Item 02 – Exposure draft of Universal Standards: GRI 101, 102, and 103

Annex 1 – Explanatory Memorandum

For GSSB information

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<th>6 May 2020</th>
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<td>Meeting</td>
<td>20 May 2020</td>
</tr>
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<td>Project</td>
<td>Review of GRI’s Universal Standards</td>
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<tr>
<td>Description</td>
<td>The explanatory memorandum sets out the objectives for the review of GRI’s Universal Standards, the significant proposals contained in the exposure draft, and a summary of the GSSB’s involvement and views on the development of the draft.</td>
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Introduction

This explanatory memorandum sets out the objectives for the review of GRI’s Universal Standards (GRI 101: Foundation 2016, GRI 102: General Disclosures 2016 and GRI 103: Management Approach 2016). It also covers the significant proposals contained in the Universal Standards exposure draft, and a summary of the Global Sustainability Standards Board (GSSB)’s involvement and views on the development of the draft.

Objectives for the review of the Universal Standards

The primary objective in reviewing the Universal Standards is to address the recommendations from the GRI Technical Committee on Human Rights Disclosure. Feedback received from the GSSB during the transition from the GRI G4 Guidelines to the GRI Standards and from reporting organizations and other stakeholders, as well as information gathered through reviews of sustainability reports using the GRI Standards, have provided further areas of the Universal Standards to be addressed.

Overall, the project aims to:

- provide greater clarity on key concepts, reporting principles and disclosures in the Universal Standards and ensure they are aligned with recent developments in the area of responsible business conduct;
- integrate the expectation of due diligence into the GRI Standards;
- assist reporting organizations in understanding the reporting requirements and how they demonstrate compliance in a transparent way;
- drive consistent application of the GRI Standards;
- encourage more relevant and comprehensive reporting for experienced reporting organizations;
- improve overall usability of the GRI Standards.

The content of the Universal Standards has been revised in line with these project objectives. A sub-committee of four GSSB members was convened to provide overall advice and direction for this project. The content and proposed revisions presented in the exposure draft have been discussed with all members of the GSSB over the course of several meetings in 2019 and 2020.

The review of the Universal Standards has been informed by the recommendations of the GRI Technical Committee on Human Rights Disclosure, a stakeholder group on labor-related disclosures, a public stakeholder survey that attracted over 240 responses, targeted preliminary consultations with experts and stakeholders, and various research activities.

The project to review the Universal Standards follows the GSSB Due Process Protocol. For more information, consult the project proposal.

Significant changes in the Universal Standards exposure draft are summarized in the next sections. A detailed mapping of changes is available on the GRI website [link to be added].
Significant changes to the Universal Standards structure

The content of the Universal Standards has been re-structured for clarity:

- The first Standard (GRI 101: Using the GRI Standards) introduces the system of GRI Standards and explains how they are to be used.
- The second Standard (GRI 102: About the Organization) contains disclosures for contextual information about the organization.
- The third Standard (GRI 103: Material Topics) includes guidance for identifying material topics, and contains disclosures about the organization’s material topics and related impacts, how it identifies its material topics, and how it manages each material topic.

The new structure aims to clarify the elements of the GRI Standards and their use, and to group contents in a more coherent way. Presenting all content related to material topics in one Standard gives this concept greater visibility.

As explained in the following three sections, certain content has been relocated from one Standard to another. The proposed relocation of content between the existing Universal Standards and the exposure draft is visually represented in Appendix 1.

The disclosure codes used in the exposure draft (e.g., REP-1, ACT-1, GOV-1, RBC-1, SE-1, MT-1) are not the final disclosure codes. They are intended for the purpose of the public comment, to help users distinguish these disclosures from the existing disclosures in GRI 102 and GRI 103.

