

## Datamaran

### Letter re. GRI Standards

Dear GRI/GSSB

We are grateful for the opportunity to comment on the review of GRI's Universal Standards to support the improvement of the quality and consistency of sustainability reporting.

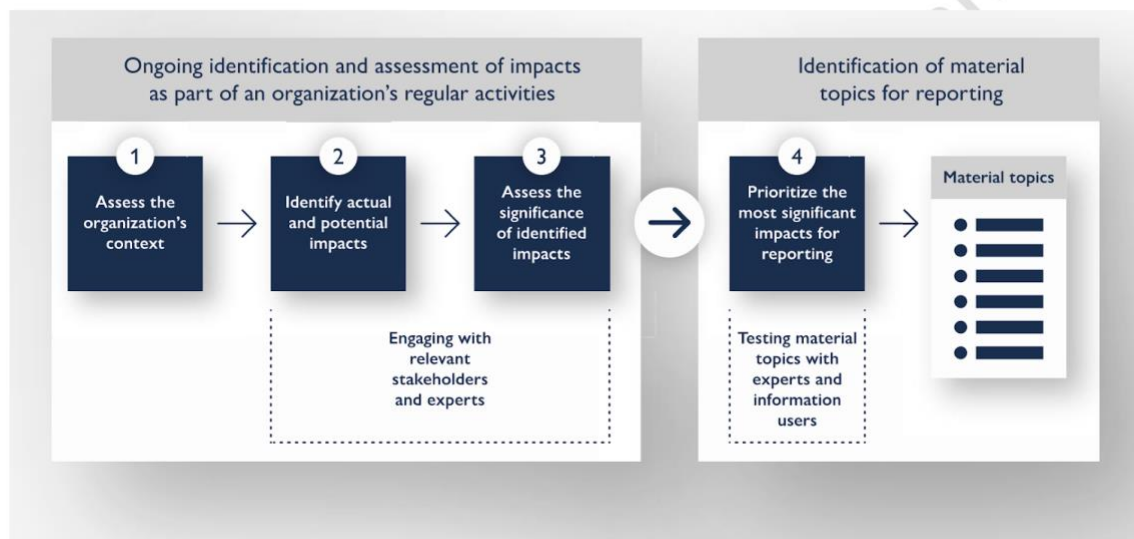
Through the COVID-19 pandemic, we have all witnessed first-hand how fast the sustainability landscape can change. Materiality is a principle for companies to gain and maintain a clear view of their risks and opportunities. By ensuring the materiality determination process outlined in the Standards is optimal, GRI can support companies in operating more sustainably as well as being more transparent about their impacts.

As such, our feedback in the survey and in this letter focuses on the proposed updates to the Materiality principle in GRI 101: Foundation 2016.

### Materiality goes beyond reporting

The materiality assessment as described in the Materiality principle currently relates closely to reporting. The revision clarifies that the steps involved in identifying material topics include an "organization's ongoing identification and assessment of impacts as part of its regular activities in order to manage its impacts," and only at the end, "the identification of material topics for reporting". This indicates that the materiality assessment goes beyond reporting.

**Figure 2. Steps for identifying material topics**



This is a change we see as beneficial for reporting companies. We already see that leaders in the field take their materiality assessment beyond reporting. In practice, the process is used frequently in broader risk assessment. Datamaran users apply the materiality process to continuously monitor their risks and opportunities. In order to increase the positive impact of the reporting process on sustainability, it is therefore wise to prescribe materiality assessments as processes that do not concern reporting exclusively. We welcome that this is addressed in the proposed changes.

For this approach to be effective, boards and C-suites need to be engaged. As such, in our feedback to the survey, we confirmed we agree that “the GRI Standards should require the highest governance body or most senior executive of the organization to include a statement acknowledging their responsibility for preparing the reported information in accordance with, or with reference to, the GRI Standards.”

We believe that from an organizational point of view, this requirement will provide an additional opportunity to involve the senior leadership in the materiality process and educate them on less familiar issues. We also agree that “the acknowledgement in the statement of use should be extended to the quality and veracity of the reported information.”

When conducting a materiality assessment that is applicable beyond reporting, it is important to ensure the robustness and quality of the process and its results. Requiring leadership to take responsibility would support this.

