

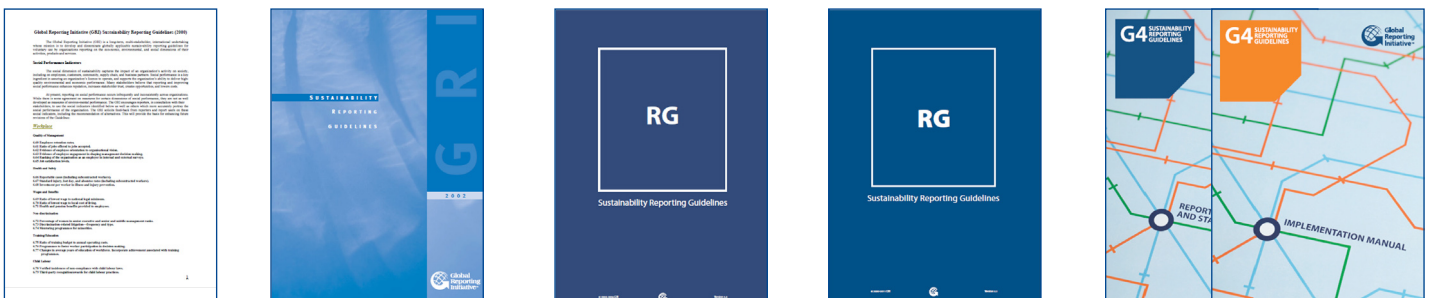
GRI's G4 Guidelines: the impact on reporting

The Global Reporting Initiative (GRI) launched its fourth generation Sustainability Reporting Guidelines (G4) in May 2013 and the transition from the previous guidelines (G3) to G4 will now begin. The content of the G4 Guidelines may, at first glance, appear not to be a radical departure from G3, but will in fact have a significant impact on the corporate reporting process. This briefing outlines the key changes and aims to help you understand what G4 means for your organization.

The G4 Guidelines are the product of an intensive, two year, multi-stakeholder process. Proposed changes were open for public comment, channeled through working groups coordinated by GRI's Secretariat, and the final Guidelines were approved by GRI's Stakeholder Council, Technical Advisory Committee and Board of Directors. The first generation Guidelines were developed in 2000 and they will continue to be updated in future years to reflect changes in sustainability reporting and adapt to challenges, while meeting the goal of integrating sustainability into mainstream corporate reporting.



Development of the GRI Guidelines since 2000



G4: Summary of key changes

G4 introduces 27 new disclosures, a new structure for the guidance documents and two levels for reporting 'in accordance' with the Guidelines. As you consider how to respond to G4 and how to transition from G3/G3.1, it is worth noting that:

- **GRI has set a two year timeline for transition to G4:** Reports issued after 31st December 2015 must follow G4. Until that date companies can continue to report using G3/G3.1.
- **Updated structure makes G4 more accessible:** the G4 Guidelines are divided into two parts. An interactive PDF format helps readers navigate between the two parts:



Part 1: Reporting Principles and Standard Disclosures – explains the requirements of reporting against the framework – 'what' must be reported



Part 2: Implementation Manual – provides further guidance on 'how' organizations can report against G4 criteria

- **Improved harmonization with other reporting standards:** G4 aligns with other reporting standards including the OECD Guidelines for Multinational Enterprises, the United Nations Global Compact Principles, and the UN Guiding Principles on Business and Human Rights. Useful tables on p.87-89 of the G4 Reporting Principles and Standard Disclosures (Part 1) show how the G4 indicators relate to these other frameworks.

Below we highlight the five most significant changes and where in the Guidelines you can find more information.

Five key changes in G4

Materiality takes center stage

G4 puts materiality center stage throughout the Guidelines. GRI encourages reporters to focus content on the issues that matter most to their business, rather than reporting on everything. This means that:

- Reports should begin with a focus on the material issues (called 'Material Aspects') and retain this focus throughout
- Reports should contain detailed discussion of how the organization manages Material Aspects only. This is known as 'Disclosure on Management Approach' (DMA. For more on DMA see 'In Accordance' levels, below)
- Reports must detail where the impacts of each Material Aspect lie (the 'Boundary' of impact - see below)
- Organizations must explain the process they go through to define their Material Aspects, risks and opportunities, and describe how stakeholders are involved in this process
- To report against one of the 'In Accordance' levels of G4 you must meet certain criteria that are linked to the Material Aspects (see below).

Compared with G3: Materiality is not a new concept and the principle remains the same as in G3. However, G4 makes more explicit links between materiality and the management and performance information organizations should disclose in their report. G4 also contains new requirements for organizations to explain the process they use to identify their Material Aspects.

What it means for reporters: The G4 Guidelines could lead to shorter reports as organizations disclose information on a more focused list of Material Aspects. However organizations will need to formalize and document their materiality process (including stakeholder analysis), detail the methods used and disclose this in their reports.

Find it in G4:

- Reporting Principles and Standard Disclosures: p.28-29 - Identified Material Aspects and Boundaries
- Implementation manual: p.31-39.



Reporting boundaries redefined

For each Material Aspect, organizations must consider whether the impact of that issue lies inside or outside the organization and assess and describe where the impact ends. This is the 'Boundary'. For instance, a Material Aspect (such as greenhouse gas emissions) could be most relevant to the reporting organization's own operations (inside) or it could be relevant primarily to entities outside the organization, such as suppliers, distributors, or consumers.

Compared with G3: G3 required organizations to report only on impacts that the company has control over or significant influence on. This has been extended in G4 to encourage companies to consider and report on a broader range of impacts.

