

BEC Member Responses to the GRI G4 Exposure Draft (Second Public Comment Period)

Prepared for

Global Reporting Initiative

Prepared by

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Final Version – for GRI Submission

20 September 2012

EXECUTIVE SUMMARY

This response by the Business Environment Council (BEC) to the Global Reporting Initiative (GRI) G4 Exposure Draft (Second G4 Public Comment Period) represents the collective views of BEC member companies who attended workshops in July and August 2012. The companies are representative of sectors and industries from across Hong Kong, making up a substantial proportion of the SAR's largest corporations and employers. As this paper represents collective views of our members who attended the workshops, it may not necessarily correlate with the positions of individual members.

The BEC member companies support, in principle, the efforts to help companies report on their environmental and social disclosure through the improvements made on the G3.1 by the development of the G4, but have numerous comments relating to the new reporting framework's usability and applicability. This includes the effectiveness of the guidance, as well as the extent to which the G4 is usable by (a) companies of varying sizes, and (b) accessible by companies only just commencing their reporting journey and with no previous experience of GRI.

INTRODUCTION

Responding groups and region represented

This response to the GRI's Second G4 Public Comment Period, in particular the G4 Exposure Draft, has been prepared jointly by BEC members who attended G4-specific workshops at BEC headquarters in July and August 2012. These companies represent a significant cross section of Hong Kong's industries, and provide a substantial proportion of Hong Kong's employment.

Understanding the issues

BEC's member companies appreciate GRI's attempts to improve on the G3.1, and to make the reporting process easier and more applicable for all. The opportunity provided by the GRI Second G4 Public Comment Period, in particular the G4 Exposure Draft, for stakeholders to provide input into the development of the G4 is taken up by this document. The document responds specifically to the "Questions for General Comment" provided by GRI, and also provides further information on other issues considered by BEC's member companies to be of relevance.

MAJOR ISSUE AREAS

The issues with the G4 draft relate, in general, less to the concepts than to the practicalities on implementation, especially the ease with which companies could adopt the new guidelines. The main issue areas are:

- Even for experienced issuers, the materiality and scope/boundaries set out by G4 remain too broad to be practical. Without a clear guideline on relevance/control, issuers would be obliged to over-report, needlessly, with potential waste of resources, and without clear benefits to performance. The areas chosen for reporting are the right ones, but G4 needs to make clear that the scope defined is reasonable and clear.
- The absence of Application Levels is conceptually sound, but this means there is now no "point of reference" for new starters.

- Resources requirements, particularly those relating to mapping the value chain, are too onerous for SMEs and new starters, and will act as a disincentive to report.
- The layout of the G4 Guidance is far too long and “wordy”, and would benefit hugely from more visual aids e.g. more diagrams and flowcharts.

RESPONSES TO QUESTIONS RAISED

General Questions

1. “Do you believe that the greater focus on materiality introduced in the G4 Exposure Draft will assist organizations in better defining report content, boundaries and issues so as to contribute to better and more relevant reports (as opposed to longer reports)?”

NO, based on the following:

Issue (a): *Guidance*

- More guidance is needed for the process of defining materiality in content: The self-assessment proposed is hard, and allows too much subjectivity.
- Current guidance is not user-friendly, and is difficult to understand. There is a definite need to simplify it.
- The draft is too descriptive, which might put off reporters in using it.

Issue (b): *Cross-sector benchmarking and uniformity of reporting*

- Despite the unique characteristics and situations of each company, it is still necessary to compare with companies / reporters in similar industry (for reference purposes). Sector-specific case studies would therefore be useful.
- G4 should be a standard that is uniform and comparable within each sector – it should not vary from reporters to reporters. Companies within a specific sector should report on same standard thereby adding real value for companies because they can compare with different companies.
- GRI is getting to a point where companies in specific sectors tend to refer to the list of relevant KPIs for reporting purpose. Given that different industry sectors have their own industry issues and focus, full alignment to GRI may lose the benefit of addressing their industry specific issues. It is advisable to consider striking the right balance between the full alignment with the GRI requirements and the flexibility in reporting sector-specific KPIs.
- The resources and the readiness of different sectors to disclose will be very different especially when we come to the supply chain. Consider a developer with thousands of products and material to purchase over a very short time period where there will be no SD information for most of those materials, which is very different from a production line with a stable supply of parts from a few suppliers. The efforts spent in satisfying indicator data requirements will be out of proportion to the benefits. This will also dilute the resources for the actual improvement works.