Specifically, we also note that this requirement is in line with demanding the “approval of material topics by the highest governance body” (line 2595). In other words, demanding their approval without having a statement of responsibility would be incomplete.

However, we believe it would be beneficial to provide boards with guidance as to how to approve material topics and what they are approving. For example, should they look at the whole materiality process and check whether certain steps have been taken? Should they look at information sources or just the final list? Do they need to assess material topics compared to previous reporting periods or other companies? Or is their approval intended to be less involved and more procedural? More guidance on the approval process would clarify this.

### **Information gathering and consultation**

The materiality process requires various types of information from a range of sources. At Datamaran, we recommend that companies consult their stakeholders for their input on material topics and incorporate sources including media and social media coverage, competitor disclosure and emerging regulations.

There is a distinction in the type of information gathered from these sources. Stakeholder input is in general opinion-based (even expert input, though informed, is subjective), while other sources may be more objective. But it is the triangulation of stakeholder input with the analysis of other sources that makes the analysis as objective as possible.

In the proposed updates to GRI’s Universal Standards, there is some ambiguity in terms of the information that feeds into the materiality process.

In the main paragraph, step 2 in the materiality process – identifying impacts – appears to be equated to stakeholder consultation.

2384 In order to identify its impacts accurately, the organization should seek to understand the concerns  
2385 of stakeholders (see Box I). The organization can also consult with internal experts as well as with  
2386 external experts, such as civil society organizations or academics.

2387 Impacts may change over time as the organization's activities and business relationships and their  
2388 context evolve. For example, new activities or business relationships or major decisions or changes  
2389 in operations or the operating context (e.g., new market entry, product launch, policy change, or  
2390 wider changes to the organization) could lead to changes in the organization's impacts. For this  
2391 reason, the organization should identify its impacts on an ongoing basis.

2392 In situations where an organization has limited resources available for identifying its impacts, it  
2393 should start by identifying its negative impacts, before moving onto identifying positive impacts.

2394 **Box I. Engaging with relevant stakeholders and experts<sup>1</sup>**

2395 The organization should seek to understand the concerns of its stakeholders by consulting them  
2396 directly in a way that takes language and other potential barriers into account. Identifying and

While we agree that stakeholder consultation is an important means by which to understand stakeholders' concerns and gather information about material topics, is it not the only way. Not all stakeholders will respond in a consultation, for example, so looking to other sources for information, such as corporate disclosure and policy requirements, is an important step.

Further down, there is some clarifying content in the subparagraph on the identification of negative impacts, where the Standards provide a richer description of what kind of information can be used to identify actual and potential impacts.

2429 To identify its actual and potential negative impacts, the organization can use information from  
2430 diverse sources. It can use its own or third-party environmental, socio-economic, and human rights  
2431 impact assessments, legal reviews, anti-corruption compliance management systems, financial audits,  
2432 occupational health and safety inspections, and any other relevant assessments of its business  
2433 relationships. It can use grievance mechanisms that it has established itself or that have been  
2434 established by other organizations. It can also use information from external sources, such as news  
2435 organizations and civil society organizations.

This causes ambiguity in the guidance: the main paragraph equates information gathering and stakeholder engagement, whereas the subparagraph cites other sources. This ambiguity is significant, as it concerns the difference between conducting a materiality assessment exclusively based on surveys versus collecting a broader corpus of evidence.

We recommend that the main paragraph and subparagraph are better aligned, by acknowledging the breadth of sources in the main paragraph.

### **Prioritizing impacts**

This fourth and final step in the proposed materiality process focuses on prioritization for reporting purposes. It does not mention risk management or strategy, so this part of the process may not be optimal for wider purposes.

The first thing we note is that there is no longer any reference to a matrix visualization. We believe visualization can be a powerful tool in this process, especially when engaging leadership for approval.

2581 **Box 3. Grouping impacts into topics**

2582 The organization can group impacts into topics according to general categories of impacts that relate  
2583 to a business activity, a stakeholder category, a type of business relationship, or an economic or  
2584 environmental resource. For example, if an organization identifies water pollution as one potential  
2585 negative impact of its activities, and the reduced access of local communities to safe drinking water  
2586 as another potential negative impact, it can group these impacts under the topic of 'water and  
2587 effluents'. The organization can refer to the topic names included in the GRI Topic Standards and the  
2588 GRI Sector Standard(s) that apply to its sector(s).

