on European and global good practice. GRI argues for ‘smart regulation’. ‘Smart regulation’ means among others the following:

1. Build on what works

This means to be pragmatic and building on what already works in some European countries. A good example of this is the Swedish mandatory GRI reporting by State-Owned Companies, which has been a source of inspiration for Norway and The Netherlands. The Swedish government has pioneered, and carefully monitored the implementation of its Guidelines for External Reporting by State-Owned Companies.¹⁸ All EU Member States should be encouraged by the European Commission to do the same.

¹⁸ Guidelines for external reporting by state-owned companies, adopted by the Swedish Government on 29 November 2007 replacing previous guidelines adopted in 2002. The Guidelines complement the accounting

2. Do not reinvent the wheel

Build on the existing disclosure experience, and integrate tested instruments.

3. Stakeholder involvement

Stakeholder involvement must be built into the process and any resulting instruments: this is key to get legitimacy, value and acceptability.

4. Go international

Avoid national regimes or national and local indicators. The majority of European entities operates across national borders, and do not appreciate being confronted with a proliferation of national reporting requirements.

5. Materiality: let reporters decide

Leave responsibility to select material issues requiring disclosure to the reporting entities. It is better to have entities choose their own material issues than to impose a limited number of pre-selected Key Performance Indicators (KPIs). KPIs by definition give a limited and incomplete picture and will be rendered obsolete when technological, market and political developments change the context. They are useful to highlight issues and serve as a complement to a well-balanced set of data, but they are not a replacement. Would financial reporting be well-informed if companies could only report KPIs and did not publish financial statements with additional relevant information? It would result in markets that possess substantial blind spots and incomplete understanding of performance.

6. Apply the GRI G3 Principles

In general, apply the G3 Principles and Guidance on content selection, quality and boundary.

Sweden

In 2007, Sweden's Ministry of Enterprise, Energy and Communications issued Guidelines for external reporting by state-owned companies. According to these guidelines, which took effect in 2008, the state-owned companies are to present a sustainability report in accordance with the Global Reporting Initiative's (GRI) guidelines. Sustainability reports are to be quality assured by being independently checked and are to be published in time for the Annual General Meeting at the same time as the annual report.

This action has resulted in a significant increase in sustainability reporting from Sweden's state-owned companies. The requirement was for the companies to report or explain why they could not, and so far more than 89% of the companies have issued GRI reports.

www.regeringen.se/sb/d/574/a/94125

Towards a European ESG disclosure regime

As Professor Mervyn King stated in his address to the EU Working group on January 29, 2010: *there is no time for a regulatory 'Business as Usual' approach*. The increase in ESG disclosure uptake would be far too slow if the current hybrid European situation would be continued, where each EU member state has its own mix of CSR and ESG policy instruments, and where in some EU member states even a mere laissez-faire situation can be found.

GRI pleads for legislation. Governments have to take mandatory measures. Furthermore all entities should report or explain how their operations impact on society, the environment and the economy. This could be a European regime inspired by the Danish example.

Denmark

In 2009, the Danish Government expanded the requirements in the Danish Financial Statements Act requiring reporting on environment and intellectual capital in the management's review to also include CSR reporting in general.

About 1100 of the largest businesses, listed companies and state-owned public limited companies are required to report on corporate social responsibility in their annual reports. The revised Act entered into force on 1 January 2009 and applies to financial years beginning on 1 January 2009 or later. www.csrgov.dk/sw51190.asp

What would a European "report or explain" regime look like?

Who would report?

All entities in the EU should 'report or explain' how their operations impact on society, the environment and the economy. Small entities that can explain that they have no or little impact would be excluded.

Report on what?

On the most relevant/material sustainability issues, pertinent to the purpose of the entity, instead of reporting on a limited set of pre-selected or mandatory KPIs. This would mean that entities would be left the freedom to select their own material issues, drawing from a common framework to ensure a minimal level of consistency, transparency and completeness.

Report to whom?

Some instruments have been designed with a narrow audience in mind and some with a wider audience. GRI underlines the importance of at least one annual publicly accessible report per reporting entity. If the information about a company has value to society and citizens in their decisions about the company, then it should also have value for markets trying to assess the investor value of the same company. Today's readers of ESG reports are simultaneously citizens, voters, consumers, shareholders, employees and pension fund members.

What compliance mechanism?

Beyond the normal legal means, there are other important compliance mechanisms: stakeholders in society and in the market will act as compliance officers if they have access to relevant information.

Which legal instrument would be used?

This is a question which should be carefully studied. One can imagine that a new EU directive would be created, or that 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 above mentioned six principles.

Using which framework?

Internationally accepted standards, such as GRI, the OECD MNE Guidelines and UN Global Compact.

How to move from here?

GRI considers the forthcoming recommendations of the EU workshops a great opportunity to propose a much needed proactive EU approach which will be considered a legacy of the new European Commission leadership. It speaks for itself that GRI is ready to contribute to this exciting enterprise.

GRI supports the French proposal to establish a Working Group which will be mandated to work on the results of the workshops.

Whatever the outcome of the current European Commission work, GRI commits itself to any follow-up process, for instance through participation in the proposed future Working Group.



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.

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.

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.

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