Significant proposals and changes to GRI 101

Section 1. Introduction

The Introduction has been updated to reflect the changes to the structure of the Universal Standards outlined in the previous section, as well as the following changes that apply to the entire system of GRI Standards:

- The Sector Standards have been added to the system of GRI Standards. Annex 2 – GRI Sector Program information sheet helps reviewers understand references to the GRI Sector Standards included in the exposure draft of the Universal Standards. It is expected that the Sector Standard for oil and gas will be released for public comment in quarter 3 of 2020.
- The Topic Standards are now grouped together under one series instead of the separate economic, environmental, and social series.
- Reporting recommendations (‘should’ statements) have been incorporated into the guidance sections, in order to simplify the structure of the GRI Standards.
Section 2. Key concepts in the GRI Standards

This new section explains key concepts that are used throughout the GRI Standards and are critical to understanding how to prepare and report information with the Standards. The section covers the following concepts: impact, material topic, due diligence, and stakeholder.

**Impact**

This section re-emphasizes the fact that the GRI Standards focus on an organization’s impacts outward: on the economy, environment, and people, including impacts on human rights. These impacts indicate an organization’s contribution, negative or positive, to sustainable development.

The phrase ‘economic, environmental, and social impacts’ has been replaced with ‘impacts on the economy, environment, and people, including impacts on human rights’ to more accurately reflect the different dimensions of sustainable development.

**Material topic**

The definition of ‘material topic’ has been revised to focus on impact. In the exposure draft, a material topic is defined as a ‘topic that reflects the organization’s most significant impacts on the economy, environment, and people, including impacts on human rights’. Engagement with relevant stakeholders forms part of identifying an organization’s impacts, and so informs the process of identifying material topics. However, ‘influence on the assessments and decisions of stakeholders’ alone no longer determines whether a topic is material.

Stakeholder feedback indicates that separating impact assessment from the identification of stakeholder views leaves materiality assessments particularly vulnerable to biases based on stakeholder selection. This revision also addresses the issues associated with the application of the materiality matrix that is provided in the guidance to the Materiality principle in the existing GRI 101, where only topics that rank high on both dimensions are prioritized in practice.

**Due diligence**

Relevant disclosures in the GRI 102 and GRI 103 exposure draft, as well as the guidance on identifying material topics in the GRI 103 exposure draft, have been more closely aligned with the expectation of due diligence elaborated in key instruments such as the United Nations (UN) Guiding Principles on Business and Human Rights, the Organisation for Economic Co-operation and Development (OECD) OECD Guidelines for Multinational Enterprises, and the OECD Due Diligence Guidance for Responsible Business Conduct. This section explains the concept of due diligence.

**Stakeholder**

The definition of ‘stakeholder’ has been aligned with the OECD Due Diligence Guidance for Responsible Business Conduct. In the exposure draft, a stakeholder is defined as an ‘individual or group that has an interest that is, or could be, affected by the organization’s activities and decisions’.

The revised definition does not include the second part of the previous definition (‘entity or individual whose actions can reasonably be expected to affect the ability of the organization to successfully implement its strategies and achieve its objectives’). This change has been made to be consistent with the GRI Standards’ focus on an organization’s most significant impacts outwards: on the economy, environment, and people, including impacts on human rights.
Section 3. Sustainability reporting using the GRI Standards

Changes have been made to the two approaches for using the GRI Standards:

- Reporting in accordance with the GRI Standards.
- Reporting with reference to the GRI Standards.

The changes are intended to improve the quality and consistency of reporting and increase transparency in the way that the GRI Standards are used.

**Approach A: Reporting in accordance with the GRI Standards**

There is now only one option to report in accordance with the GRI Standards. (The previous ‘Core’ and ‘Comprehensive’ options are being removed.) This makes the reporting model commensurate with other corporate reporting frameworks, which clearly indicate the requirements for being compliant. It also immediately signals to information users the type and extent of reported information they can expect to find, and the basis upon which it has been prepared.

When reporting in accordance with the GRI Standards, key changes have been made to the requirements. An organization will now be required to:

- report all the disclosures in the GRI 102 and GRI 103 exposure draft (with no omissions permitted);
- use the GRI Sector Standard(s) that relate(s) to its sector(s), where available, to identify its material topics;
- report appropriate disclosures from the GRI Topic Standards. Appropriate disclosures are those that adequately capture the impacts related to the organization’s material topics. An organization will now be required to report the appropriate disclosures from a Topic Standard, but not those disclosures that do not capture the organization’s impacts. This is a change from having to report at least one or all topic-specific disclosures as per the existing Core or Comprehensive options respectively.