Once the selection of material issues has been made, the organization can test it with the relevant experts. However, it is unclear what 'test' implies, so this is left open to interpretation. For example, it could involve asking experts what they think and gathering their feedback, or something more involved.

Here the involvement of the highest governance body is important. The organization's highest governance body should approve the identified material topics. As stated earlier, it makes sense that the governance body will make a statement of responsibility, given this requirement. However, their task here is unclear. It would be helpful to understand whether they need to ask questions and what documentation they need to approve the material topics identified and prioritized.

2589 **Testing the material topics with information users and experts**

2590 The organization can test its selection of material topics with potential information users and  
2591 experts who understand the organization or its sector(s) and have insight into one or more of the  
2592 material topics identified. Examples of experts the organization can consult include non-  
2593 governmental organizations, academics, consultants, lawyers, and investors.

2594 **Approval of material topics by highest governance body**

2595 The organization's highest governance body should approve the identified material topics.

**A systematic, replicable, and documented approach**

The revision of the Universal Standards is introducing new disclosure requirements concerning the operational procedures of materiality assessments. In particular, in the proposed updated Standard, the organization "should use a systematic, replicable, and documented approach to identify its material topics." It should also specifically disclose "how the organization has identified its material topics" and "how it has prioritized impacts for reporting based on their significance."

This focus on transparency around the process will result in more awareness of the robustness of the information and data input. In our experience, companies that use verifiable, reliable sources have more useful materiality assessments and the resulting material topics are more relevant to their operations. Encouraging companies to ensure their approach to materiality can be tracked, scrutinized and replicated will increase the utility of the process beyond reporting.

2617 **Guidance**

2618 **Guidance to MT-1**

2619 This disclosure covers how the organization has identified its material topics and related impacts.

2620 The material topics and related impacts that the organization has identified are reported under

2621 [Disclosure MT-2](#).

2622 **Guidance to MT-1-a-i**

2623 The organization should describe the methods it has used to identify its impacts, for example,  
2624 environmental, socio-economic, and human rights impact assessments, grievance mechanisms, or  
2625 information from external sources, such as civil society organizations.

2626 **Guidance to MT-1-a-ii**

2627 The organization should describe how it has assessed the significance of the impacts identified. The  
2628 significance of a negative impact is assessed based on its severity (scale, scope, and irremediable  
2629 character) and likelihood. In the case of potential negative human rights impacts, the severity of the  
2630 impact takes precedence over its likelihood. The significance of a positive impact is assessed based  
2631 on its scale, scope, and likelihood. See [Section 2](#) of this Standard for more guidance.

2632 The organization should also describe how it has defined the threshold to determine which topics  
2633 are material to report, and whether it has tested its selection of material topics with potential  
2634 information users and experts.

This includes details on how the organization has determined the significance of its impacts and how it has defined the threshold for reporting – the point at which a topic is material enough to be reported.

### The move toward double materiality

We note with support that the focus for the materiality assessment process is outward-facing – according to the proposed new definition of ‘material topic’, it is about the impacts a company has outward, rather than the impacts it experiences inwards. This distinction is important in maintaining an outward focus in reporting in particular, but also in sustainable operations in general.

However, we have also seen a trend towards double materiality, in which sustainability and financial risks are aligned. In this context, an important question is raised. The proposed new definition positions the GRI Standard as specializing in the environmental and social side of double materiality. This leaves the position open for the financial impact side and suggests that any company wishing to adopt a full double materiality perspective will need to use the GRI Standard in conjunction with another standard that reflects financial materiality. How are reporting organizations expected to approach this? And will there be guidance for them?

In the fast-changing risk management and sustainability reporting field, the updates are timely and welcome, and will align well with evolving corporate practices. By addressing some of the gaps identified, the GRI Standards will be better equipped to move corporate reporting into the next phase of transparency.

We look forward to seeing the updated Standard and hope our contribution is valuable in the process.

Best regards,  
The Datamaran Team