How interoperability reduces the reporting burden

Over the last few years, we have seen a significantly growing demand for transparent information on companies' impacts. Policy-makers and capital market regulators are addressing this call for information by increasingly mandating corporate sustainability reporting and transparency. Today there are at least 542 policies around the world in 132 countries which mandate companies to report their sustainability impacts.

By Peter Paul van de Wijs

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It is true that the evolving reporting requirements demand a lot of time and effort of companies. Not dissimilar to when global financial reporting was introduced, companies, governments and other stakeholders are overwhelmed. Therefore, GRI has been working with these governments, EFRAG and the ISSB to ensure the availability of credible and quality impact data whilst minimizing the reporting burden. Apart from the obvious technical solutions, the answer lies in the interoperability between the standards.

Emerging global reporting regime

We are seeing an increased push towards a global corporate reporting regime in which sustainability impact reporting and strengthened financial reporting are mandated on equal footing as two key perspectives and managed with the same rigor.

Underlying this trend is the concept of "double materiality" that requires companies to consider and report both their impacts on the world as well as how sustainability issues impact the financial well-being of the company. Each of these perspectives needs to be considered in its own right as well as in combination, meaning that:

1. Materiality is not limited to topics that are both financial material and impact material, but also that,

2. Impacts on society and the environment cannot be deprioritized on the basis that they are not financially material or vice versa.

It is worth realizing that there is a sequencing needed in terms of gathering the information by a reporting company. To get a full picture and ensure nothing is missed, companies need to start by assessing their impacts on the economy, the environment and people, followed by an assessment of how these impacts might have an impact on the financial health of a company and its value creation.

In fact, there is a global reporting baseline emerging, consisting of impact materiality and financial sustainability reporting. Supplemented with a layer of local and regional additions to ensure it fits with national political ambitions and existing legal frameworks. The European Corporate Sustainability Reporting Directive (CSRD) is a good example of this. Outside of the EU, the focus is on adopting the combination of GRI and IFRS reporting standards to address double materiality. GRI is actively engaging with jurisdictions on the further development of these.

Interoperability

Thanks to our intense collaboration, a high degree of interopability between the GRI Standards, the IFRS Sustainability Disclosure Standards and the ESRS has been achieved. This prevents the need for double reporting and supports a more user-friendly reporting system without undue complexity. Companies can leverage the data collected through existing GRI reporting processes to meet significant parts of the disclosure requirements of the ESRS and IFRS Sustainability Disclosure Standards.

What's more, the ESRS require companies to report on all their material impacts, risks or opportunities. In cases where topics or impacts are not covered in full by the ESRS, companies can utilize their GRI reporting to fill any gaps and comply with EU requirements. One clear example is related to the topic of tax transparency. In lieu of an ESRS, GRI 207 can be used.

And, finally, the ESRS do not take a stance on the origin of value chain data, allowing SMEs to use their GRI-based reporting to provide information to their value chain partners which fall in the scope of the CSRD.

INTEROPERABILITY IN PRACTICE

- GRI-ESRS interoperability index by GRI and EFRAG illustrates the high commonality between the standards. Entities reporting under ESRS will be deemed to be reporting "with reference" to the GRI Standards as a result. http://bit.ly/3W7sMlW
- ESRS-GRI Standards data point mapping provides for each ESRS data point the corresponding data point in the GRI Standards. https://bit.ly/4d448ZB
- GRI-ISSB GHG emissions interoperability considerations by GRI and the IFRS Foundation detail the high degree of alignment between GRI 305: Emissions and IFRS S2 Climate-related Disclosures. https://bit.ly/3xDOILh

Fraud

There is an increase in legal measures to combat fraud through strict regulation around what products can be considered green, product labeling and restrictions on advertising. This trend is supported by civil society groups that are taking companies to court over green claims, and are winning.

One of the main instruments implemented to combat fraud and ensure the availability of credible comparable data is mandatory assurance of reported data. For example, from the first year of reporting, companies in Europe must obtain limited assurance for their ESRS report. At GRI, we are working with the International Federation of Accountants (IFAC) on the development of a global assurance standard. This assurance standard will be reporting-standard-agnostic, making it applicable for both impact and financial sustainability reporting.