The reasons for omission now apply to requirements, not disclosures, and omissions are not permitted for any requirements in the GRI 102 and GRI 103 exposure draft. An organization is permitted to use reasons for omission only if it cannot comply with requirements within the appropriate disclosures in a Topic Standard. For disclosures in a Topic Standard that an organization has determined as not appropriate, a reason for omission is not required.

Other revisions include:

- The first reason – ‘Not applicable’ now renamed ‘Not appropriate’ – only applies to instances when a requirement does not contribute towards explaining the impacts related to the organization’s material topic.
- The fourth reason – ‘Information unavailable’ – has been revised to emphasize that it also applies to situations where the information is incomplete or is not of adequate quality to report.

**Approach B: Reporting with reference to the GRI Standards**

The exposure draft now clearly states two reasons for reporting with reference to the GRI Standards. An organization can use selected GRI Standards, or parts of their content:

- to report information to meet the needs of specific information users for specific purposes e.g., to comply with a specific reporting regulation on climate change; or
- if it is unable to meet all the requirements for reporting in accordance with the Standards.
An organization reporting with reference to the GRI Standards is now **required to publish a GRI content index**, which includes the statement of use, and the GRI Standards and disclosures the organization has used.

**Statement of use**

Each approach for using the GRI Standards has a corresponding **statement of use that the organization is required to provide** (referred to as a ‘claim’ in the existing GRI 101 and GRI 102). The changes include:

- The wording of the statements for both ‘reporting in accordance with the GRI Standards’ and ‘reporting with reference to the GRI Standards’ has changed.
- The statement of use is required to be included in the GRI content index.
- The highest governance body or most senior executive of the organization is now required to acknowledge in the statement their responsibility for the reported information being prepared in accordance with, or with reference to, the GRI Standards.

**Section 4. Reporting principles**

This section includes the following reporting principles from the existing GRI 101: **Accuracy, Balance, Clarity, Comparability, Completeness, Sustainability Context, Reliability and Timeliness**. The principles focus on ensuring the quality and proper presentation of the reported information; this section no longer includes reporting principles for defining report content (i.e., material topics). The principles have been revised to improve their clarity and to align them with other corporate reporting frameworks. The Reliability principle has been renamed ‘Verifiability’.

The existing principles of **Stakeholder Inclusiveness and Materiality** are no longer presented as standalone principles. Section 2 of the GRI 103 exposure draft includes guidance on how to identify material topics based on the Reporting Principles for defining report content in the existing GRI 101.

An organization is still required to identify its materials topics, and to report under Section 3 of the GRI 103 exposure draft how it has identified its material topics, including the stakeholders that informed the process, and the material topics identified. More details about these revisions are provided in the section ‘Significant proposals and changes to GRI 103’.

**Section 5. Additional recommendations for sustainability reporting**

This **new section** includes additional recommendations on aligning sustainability reporting with other types of reporting and on methods for enhancing the credibility of reporting.

**Aligning sustainability reporting with other reporting**

This section recommends aligning sustainability reporting with other statutory and regulatory reporting, in particular, financial reporting. This includes reporting information for the same reporting period and for the same group of entities.

**Enhancing the credibility of sustainability reporting**

This section describes various methods that an organization can use to enhance the credibility of its sustainability reporting. The section does not introduce new content but incorporates the existing guidance from Disclosure 102-56 in GRI 102 on the use of external assurance, internal controls, and stakeholder or expert panels. This includes a **recommendation for** an organization to put in place **internal controls** to strengthen the overall integrity and credibility of its sustainability reporting and to seek **external assurance** for its sustainability reporting.
Significant proposals and changes to GRI 102

The GRI 102 exposure draft contains disclosures for contextual information about the organization. These include disclosures that provide details about the organization and its reporting practices, activities, governance, responsible business conduct policies and practices, and stakeholder engagement.

Reporting all disclosures with no omissions

The introduction to the GRI 102 exposure draft confirms the requirement set out in Section 3.1 of the GRI 101 exposure draft, that information required by the disclosures in the GRI 102 exposure draft cannot be omitted. All information required by the disclosures in GRI 102 exposure draft is considered critical for information users to understand the organization and its context.

