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Global Reporting Initiative (GRI) Response to the UN Working Group on Business and Human Rights – Investors, ESG and Human Rights.

GRI would like to thank and commend the Working Group on Business and Human Rights for their continuous work in advocating for increased respect and protection of human rights. We appreciate the opportunity to provide our input on this critically important report of the Working Group. This will provide crucial practical guidance to States, businesses, and financial institutions of all types, civil society, and other stakeholders on how to align better ESG approaches with the United Nations Guiding Principles (UNGPs) in the context of financial products and services.

GRI's input to this consultation will focus on two key observations, and two related recommendations:

- **Observation 1.** The landscape of ESG and investor expectations is evolving
- **Observation 2.** Double materiality is crucial
- **Recommendation 1**. Global baseline of reporting is needed
- **Recommendation 2**. States should mandate public reporting for businesses and investors and adopt existing standards, including the GRI Standards

As providers of the world's most widely used sustainability standards for reporting on impact, GRI advocates for transparency and accountability with a global common language that adopts recognized norms and principles.

Within the financial sector, investors have an estimated worldwide market of USD 1.164 trillion, and play a significant role in worldwide sustainable development. Banks, insurers and actors in capital markets have impacts through their own operations – such as employment practices, customer privacy, financial inclusion as well as investment activities. By investing in businesses that have human rights or environmental impacts, financial sector actors reach beyond their operational boundaries. There is currently no impact reporting standard for the investor community, which is one of the reasons that GRI is currently developing Sector Standards for Financial institutions, for Capital Markets (Investors), Banks and Insurance Sectors.

GRI is a formal collaboration partner of the IFRS Foundation's ISSB as well as from EFRAG, the body responsible for the development of the double materiality based European Sustainability Reporting Standards (ESRS). Having existed for over 25 years working alongside businesses, governments, policy makers and civil society.[1] GRI collaborates with market regulators and operators, including the Sustainable Stock Exchanges (SSE) initiative, Ceres's Investor Network on Climate Risk (INCR), the Sustainable

[1] https://www.ohchr.org/sites/default/files/documents/hrbodies/hrcouncil/igwg-transcorp/session9/igwg-9th-updated-draft-lbi-clean.pdf

Working Group of the World Federation of Exchanges (WFE), and Principles for Responsible Investment (UN-PRI), increasing the uptake of sustainability reporting and helping reporting organizations meet investors' needs for ESG information.

GRI's input will draw upon our expertise in transparency and standard setting, and our role in the global reporting landscape.

Observation 1. The landscape of ESG and investor expectations is evolving.

Over the last few years, we have observed a shift, from investor information demands being traditionally focused on impacts on financial value, to also now include impacts on the environment, economy and people. Various developments have moved investors towards a greater understanding of the importance of embedding ESG considerations into their investment decisions.

Beyond the legislative requirements being placed on investors, there are a number of drivers of this shift, including:

- **Increased consumer awareness of the impacts of businesses:** growing consumer awareness of issues such as human rights violations across supply chains is increasing the spotlight placed on businesses and the investors funding them. This is increasing the reputational risk of businesses and subsequently their financial values.

- **Evolving human rights landscape:** the expansion of human rights to also include the right to a clean, healthy and sustainable environment brings with it a widened scope of risks and impacts that must be considered in their human rights and environmental due diligence processes and ESG assessments.

- **Growing legislative requirements on businesses:** for example, the global shift towards mandated impact reporting, and also growing numbers of human rights and environmental due diligence legislations are creating legal risks where there are cases of non-compliance. This also creates financial and legal risks for investors.

- **Uptake in climate and human rights litigation**: where businesses face growing risk of litigation, this legal (and also reputational) risk also impacts the value of investments and brings in further considerations for investors in their investment decisions.

- **Voluntary uptake of ESG investing**: large numbers of investors and asset managers are already taking voluntary steps towards sustainable finance, such as issuing shareholder resolutions, implementing policies that require ESG assessments, or adopting the Principles for Responsible Investment (PRI). This subsequently influences the competitiveness of businesses looking for investments, and also places further scrutiny on investors who are not voluntarily adopting these practices.

- **Impacts from climate change**: one very clear example of this is recent regulatory action in the United States to address the growing problems that insurance companies are facing with wildfires and storms in California, with many insurers exiting the state insurance market.

Observation 2. Double materiality is crucial.

