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
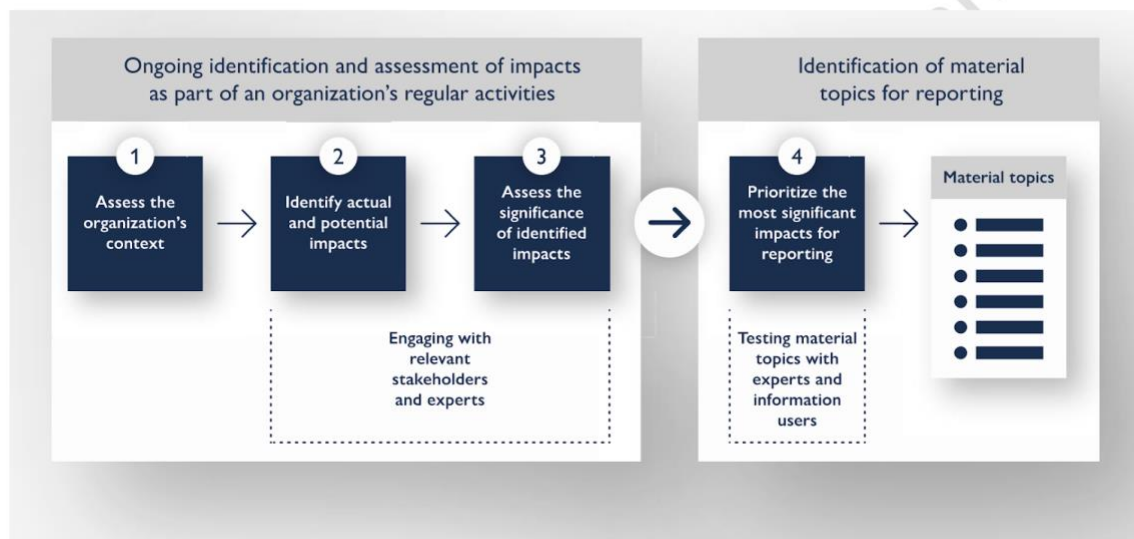
This is a change we see as beneficial for reporting companies. We already see that leaders in the field take their materiality assessment beyond reporting. In practice, the process is used frequently in broader risk assessment. Datamaran users apply the materiality process to continuously monitor their 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 not 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.

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.

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.

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.

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