Changes to the structure

The content of the existing GRI 102 has been restructured into the following sections:

Section 1. Introduction, which reminds the organization that omissions are not permitted for the disclosures in the GRI 102 exposure draft, and directs the organization on what to do if it does not have a committee, policy, practice or other process required by a disclosure.

Section 2. Organizational details and reporting practices contains five disclosures, which provide an overview of the organization, its sustainability reporting practices, and the entities covered in its sustainability reporting.

Section 3. Organizational activities contains two disclosures which cover the organization’s activities, and its employees and other workers.

Section 4. Governance contains fifteen disclosures, which provide an overview of the organization’s governance structure, composition, roles, and remuneration.

Section 5. Responsible business conduct contains seven disclosures, which provide an overview of the organization’s policies and practices for responsible business conduct, including new requirements to report on human rights.

Section 6. Stakeholder engagement contains two disclosures, which cover the organization’s stakeholder engagement practices, including how it engages in collective bargaining with employees. This restructuring provides a more coherent order and grouping for the organization to work through the disclosures.

Combining disclosures

Existing disclosures have been combined where possible to group similar items together. An overview of which disclosures have been combined can be found in Appendix 2.
New and revised disclosures and requirements

The GRI 102 exposure draft includes the following new requirements:

- **REP-2 Organization's entities included in its sustainability reporting** now includes an additional requirement for the organization to explain its approach to consolidating the information when the organization consists of multiple entities that form a consolidated group.

- **REP-3 Reporting period and frequency** includes an additional requirement for the organization to explain if its reporting periods for financial reporting and sustainability reporting do not align.

- **ACT-1 Activities, value chain, and other business relationships** combines requirements from Disclosures 102-6, 102-7, 102-9, and 102-10 in the existing GRI 102 and includes additional requirements for the organization to report on entities in its value chain (both upstream and downstream from the organization) and their related activities, and any other relevant business relationships not included within its value chain.

- **ACT-2 Employees and other workers** includes additional requirements to report on the total number of employees by employment type by region, additional contextual information about its employee numbers, and the total number of workers who are not employees and whose work is controlled by the organization.

- **SE-2 Collective bargaining agreements** includes an additional requirement for the organization to report whether it uses collective bargaining agreements to determine the working conditions and terms of employment for those employees who are not directly covered by a collective bargaining agreement.

The following disclosures incorporate the recommendations of the GRI Technical Committee on Human Rights Disclosure:

- **RBC-2 Policy commitments** includes Disclosures 102-11 and 102-16 from the existing GRI 102, and new requirements to report on the organization’s policy commitment to respect human rights and its commitment to conduct due diligence. It also includes further requirements about these policy commitments, such as how they are approved and communicated.

- **RBC-3 Embedding the policy commitments throughout the organization** is a new disclosure, which requires the organization to describe how it embeds the policy commitments reported in RBC-2 throughout its activities and business relationships.

- **RBC-4 Grievance mechanisms and other remediation processes** includes Disclosure 103-2-c-vi from the existing GRI 103 and requires information on the grievance mechanisms and other remediation processes that the organization has established or participates in to provide for or cooperate in the remediation of negative impacts.

- **SE-1 Approach to stakeholder engagement** includes Disclosures 102-40, 102-42, and 102-43 from the existing GRI 102 and requires further information on meaningful stakeholder engagement.

A new disclosure on compliance with laws and regulations (RBC-6) has been included using content from existing Topic Standards: GRI 307: Environmental Compliance 2016 and GRI 419: Socioeconomic Compliance 2016. Currently, organizations only report these disclosures when they identify environmental and socioeconomic compliance as material topics. However, this disclosure is now required from all organizations, given that compliance with laws and regulations constitutes critical information for understanding an organization’s responsible business conduct practices.
See Appendix 2 for an overview of how the revised disclosures in the GRI 102 exposure draft correspond to the existing disclosures in GRI 102.

Relocation of disclosures

The following disclosures have been removed from the existing GRI 102 and the requirements included in the GRI 101 exposure draft:

- **102-54 Claims of reporting in accordance with the GRI Standards**, included in Section 3.1 as a requirement for reporting in accordance with the Standards.
- **102-55 GRI content index**, included in Sections 3.1 and 3.2 as a requirement for reporting in accordance with, or with reference to, the GRI Standards.