As already referenced, financial materiality concerns impacts on enterprise value creation. Impact materiality concerns businesses' outward impacts on the economy, environment and people in the context of sustainability reporting, which includes governance issues. The GRI Standards provide information on an organization's outward impacts: on the economy, environment and people, including their human rights. Information disclosed through the GRI Standards gives insight into the organization's efforts to prevent negative impacts and contribute to sustainable development. It also provides a window into financially material risks and opportunities facing the organization.

In GRI's previous submission to the UN Working Group on Business and Human Rights we outlined how GRI's definition of material impacts is aligned with the UNGPs and also the OECD Guidelines for Multinational Enterprises.[2] Information from reports such as sustainability reports or human rights & environmental due diligence reports serves as input for identifying related financial risks and opportunities – the concept referred to as 'double materiality'.

GRI promotes the notion of double materiality, and that impact reporting should be on an equal rigor with financial reporting. Many outward impacts of a company's activities and business relationships on the economy, environment, and people will eventually become financially material issues in the short, medium and long term, such as climate or human rights related litigation cases, or financial penalties for environmental incidents. With increasing consumer awareness of the negative impacts on the economy, environment and people from businesses and investors, this increases the impact on the financial value of their investments.

Recent developments on this topic include mandated reporting for companies and financial institutions in the EU, such as the Corporate Sustainability Reporting Directive (CSRD), and the Sustainable Finance Reporting Directive (SFRD). Furthermore, the ISSB is also developing standards for reporting on impacts on value creation, which are voluntary standards subject to national implementation. GRI is a formal collaboration partner of the IFRS Foundation's ISSB as well as from EFRAG, the body responsible for the development of the double materiality based European Sustainability Reporting Standards (ESRS). Since 2021 GRI has been working in the capacity as co-constructor with EFRAG. Both collaborations are aimed at ensuring maximum interoperability between global standards and jurisdictional standards while minimizing reporting burden for companies.

The push for environmental and human rights due diligence is transversal. Capital markets actors, including banks, stock exchanges, rankers and raters, are also developing evaluation and reporting criteria that have broad sustainability information requirements, which intersect with the due diligence outcomes.

Investors are also demanding mandatory human rights and environmental due diligence and issuing shareholder resolutions and public statements pushing for publicly available information on matters such as tax, environmental impacts, and human rights due diligence.

Recommendation 1. Global baseline of reporting is needed.

As already mentioned, investors are facing growing requirements and expectations to embed ESG considerations into their decision-making on where they allocate their capital, and to also publicly report on both how they are considering ESG impacts and risks to value creation (such as the SFDR).

At the same time, businesses are also facing growing expectations to report on how they are managing their impacts on the environment, economy and people and their human rights and environmental due diligence. They are also facing growing requirements to report on impacts on enterprise value, with various national jurisdictions adopting frameworks such as TCFD, or the CSRD which requires double materiality reporting using the ESRS.

[2] GRI response; https://www.ohchr.org/sites/default/files/documents/issues/business/workinggroupbusiness/wg-business-cfis/2023/extractive-sector/subm-extractive-sector-csos-global-reporting-initiative-101.pdf

For investors to be able to effectively consider ESG impacts in their investment decisions it is crucial that they have access to publicly available comparable information from businesses on how they are managing their most significant impacts.

Furthermore, if there is available information on impacts, but it is not complete, or comparable historically for monitoring and tracking, or comparable to peers and business partners, investors are unable to make accurate assessments on ESG impact. This was noted by the OECD in their report 'ESG Investing: Practices, Progress and Challenges', which called for consistency of metrics and alignment between impact and financial materiality.[3]

In terms of assessing whether or not investments would contribute to realization of the UNGPs, the information available to investors must be reported against standards that are aligned with the UNGPs. Furthermore, if the only information available from the businesses they invest in or are considering investing in concerns impacts on financial value, investors are only able to see part of the picture.

For a global baseline to be achieved that adopts double materiality, there must be two interconnected reporting pillars that address distinct perspectives, which can together form a comprehensive corporate reporting regime for the disclosure of sustainability information. New indicators, metrics and definitions should only be created where they do not already exist. Adaptations should be made to reporting frameworks to meet local needs and expectations.

