

The GRI G4 Exposure Draft: What might it mean for corporate sustainability reporting?

Alongside an increased focus on value chain and materiality, the Global Reporting Initiative (GRI) G4 Exposure Draft proposes changes to management approach disclosures, boundary guidance and new disclosures in key areas such as governance and supply chain.

The Global Reporting Initiative (GRI) launched the third generation of the Sustainability Reporting Guidelines in 2006. Since then there has been a large increase in sustainability (or CSR) reporting¹ as well as growing recognition that reporting on issues that affect long-term business value is important for investors and capital markets as well as the organization's other stakeholders.

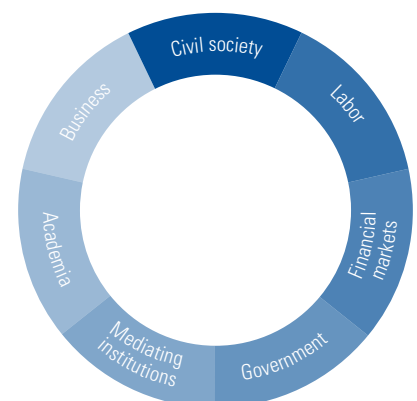
Within the context of its mission, GRI is developing the fourth generation of its guidelines which aim to improve technical aspects, such as, clarity and consistency as well as help reporters meet the challenge of reporting to all their stakeholders. Following an initial consultation phase in 2011, and using input from multi-stakeholder Working Groups, an Exposure Draft was released for comment in June 2012.

However, many current and prospective users of the GRI Guidelines, when they reviewed the G4 Exposure Draft for the first time, could not see 'the forest for the trees'. Amongst the many new and revised disclosures it was difficult to identify what G4 would really mean for reporting organizations or report users. The aim of this briefing is to summarize the key aims, principles and proposed changes in the G4 Exposure Draft.

The GRI and the G4 development – a multi-stakeholder due process

The development of G4 is being undertaken according to GRI's governance structure and due process. Multi-stakeholder Working Groups are brought together to develop the content, coordinated by the GRI Secretariat. The proposed changes are subject to public

comment and are approved by the GRI's Stakeholder Council, Technical Advisory Committee and Board of Directors before G4 can be finalized and launched. The Working Groups include representatives of a wide range of stakeholders, shown here, which include large reporting organizations.



GRI's Mission

To make sustainability reporting standard practice by providing guidance and support to organizations

¹ KPMG International Survey of Corporate Responsibility Reporting 2011, KPMG International, 2011.

What are the main objectives of issuing revised GRI guidelines?

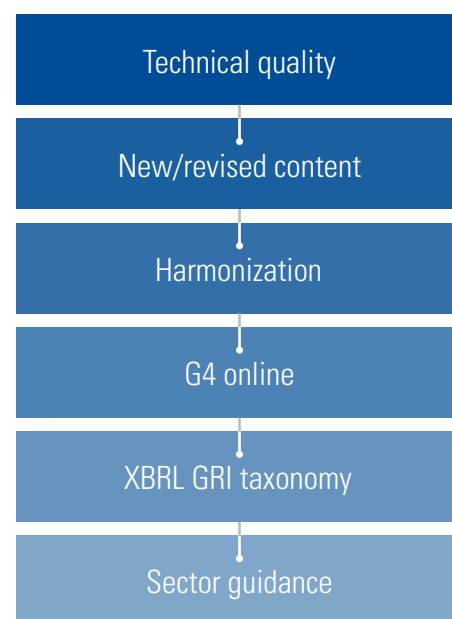
The main aim of G4 is to further increase the take-up of sustainability reporting by all types of organizations. This means improving the user-friendliness, consistency and technical quality (including updated references) of the former G3(3.1) Guidelines, accommodating changes in overall reporting and communication methods over the last six years, including the addition of new disclosures in areas such as corporate governance and supply chain management. The tendency in G3 reporting to focus on the quantity of information (number of indicators) rather than quality (focus on material topics) has led to proposed additional guidance on materiality and boundary and a higher profile for the management approach disclosures (DMA). In addition, G4 aims for closer alignment with other reporting frameworks, such as United Nations Global Compact (UNGC) and Organisation for Economic Co-operation and Development (OECD), as well as the current proposals for integrated reporting (IIRC).