The following disclosures have been moved from the existing GRI 102 to the GRI 103 exposure draft:

- **102-46 Defining report content and topic Boundaries and 102-49 Changes in reporting**, moved to Disclosure MT-1 Identification of material topics and related impacts.
- **102-47 List of material topics**, moved to Disclosure MT-2 Material topics and related impacts.

Removed disclosures

The following existing disclosures have been removed from the exposure draft:

- **102-7 Scale of the organization**
- **102-12 External initiatives**
- **102-15 Key impacts, risks, and opportunities**
- **102-44 Key topics and concerns raised**
- **102-51 Date of most recent report**
- **102-53 Contact point for questions regarding the report**

An explanation for why these disclosures have been removed can be found in Appendix 3.

Significant proposals and changes to GRI 103

The GRI 103 exposure draft includes guidance for identifying material topics, and contains disclosures about the organization’s material topics and related impacts, how it identifies its material topics, and how it manages each material topic.

Reporting all disclosures with no omissions

The introduction to the GRI 103 exposure draft confirms the requirement set out in Section 3.1 of the GRI 101 exposure draft, that information required by the disclosures in the GRI 103 exposure draft cannot be omitted. All information required by the disclosures in GRI 103 exposure draft is
considered critical for information users to understand the organization’s approach to its material topics.

Section 1. Introduction

This section reminds the organization that omissions are not permitted for the disclosures in the GRI 103 exposure draft, and directs the organization on what to do if it has not developed or implemented a policy, practice or other process required by a disclosure.

Section 2. Identifying material topics

This section clarifies how to identify material topics, based on the expectations contained in the Reporting Principles for defining report content in the existing GRI 101.

Section 3. Reporting on material topics

This section contains three disclosures, which are based on the disclosures in the existing GRI 102 and GRI 103 that relate to reporting on material topics. These disclosures have been revised in line with the recommendations of the GRI Technical Committee on Human Rights Disclosure, in order to align them more closely with the expectation of due diligence.

MT-1 Identification of material topics and related impacts

This disclosure covers content from Disclosures 102-46 (defining report content and topic Boundaries) and 102-49 (changes to the list of material topics) from the existing GRI 102. It now requires further information on how the organization has identified its impacts, how it has prioritized them for reporting based on their significance, and the stakeholders and experts whose views have informed the identification of material topics.

MT-2 Material topics and related impacts

This disclosure covers content from Disclosure 102-47 (list of material topics) from the existing GRI 102 and Disclosure 103-1 (explanation of the material topic and its Boundary) from the existing GRI 103. In addition, it now requires a description of the impacts identified for each material topic.

The requirement to report the ‘topic Boundary’ has been revised, and the term ‘topic Boundary’ is no longer used. It now requires the organization to report, for each material topic, whether it is involved with the negative impacts through its own activities or as a result of its business relationships.
MT-3 Management of material topics and related impacts

This disclosure covers content from Disclosures 103-2 (the management approach and its components) and 103-3 (evaluation of the management approach) from the existing GRI 103. It now requires additional information on actions taken to prevent, mitigate, and remediate negative impacts (in line with the expectation of due diligence), as well as information on engagement with stakeholders.

Superseded Standards

The following Topic Standards will be superseded by the revised Universal Standards:

- GRI 307: Environmental Compliance 2016, the content has been incorporated into the exposure draft of GRI 102.
- GRI 412: Human Rights Assessment 2016, the content has been incorporated into the exposure draft of GRI 102 and GRI 103.
- GRI 419: Socioeconomic Compliance 2016, the content has been incorporated into the exposure draft of GRI 102.

This means that these three Standards will be withdrawn once the revised Universal Standards are published.

GSSB’s involvement and views on the development of this exposure draft

The proposed revisions to the Universal Standards were discussed by the GSSB during their in-person meeting in September 2019, and during public and private sessions organized between August 2019 and April 2020.

A sub-committee of four GSSB members was convened to provide overall advice and direction for this project.