This would bring:

- **Reduced reporting burden and costs for businesses:** with growing mandated reporting there is an increased chance of businesses being faced with various requirements from multiple jurisdictions. Adopting a global baseline of reporting would significantly reduce the reporting burden and associated costs.
- **Facilitate information sharing across full value chains:** both impact reporting and enterprise value reporting are not possible without exchanging information between business partners, such as suppliers across the value chain. This process is facilitated when all parties are using a global baseline of information, with local adaptations where necessary.
- **Facilitate environmental & human rights due diligence in all steps:** for example, conducting a materiality process to identify the most significant impacts in line with the definition in the UNGPs embeds this process in human rights and environmental due diligence identification and assessment steps. This also facilitates tracking and monitoring progress for all relevant stakeholders.
- **Enables comparability of information across sectors and jurisdictions, for investors, businesses, regulators, civil society, other policy makers, ratings agencies, auditors, and assurers:** if information is not reported against a global baseline, this impedes the ability to accurately assess where there is progress. For example, where different methodologies are used for determining material impacts, or if different terminology is adopted, or diverging definitions of due diligence.
- **Enable global ecosystem of information that diversifies the global economy:** investors would be able to also assess investment opportunities outside more accurately of their own jurisdictions. This would also provide opportunities for businesses to access capital in other jurisdictions, as the information they are either voluntarily or mandatory reporting would also be aligned with the information expectations of investors abroad.

[3] ESG Investing: Practices, Progress and Challenges, OECD. https://www.oecd.org/finance/ESG-Investing-Practices-Progress-Challenges.pdf

Recommendation 2. States should mandate public reporting for businesses and investors and adopt existing standards, including the GRI Standards.

The UN Working Group on Business and Human Rights plays a significant role in clarifying the global landscape and in providing guidance to States, businesses, and financial institutions of all types, civil society, and other stakeholders.

GRI recommends that the UN Working Group on Business and Human Rights reiterate the importance of impact reporting and adopt the GRI Standards as the global standards for impact reporting. As already referenced, the GRI Standards are aligned with the UNGPs and the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct. Furthermore, the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct which were revised in 2021 reference the GRI Standards as standards for reporting impact. These instruments form the basis of existing and developing due diligence legislation, this would also clarify expectations of the reporting element of due diligence.

It would also set the clear expectation that the definition of impact used when businesses are conducting due diligence and reporting on their impacts should be aligned with the expectations set out in the UNGPs. This alignment will also help drive the consistent application of impact materiality globally.

The GRI Standards are truly global standards- referenced in 248 policies in 85 countries, targeting both businesses and investors, as well as financial institutions such as banks.[4] 80% of the world's largest 100 banks also report with the GRI Standards, as well as four out of five of the world's largest businesses. Furthermore, they are also referenced or required by 17% of the world's largest 20 stock exchanges. And many investors and asset managers such as NBIM require GRI reporting from the businesses they invest in.

When it comes to financial materiality, GRI strongly recommends aligning this definition with the approach of the International Sustainability Standards Board (ISSB), which focuses on 'enterprise value', rather than general 'value creation' and 'capitals'. This alignment will also help drive the consistent application of financial materiality globally.

Adopting the GRI Standards impact definition and the ISSB definition of financial materiality would send a clear message that double materiality is needed, and that information on impacts should be held to the same rigor and importance as information on financial value. As already mentioned, EFRAG is adopting double materiality in the ESRS at the regional level and is also working with both GRI and ISSB.

Concluding comments

We would like to conclude our response by reiterating that in order for investors to effectively embed ESG into their investments, they must have access to publicly available and comparable information on impacts. We strongly recommend that the UN Working Group on Business and Human Rights formally endorses the double materiality principle and adopts the GRI Standards as the global standards for impact reporting.

GRI would like to thank the UN Working Group on Business and Human Rights once again for its continuous work in this field, and for enabling stakeholder engagement through this public consultation.

[4] Chalmers, Adam William, Robyn Klingler-Vidra, Cornis T. Van der Lugt, Peter Paul van de Wijs & Tabitha Bailey (2023). *Carrots & Sticks: Beyond Disclosure in ESG and Sustainability Policy*. *Annual Report*. University of Edinburgh, King's College London, Global Reporting Initiative (GRI) and the University of Stellenbosch Business School (USB); https://www.carrotsandsticks.net/

We remain available for discussion regarding this submission, and we look forward to reading the upcoming outcomes of the Working Group on this subject.

Sincerely

Peter Paul van de Wijs,

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