Issue (c): *Quality assurance*

- The report quality is based on how companies set their boundary. Without external verification, the quality of the report can only rely on the reporter and the completeness of materiality assessment and the defined boundary. A third party assurance process (of materiality issues) is needed which can guarantee report quality.

Issue (d): *Applicability*

- Current G4 is one size fits all. Elaboration on sector supplement is needed in order to help companies in different industries define the content, material issues and their boundaries.
- For companies who are already mature in their reporting, it is unclear how the G4 will improve their performance.

2. *“Is the G4 Exposure Draft (including the new structure) clear and understandable in terms of what is expected of organizations for the sustainability report to be in accordance with the guidelines?”*

NO, based on the following:

Issue (a): *Applicability to all organisation types/sizes*

- Need for core/minimum and “comply or explain” requirements, especially for organizations reporting and using GRI for the first time.

Issue (b): *Sector supplements*

- Remove sector supplement, and instead provide a chance to explain why they cannot meet the requirement.
- Simplify to: 1) indicate; 2) identity; and 3) how to rectify.

Issue (c): *Achievability*

- Requirement is clear enough but hard to achieve. To some organizations, they may have difficulty or hesitation in disclosing some items, especially those reporting for the first time. Companies may use the word “with reference to” instead of “in accordance with” to overcome the problem.
- Many companies do not have sufficient resources to allocate to the extensive data collection required by G4.
- Recommended to change complex requirements / clauses into best practices e.g. supply chain.

3. *“Does the G4 Exposure Draft clearly explain the interaction between the guidelines, the technical protocols and the sector supplements?”*

NO, based on the following:

Response(s):

Issue (a): *Layout and presentation*

- Need to cut down on lengthy and wordy explanations.
- Helpful to have flow charts; diagrams, indexing or something visual to better describe what kind of technical protocols are under the guideline and what kind of sector supplement is under the guideline.
- More external references are needed.

4. *“Do you think that the G4 Guidelines can apply to organizations of various sizes in your region?”*

NO, based on the following:

Respondents stated that the flexibility provided by the G4 Guidelines was good in that it allowed SMEs to report on different aspects. However, there are issues with implementation:

Issue (a): *Implementation for SMEs and/or beginners*

- No option for small SME/ institutions to seek external help with GRI implementation.
 - Requirements for sustainability reporting should be designed so that experienced reporters have to provide more depth and wider coverage of issues, while separate instructions with less stringent (perhaps “core”) requirements are provided for SMEs and/or those reporting for the first time. The loss of Application Levels is a disincentive for beginners and smaller sized companies.
 - Can materials be translated to various languages to ease burden on SME; especially in Hong Kong? (Traditional/ Simplified Chinese?)
 - In terms of company disclosures on sustainability or ESG (environmental, social and governance) issues, the company's ability to make full disclosure often relates to its size and scale. Would GRI consider providing different standard (G4 is for mature reporting companies), eg develop a simpler reference for smaller companies?
 - Modify to 5 to 10 pages of guidelines to encourage SME participation.
- Issue (b): *Verification*
- Verification (“Plus) is impossible to be applied for the new standard. It is difficult to verify data for direct suppliers of the reporting company, and very difficult to verify data for the supplier’s supplier.

5. “Do you believe that the G4 Guidelines will drive the cost effective preparation of a sustainability report for all organizations?”

NO, based on the following:

Overall, respondents stated that the G4 Guidelines will *not* be cost effective, but will actually result in higher costs than the G3.1.

Response(s):

Issue (a): *Different cost structures for organizations of different sizes*

- Self-assessment reporting process will be high cost for SMEs, particularly for mapping the value chain.
- Might not be sustainable for listed companies either; listed companies do not mean they have more human/ financial resources.
- Two-tier approach is more appropriate.