What it means for reporters In order to comply with G4, companies need to report on the process they use to define the boundary of impact for each Material Aspect. Companies that don't yet have this process in place will need to design it before moving to G4, and all reporters will need to document and report on this process. Reporting organizations will also have to pay more attention to the economic, social and environmental impacts in their supply chain, as the broader 'boundary' for reporting on Material Aspects encourages a greater focus on supply chain impacts.

Find it in G4:

- Reporting Principles and Standard Disclosures: p.28-29 – Identified Material Aspects and Boundaries
- Implementation manual: p.31-39.

'In Accordance' levels replace A, B, C

G4 takes a new approach to demonstrating the maturity of organizations' reports, introducing two 'In Accordance' levels: 'Core' and 'Comprehensive'. Organizations can choose to prepare a report that either 1) meets one of the two 'In Accordance' levels – meeting the Guidelines on either a 'Core' or 'Comprehensive' level or 2) use the Guidelines without meeting the 'In Accordance' criteria.

To prepare a report 'In Accordance' with the G4 Guidelines, organizations must:

- Focus on material issues ('Aspects') and include Disclosure on Management Approach for all Material Aspects
- Report on at least one indicator per Material Aspect to meet the Core level, and include all relevant indicators for all Material Aspects to meet the Comprehensive level
- Report on General Standard Disclosures such as organizational profile, stakeholder engagement and governance to meet the Core level. Additional disclosures on strategy, governance and ethics and integrity are required to meet the Comprehensive level

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- Report on 'Specific Standard Disclosures' where a sector supplement exists and the issues identified in the sector supplement are material to meet both the Core and Comprehensive levels
- Include a GRI content index with page numbers for where indicators can be found in the organization's report to meet both the Core and Comprehensive levels.

Compared with G3: Organizations no longer receive a graded A, B or C application level and there is no '+' option to demonstrate the report has been externally assured or checked by GRI. In order to meet the Guidelines at either of the two new levels, companies must meet new requirements to explain why the issues they report on are material, how all material issues are managed and how the management approach is evaluated – known as the Disclosure on Management Approach.

What it means for reporters: The new 'In Accordance' levels aim to prepare GRI for a potential transition from reporting guidelines to a global reporting standard. Organizations need to meet more criteria to achieve the Core and Comprehensive 'In Accordance' levels than they did to achieve the previous A, B or C application levels. Alternatively, reporters can choose not to use the 'In Accordance' levels and simply use the G4 Guidelines as a broad guide to reporting. Companies must get to grips with materiality from the start if they want to report against G4.

Find it in G4:

- Reporting Principles and Standard Disclosures: p.11-14- 'In accordance criteria', p.9 (2.3) Request for Notification of Use.

New governance disclosure requirements

Several new standard disclosures have been introduced on governance, along with a new category of disclosure on 'Ethics and integrity'. Most of the new disclosures relate to information on the composition, involvement and authority of the reporting organization's highest governance body. Specific areas of disclosure to note include:

- The nature and number of critical concerns communicated to the highest governance body
- The remuneration process, including the ratio of remuneration of the highest-paid individual to the median annual total compensation for all employees in each country with significant operations.

Compared with G3: The G4 Guidelines contain 10 new standard disclosures on governance.

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What it means for reporters: In order to achieve the 'Comprehensive' level of reporting, organizations will need to disclose more complex governance indicators on remuneration ratios which may require new processes for data collection and reporting.

Find it in G4:

- Reporting Principles and Standard Disclosures: p.21 – G4 General standard disclosures overview, p.36 to 41 – Governance (note indicators G4-54 and G4-55 are not needed for 'Core' level reports)
- Implementation manual: p.52-61.

New supply chain requirements

Since the G3 Guidelines were launched in 2006, companies' understanding of their supply chain impacts and responsibilities has moved on significantly. This is reflected in G4 as supply chain issues are given more prominence. Companies must disclose how they manage environmental, social and societal issues related to the material impacts of their supply chains (see 'Boundary' above). G4 requires companies to disclose:

- The number of suppliers screened using criteria for environmental and societal impacts including labor practices and human rights
- significant actual and potential negative impacts identified in the supply chain
- actions taken to prevent, mitigate or remediate the impacts identified
- the number of grievances relating to supply chain impacts that are filed, addressed and resolved through formal grievance mechanisms.

Compared with G3: G4 requires companies to disclose significantly more information on supply chain impacts, including details of supply chain assessments, risks identified, the organization's performance in managing these risks and the management processes put in place.

What it means for reporters: Many companies reporting against G4 will need to design and implement a process for assessing supply chain impacts, and demonstrate the robustness of their approach to managing these impacts. It is likely that this will require new processes to collect and report information on performance, such as the number of suppliers that have significant negative environmental or social impacts.

Find it in G4:

- Reporting Principles and Standards Disclosure: p.86 – an overview of where indicators and guidance related to supply chain can be found in the document as well as in the Implementation Manual
- Implementation manual: p.136-141 (environmental), p.167-172 (social), p.192-197 (human rights) and p.215-220 (society).

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Next steps

It is tempting to react to new standards or guidelines by diving into the detail and aligning your report's content indicator by indicator. KPMG recommends that organizations plan a gradual transition from G3 to G4. The new Guidelines require more focused reporting, yet they also require more information to demonstrate robust management and reporting processes. Materiality lies at the heart of G4 and the first step is to ensure your report reflects this principle. Start by planning or enhancing your materiality assessment, considering the impacts of your business and the views of stakeholders right across your value chain. Build on the results of this process to align your report with the G4 criteria and reporting requirements. This will ensure that your reporting process is as valuable as it can be, as a tool to advance your organization's sustainability agenda.

KPMG's involvement in the development of G4

KPMG International provided input into the development of G4 through participation in the G4 Consortium and through the secondment of a senior KPMG professional to the GRI Secretariat.

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