Alongside the revised content and technical improvements, GRI is working on providing a user-friendly on-line format for G4 which should make it easier for new and existing reporters to follow G4 as well as facilitating access for users of the reported information. The GRI XBRL Taxonomy which was launched in March 2012 for G3.1 will be updated for G4. Finally, to accommodate the need for comparable information across companies in one sector, GRI is developing guidance on material topics per sector. The research and request for public input to this process is currently in progress and the guidance will be ready for public consultation in May 2013.

What are the main content changes and additions proposed in the Exposure Draft?

The main changes and new content were highlighted in the Exposure Draft for the public comment period. These are summarized in the table on page 3. The main areas where the Exposure Draft proposes to increase the number of disclosures is in relation to governance and supply chain, reflecting the increase in investor and societal attention for these topics in recent years.

However, to some people opening the G4 Exposure Draft, it seemed as though many more additional disclosures would be required by G4 compared to G3.1. This was perhaps because the division in the Exposure Draft between 'Disclosure' and 'Guidance' was unclear for the reader. 'Disclosure' describes the information to be reported, whereas 'Guidance' provides the reporter with explanatory notes as to what the disclosure might include. In places the actual disclosures were lost among extensive explanations and examples. For example, Disclosure 3 for the Management Approach asks the reporting organization to 'Report how the organization manages the material topic'. After this, there are three pages of 'guidance', first explaining seven possible management approach components (policies, commitments, etc.) which may or may not be applicable to the reporting organization, followed by additional explanatory notes for each of these components.



Technical quality	<ul style="list-style-type: none"> • Overall 'clean up' for technical clarity and consistency • Split between 'Disclosures' and 'Guidance' throughout • Alignment of terminology with established (financial) reporting standards • Global references for indicators, where available (e.g. OECD, IUCN, ILO)
Materiality focus and boundary	<ul style="list-style-type: none"> • Improved guidance: Revised Technical Protocol: Defining Report Content and Boundaries • Extend materiality (report content) process to cover impacts across the value chain • Boundary definition to be based on impact (per topic) rather than ownership or control • New "profile" disclosures: value chain, how report content and boundary have been defined
Key new disclosure items	<ul style="list-style-type: none"> • Supply chain: profile disclosures, generic and specific DMA disclosures and core indicators • Governance: to strengthen link between governance and sustainability and align with existing governance frameworks
Disclosure on Management Approach (DMA)	<ul style="list-style-type: none"> • Applicable for 'material topics' • Should focus on the level at which the topic is actually managed in the organization, for example, is environment managed generally at Category level (generic DMA) e.g. through ISO certification or are there more specific measures for GHG emissions or water use ('Aspect' level)? • Consistent disclosure item across all 'Categories' (group of topics/aspects)
Indicators	<ul style="list-style-type: none"> • Some management indicators moved to the DMA • Revised indicators for GHG emissions and (Anti)-corruption • Other topics being considered for future improvement/development e.g. water, biodiversity • Alignment of sector supplement with G4 Draft

Application levels or ‘in accordance’ criteria

One aspect of the G3 Guidelines which has led to much discussion among reporters, their stakeholder, academics, consultants, rating agencies and the media since 2006 was the introduction of levels of conformance with the GRI Guidelines in the form of Application Levels. The criteria for each level included the number of indicators reported (10 for “C”, 20 for “B” and all core indicators for “A”). This has resulted in a tendency to interpret the Application Levels as a measure of reporting quality or even sustainability performance. They have promoted reporting of indicator data for non-material topics or aspects to satisfy the criteria, even when these may not be material to the business model or value chain impacts. The result tends to be less focus and over-reporting (quantity not quality) with long reports and poor quality data. In addition, Application Levels checks only looked at whether something was reported and did not provide any guarantee (unlike assurance) of the quality of the information.