Issue (b): *Workload*

- G4 guidelines emphasize on ‘material aspects’ and do not include or fit into other existing guidelines, standards and questionnaires such as GHG Protocol, CPD, Reputex and DJSI. Need to have another report to cover this question. Extra-workload not cost effective.
- There needs to be a transitional system where new users can adopt the system in a step-wise process.

Other:

- G4 overall concept is positive, but some items are in need of fine tuning. It is too fast to launch when organizations don’t know why and how to do it.
- G4 enhances the ability of senior management to involve more in reporting or disclosure.
- Pilot companies to G4 are needed as reference for other organizations.
- New guidelines should be introduced on sustainability *performance* assessment in addition to the current standard which relates to disclosure performance.

- Sustainability assessment criteria should assist the identification of reporting organizations with outstanding sustainability performance and reward them with a better grading or “stars” for differentiation.

Specific Questions

Governance & Remuneration

1. “Do you consider the proposed disclosures related to Governance & Remuneration disclosures appropriate and/or complete?”

NO, based on the following:

The proposed disclosures are regarded as complete, but there are issues with ease-of use.

Issue (a): *Content*

- Amount of details disclosed should vary depending on experience of reporters.
- Drop some of the indicators e.g. executive income compared to median income. This is meaningless when comparing wages at different levels in different countries (e.g. senior management may be in Hong Kong while lower management is in Mainland China, each having a significantly different pay structure).
- Challenge on how the question is asked and how it should be reported.
- Add explanation to clarify reason and rationale behind need to disclose remuneration items.

Issue (b): *Achievability*

- Difficult to achieve and content is hard to disclose.
- Extra time is needed to collect certain data e.g. number of contractors.

2. “Do you have other general comments related to Governance & Remuneration?”

Response:

Issue (a):

- GRI is not standardized among all the companies/ sectors (unlike ISO).

Disclosure on Management Approach

1. “Do the requirements for Disclosures on Management Approach offer sufficient flexibility to enable organizations to provide answers that will add value without making the report unduly repetitive and lengthy?”

NO, based on the following:

Issue (a): *Ease-of-use*

- It is necessary to strike a balance between readability and disclosure of information: If the requirements are too long and too descriptive, readers will have less interest in the reporting information.
- Is it *too* flexible? i.e. does it provide newcomers with a benchmark or guidance on what level/type of report they should aim for?

2. “Do you consider the proposed Disclosures on Management Approach an improvement over the current approach?”

NO, based on the following:

Issue (a): *Flexibility*

- There needs to be a balance between detail and flexibility.
- There needs to be more information on the “how”.

Issue (b): *Points of reference*

- Can be more illustrative, using examples to encourage reporting companies to disclose information.
- Possible to change title from DMA to “Case Study” to illustrate management approach, in order to cover *what* the material topic is, *why* the topic is important, *how* the topic is being managed, and *how* the management approach is being monitored, evaluated and adjusted.

3. “Do you consider the proposed disclosures related to Disclosures on Management Approach appropriate and/or complete?”

NO, based on the following:

Issue (a): *Level of detail*

- The four areas are too detailed and onerous, and so are only applicable to big companies. SMEs may not be able to deal with all aspects.
- “How management approach is monitored, evaluated, and adjusted” should be taken out because not every initiative and programme within the company has or can relate to KPIs (not all companies have KPIs or goals and targets for all their initiatives).

4. “Do you consider the proposed guidance provided to support the Disclosures on Management Approach appropriate and/or complete?”

NO, based on the following:

Issue (a): *Level of detail*

- G4 is too detailed. There needs to be clarification as to whether companies must follow the guidance point-by-point.

5. “Do you have other general comments about the Management Approach Disclosures?”

Response:

Issue (a): *Complexity and layout*

- Need simpler approach to illustrate the Management Approach Disclosures.
- Layout issue: Recommended to list the four disclosures first (in a list format), and then to provide further details afterwards.
- If every requirement is mandatory, it will be too prescriptive and repetitive.

Supply Chain

1. “Do you consider the proposed definitions of “supply chain” and “supplier” appropriate and complete?”

