U.S. House Committee on Financial Services

Subcommittee on Investor Protection, Entrepreneurship and Capital Markets

Building a Sustainable and Competitive Economy: An Examination of Proposals to Improve Environmental, Social and Governance Disclosures

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I thank the Subcommittee for inviting me to appear at today's hearing. This Subcommittee has an integral role in ensuring that financial markets, international trade, and banking remain stable and strong for all Americans, and the policy being considered today is a crucial part of that mission.

I have had the pleasure of serving as Chief Executive for the Global Reporting Initiative (GRI) since 2017. Prior to this role, I served in senior roles for major U.S. companies, including Intel, Apple and AMD. I also have experience working in the Executive and Legislative branches of the Federal government. So, I speak on this issue not only as head of the world's most widely used standards for non-financial reporting, but also as an individual who understands the complexities and pressures faced by reporting companies as well as the importance of Federal policy.

GRI applauds the legislative initiatives and the Subcommittees' focus to improve Environmental, Social and Governance (ESG) disclosures. Our experience of over twenty years demonstrates that these disclosures can provide substantial benefits for business and investors.

Today, I will limit my comments to the "ESG Disclosure Simplification Act of 2019." GRI strongly supports this proposal as a way to strengthen the existing reporting requirements for publicly traded companies. Specifically, we welcome:

- the acknowledgement that ESG disclosures are important for investors;

- the reliance on internationally recognized, independent, multi-stakeholder ESG disclosure standards;
- the establishment of a Sustainable Finance Advisory Committee. This will support the ongoing efforts by many international organizations such as GRI and Ceres to facilitate the transition to sustainable global markets, and we would stand ready to collaborate with this Committee as appropriate.

Background on GRI

GRI was founded in the United States. Soon after the Exxon Valdez disaster in 1989, Ceres, who is represented on the panel today, was formed to help define corporate transparency. In 1997, Ceres spun off the Global Reporting Initiative (GRI). Our mission has always been to provide world-class disclosure standards for ESG information.

Our theory of change boils down to the axiom that "you manage what you measure." All organizations run on data. By identifying, measuring – and most importantly reporting – about the most material ESG topics, these issues will be managed, and performance will improve. Public disclosure is a crucial aspect of this paradigm because it enhances the credibility and accountability of the information and provides investors and other stakeholders with essential decision-making information.

The GRI Standards

We created the GRI Standards to ensure that organizations have an effective tool to collect and report ESG information. Over the last twenty-two years since GRI was formed, the landscape for ESG information has changed substantially, and GRI has changed to meet the evolving needs.

Companies collect this information to both inform their internal decisions and demonstrate their corporate responsibility. While this remains a powerful driver for reporting, new demands have entered this market. Investors, asset owners, capital markets, analysts, policy-makers and civil society are increasingly interested in ESG disclosure. The market for ESG information has grown because it has value for investors.

As the interest from financial stakeholders increased, GRI adapted its governance model to mirror the widely adopted financial standards organizations such as the Financial Accounting Standards Board (FASB) or the International Financial Reporting Standards (IFRS). Similar to these organizations, the GRI governance model is independent and structured to serve the public interest. This means that the Standards are developed by the fully independent Global Sustainability Standards Board (GSSB)[1] according to a Due Process Protocol[2]. The process incorporates oversight, public consultation and reflects widely-accepted international normative frameworks, such as UN conventions, the OECD Guidelines for Multinational Enterprises, ILO conventions, and many others.

In addition to this independent and public process, the GRI governance model is also multi-stakeholder. This means that our governance bodies are comprised of representatives from multiple constituencies across multiple regions of the world. When the GSSB creates or revises a disclosure standard, they select a working group of global experts in the topic. The meetings and proceedings of these working groups are public and result in a consultation draft. Only when the public comments have been resolved and the due process protocol has been satisfied, will the final Standard be issued.

GRI's independent, multi-stakeholder governance process results in Standards that represent the global best practice for a wide range of topics. Currently, GRI offers thirty-three topic-specific Standards on economic, environmental and social topics. We also offer universal disclosure Standards which apply to all reporting organizations, as well as a framework of reporting principles which assist report preparers and assurers. All of these assets are offered free of charge.

Adoption of the GRI Standards

Today, 93% of the 250 largest companies (by revenue) worldwide publish ESG information and three out of four of them use the GRI Standards[3]. Of the S&P500 companies, 86% issue sustainability reports annually[4] with more than two thirds using the GRI Standards. The GRI Standards are used by more than 600 companies with US headquarters – which is one of our largest rates of adoption in the world.