The G4 Exposure Draft proposes a move to one set of criteria for “in accordance” which include reporting all Profile Disclosures, the DMA and core indicators related to all material topics, as well as sector supplement indicators (where appropriate), and a statement on “in accordance” from the CEP or highest governance body. First time reporters are given two reporting periods to meet the criteria.

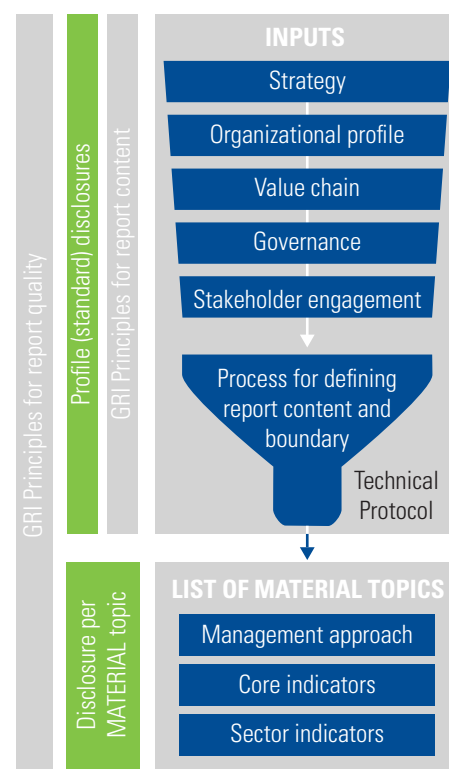
While many of those involved in sustainability reporting may agree that the G3 Application Levels should be replaced, it would be understandable if both existing and future reporters find these criteria a step too far. In particular, the criteria did not seem to fully reflect the principle of materiality, which could be embedded in a “report or explain” principle. The challenge for the governance bodies of GRI will be to find a middle road based on the public comments received.

How would the G4 Exposure Draft impact the current reporting process?

While the above sections focus on the factual proposals in the Exposure Draft, it may be useful to try and place these changes in the context of an organization’s reporting process. Although it may not be easily visible among the extensive revisions and new content, one of the aims of G4 is to encourage more focused sustainability reporting by concentrating on an organization’s material impacts, risks and opportunities across the whole of its value chain.

One interpretation is illustrated on the right. Using inputs such as strategy, operations, value chain considerations and stakeholder engagement, the organization identifies and prioritizes the material topics for the report (and the reporting boundary for each topic) and includes disclosures on these processes and their outcomes. The aim is to focus the detailed disclosures per topic (the DMA and indicators) on the material topics and reduce reporting in areas which are not actually being managed because they are not material to the organization or its stakeholders. It will, of course, also highlight areas where an organization does in fact have material impacts (on economy, people or the environment) somewhere in its value chain, but where these are not being managed. This could potentially pose a significant risk to short or longer term performance and viability.

This should enable improved comparison of not only reporting, but the underlying sustainability performance of companies across a sector. The proposed guidance on material topics per sector should help facilitate this process.



Source: KPMG International, 2012

Next steps

The G4 Exposure Draft has attracted attention from reporting organizations, their stakeholders and those involved in advisory and assurance services relating to both sustainability and annual reporting. During the two 90-day consultation periods GRI received a total of 3,095 formal feedback submissions. The workshops around the world attracted more than 2,200 participants. When the due process is complete and the G4 is published at the GRI conference in Amsterdam in May 2013, all those involved will be able to see whether the process has achieved its objective – easy to use Guidelines promoting focus and quality in sustainability reporting.

KPMG's involvement in the development of G4

KPMG International is involved in the development of G4 through the G4 Consortium and through the secondment of a senior professional to the GRI Secretariat, through which we follow developments intensively and feed in formal and informal input to help improve the technical features of the Guidelines.

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