NO, based on the following:

Issue (a): *Inclusions*

- Supply chain is included in all aspects like economy, environment, labor and human rights. Every aspect will include supply chain indicators.
- Supply Chain should be paired with Management Approach Disclosures. The areas that are addressed under supply chain are the right ones – but within the scope of suppliers over which there is a significant or material relationship. A possible suggestion is to refer to a generic management approach and say that the supply chain area benefits from the same approach.

2. “Do you consider the proposed supply chain-specific indicators to be effective measures for performance and feasible to report?”

YES.

3. “Do you consider the proposed disclosures related to supply chain appropriate and/or complete?”

YES.

4. “Do you consider the proposed guidance provided to support disclosure on supply chain related issues appropriate and/or complete?”

YES.

5. “Do you consider the proposed supply chain-related references appropriate and/or complete?”

YES.

6. “Do you have other general comments related to the Supply Chain Disclosures?”

Response: Nil

Boundary

1. “Do you think that the new version of the Technical Protocol helps organizations to express better the relationship between material topics and value chain?”

NO, based on the following:

Respondents stated that the idea of mapping the value chain at the first step of materiality assessment is conceptually sound, but there are issues with implementation:

Issue (a): *Difficulties in implementation*

- Expansion of scope of stakeholder inclusiveness is onerous.
- Unclear as to whether this mapping exercise has to happen annually.

- Difficult to implement since value chain mapping exceeds scope of ownership of the reporting organization.
- Need more guidance for new reporters and small SMEs.

Issue (b): *Precise nature of requirements*

- Issue with depth of details to report.
- Would be helpful to have examples.

2. “Do you think mapping the value chain is a helpful exercise for defining boundaries of material topics?”

NO, based on the following:

Respondents stated that the idea was conceptually sound, but that there were difficulties in implementation.

Issue (a): *Difficulties in implementation*

- Implementation might be too onerous.
- Challenge in identifying stakeholders along the value chain.
- Need more clarity on definition of boundaries: Not clear on what and what not to do for materiality.
- Difficulty in balancing transparency in the value chain.

3. “Is the difference between the term “Aspect” and “Topic” clear when each term is used in the Technical Protocol?”

NO, based on the following:

Issue (a): *Clarity*

- Still not clear on definitions.
- Tabulate clearly into the glossary what the relevant topics are.
- Examples are important to explain concept.
- Not comfortable to disclose information that is uncertain or without verification.

4. “Do you have other general comments related to the approach for setting boundaries proposed in the Technical Protocol?”

Response:

Issue (a): *General*

- Diagram on p.308: How to validate/report information on what cannot be controlled.
- Additional guidance on issues that are out of their control (materials, value chain)
- Need examples.
- Guidelines on how to measure qualitative materiality will be especially useful for newcomers.

Application Levels

1. “Do you agree with the proposal to discontinue with the Application levels and to replace them with criteria that define when a report has been prepared “in accordance with” the G4 Guidelines?”

NO, based on the following:

In general, there was positive feedback on this proposal, with the proposed new system being welcomed. However, there were some issues:

Response(s):

Issue (a): *Verification*

- A third party should verify “in accordance with”.
- Good to have 2 components: “In accordance with” and “checks”.

Issue (b): *Guidance*

- Application Level acts as a guidance for some organizations, in particular new reporters, to set their short term goals which are easier to achieve. Discontinuing Application Levels means losing this guidance.

2. “Do you support the introduction of transitional provisions to allow new reporters two reporting periods in order for their reports to gradually be in accordance with the G4 Guidelines?”

NO, based on the following:

The concept of transitional provisions is supported, but there are issues with the precise nature of those provisions.

Response(s):

Issue (a): *Content*

- It is not helpful to list what reporters did not do. Recommend to drop this.
- Transitional period is not clear, organizations don’t know what is being accepted in this period.

Issue (b): *Timeline and process*

- Two years is insufficient. Suggest more time.
- Should be in parallel with G3.1, as need to have assurance of materiality.
- Suggestion: Different application levels can have different transitional periods (the lower level having longer periods).

CONCLUSIONS AND RECOMMENDED ACTION

It is recommended that GRI take into consideration the feedback provided in this document by BEC’s member companies. Although much of the G4 Draft is conceptually sound, there are numerous recurring issues related to the *usability* of the new guidelines, particularly for SMEs and companies reporting for the first time.