The GSSB confirmed its support for the revisions to the Universal Standards when it voted to approve the draft for public exposure at its meeting on 20 May 2020 [subject to GSSB approval].

Meeting minutes and recordings of the public meetings can be accessed on the GSSB website here.
Appendix 1. Relocation of content between the Universal Standards

The following diagram shows the proposed relocation of content between the existing Universal Standards and the exposure draft. To facilitate reading, the diagram does not show instances where content has been revised but remains in the same Standard.
Appendix 2. Overview of how the revised disclosures in the GRI 102 and GRI 103 exposure draft correspond to existing disclosures in the GRI Standards

Note that this table provides an understanding of where the content from existing GRI Standards and disclosures can be found in the exposure draft, but it does not indicate new requirements.

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<td>102-1 Name of the organization</td>
<td>1. Organizational profile</td>
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<td>102-5 Ownership and legal form</td>
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<td>REP-2 Organization’s entities included in its sustainability reporting</td>
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<td>REP-4 Restatements of information</td>
<td>102-48 Restatements of information</td>
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<td>REP-5 External assurance</td>
<td>102-56 External assurance</td>
<td>6. Reporting practice</td>
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<td><em>(The guidance on internal controls, external assurance, and stakeholder panels has moved to GRI 101 Section 5.2)</em></td>
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<td>102-9 Supply chain</td>
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<td>102-7 Scale of the organization (102-7-a-i – total number of employees – moved to ACT-2-a)</td>
<td>1. Organizational profile</td>
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<td>GOV-3 Responsibilities for sustainable development topics and delegation</td>
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<td>GOV-7 Role of the highest governance body in setting purpose, values, and strategy</td>
<td>102-26 Role of highest governance body in setting purpose, values, and strategy</td>
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<td>102-28 Evaluating the highest governance body’s performance</td>
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### GRI 103: Material Topics

| MT-1 Identification of material topics and related impacts | 102-46 Defining report content and topic Boundaries | 6. Reporting practice |
| MT-2 Material topics and related impacts | 102-47 List of material topics 103-1 Explanation of the material topic and its Boundary | 6. Reporting practice |
| MT-3 Management of material topics and related impacts | 103-2 The management approach and its components 103-3 Evaluation of the management approach | - |

### Disclosures in existing GRI Standards

| Revised disclosures in the GRI 103 exposure draft | Existing disclosures | Section in existing GRI 102 |
| MT-1 Identification of material topics and related impacts | 102-46 Defining report content and topic Boundaries 102-49 Changes in reporting | 6. Reporting practice |
| MT-2 Material topics and related impacts | 102-47 List of material topics 103-1 Explanation of the material topic and its Boundary | 6. Reporting practice |
| MT-3 Management of material topics and related impacts | 103-2 The management approach and its components 103-3 Evaluation of the management approach | - |
## Appendix 3. Overview of removed disclosures

<table>
<thead>
<tr>
<th>Existing GRI 102 disclosure</th>
<th>Explanation for removal</th>
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| **102-7 Scale of the organization** | The following requirements have been removed:  
  - 102-7-a-ii (total number of operations).  
  - 102-7-a-iv (total capitalization broken down in terms of debt and equity).  
  - 102-7-a-v (quantity of products or services provided).  
  Feedback received showed that the terms used and the data required are unclear. In addition, some of the required information is not meaningful by itself without the organization providing further narrative. |
| **102-12 External initiatives** | This information does not necessarily provide contextual information for understanding an organization’s impacts and how the organization is managing them. Organizations can still report external initiatives if they wish. |
| **102-15 Key impacts, risks, and opportunities** | This disclosure overlaps with requirements in other disclosures. In addition, feedback showed that there was confusion over the use of the term ‘key impacts’ when compared with significant impacts, which organizations are required to consider when identifying material topics. |
| **102-44 Key topics and concerns raised** | This disclosure overlaps with requirements in other disclosures about the identification of material topics and the stakeholders that have informed the process. |
| **102-51 Date of most recent report** | Unclear for first-time reporters, and previous reports are usually publicly available on corporate websites. |
| **102-53 Contact point for questions regarding the report** | This information can be found on the organization’s website and organizations can still include it if they wish. |