[1] https://www.globalreporting.org/standards/gssb-and-standard-setting/
[2] https://www.globalreporting.org/standards/media/2099/gssb-due-process-protocol-2018.pdf
[3] https://assets.kpmg/content/dam/kpmg/xx/pdf/2017/10/executive-summary-the-kpmg-survey-of-corporate-responsibility-reporting-2017.pdf
[4] https://www.ga-institute.com/press-releases/article/flash-report-86-of-sp-500-indexR-companies-publish-sustainability-responsibility-reports-in-20.html

The information created using the GRI Standards is the dominant source of ESG data used by analysts, investors, asset owners and capital markets in the US and around the world. In the United States, 78% of the 30 companies in the Dow Jones Industrial Average use the GRI Standards for ESG disclosure. The most recent study of the Global Sustainable Investment Alliance estimated that, globally, sustainable, responsible and impact investment assets under management in the five major markets (Europe, United States, Japan, Canada, and Australia/New Zealand) stood at $30.7 trillion at the start of 2018, a 34% increase in two years[5]. Another study reports that 82% of mainstream investors consider ESG information when making investment decisions[6].

Materiality

Both financial and ESG disclosure rely on the concept of materiality to determine what must be disclosed. However, the application of this concept is different in each case. In financial reporting, issuers must disclose information on the topics that could materially impact the finances[7] of the organization. Because ESG information includes environmental and social impacts on the world outside of the reporting organization, the magnitude of these impacts must also be considered to determine materiality. The materiality methodology in the GRI Standards instructs issuers to identify and address the most relevant environmental, social and governance issues to their organization and affected communities throughout their value chains. This analysis must be conducted in consultation with a broad range of stakeholders, including investors. Comparing this method to the concept of financial materiality, the major points of differentiation are inclusion of the "externalities" associated with an issuer's value chain and consultation with stakeholders.

GRI urges the subcommittee to incorporate this approach into its ESG disclosure legislation. Focusing strictly on short-term financial impacts will result in the exclusion of key issues such as human rights and greenhouse gas emissions from corporate disclosures. These exclusions would leave companies and investors exposed to risks which, over the long-term, can have significant financial implications.

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[5] http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf

[6] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2925310

[7] Information is material if there is: "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available." (TSC Industries, Inc. v. Northway, Inc., 426 U.S. 438 (1976))

Reliance on Independent Standards Bodies

GRI strongly supports the provision in the draft Bill that requires reliance on internationally recognized, independent, multi-stakeholder standards. The GRI Standards enjoy wide adoption aming issuers and policy makers because they conform to these requirements.

Just as the Securities and Exchange Commission recognized FASB as the designated standard-setter for financial disclosures, the same principle holds for ESG disclosure. Independent standards bodies are designed to stay current with the best practices and represent all points of view to create the "state of the art" disclosure standards. Specifying the type or form of disclosures in legislation will lock in the practice and quickly devolve into a "box-ticking" exercise. We applaud the sponsors of this legislation for requiring ESG disclosures to be based on international, independent, multi-stakeholder ESG standards.

Burden Reduction

By relying on independent, multi-stakeholder standards, the legislation will not add to the reporting burden of companies since 600 companies with US headquarters – the vast majority of the companies currently reporting ESG information in the US - are already reporting against the GRI Standards which fit this description.

Unlocking Free Trade

GRI tracks the number and type of regulations focused on ESG reporting. Currently, we are aware of 139 policies in 61 countries that specifically reference or require the GRI Standards for ESG disclosure. This figure includes references or requirements to the use of the GRI Standards in 61 capital market regulations in 45 countries.

As global trade increasingly relies upon ESG information, it is essential that issuers use a common language to disclose this information. As evidenced by the uptake in policies around the world, the GRI standards are the global common language for ESG disclosure. In order to facilitate global free trade, we strongly urge the Subcommittee to adopt the GRI Standards as the ESG disclosure framework for new legislation.

Alignment with other ESG Standards and Frameworks

GRI works to drive harmonization on disclosure of all ESG topics, including the crucial issue of climate change. For example, the GRI Standards and CDP's climate change questions (2017) are fully aligned[8]. Given that more than 7,000 companies subscribe to CDP (a similar adoption rate to the GRI Standards), this alignment improves the consistency and comparability of climate data, making corporate reporting more efficient and effective. Further, the recent Task Force on Climate-related Financial Disclosures (TCFD) drew heavily from the GRI Standards to launch their recommendations, increasing the alignment of disclosures [9].

Through our work in the Corporate Reporting Dialogue[10], the Impact Management Project[11] and ongoing bi-lateral discussions, GRI is focused on further harmonizing ESG disclosures world-wide. This alignment will reduce the burden on issuers and increase the utility of this information for investors and other stakeholders.

Human Rights and Tax Payment Disclosure Policy

GRI supports the intent of the discussion draft bills on disclosure of Tax Payments and Human Rights practices. The comments above also apply to these bills. In addition, we would draw the Subcommittee's attention to GRI's new standard-setting activities on these issues and, again, advocate that the policy defers to the resultant independent disclosure standards.

GRI expects to issue a new disclosure Standard on tax and payments to governments this year[12], which includes a public country-by-country reporting (CbCR) requirement. Our expert-led standard-setting

8 https://www.globalreporting.org/standards/resource-download-center/linking-gri-and-cdp-how-are-gri-standards-and-cdp-climate-change-questions-aligned/
9 https://www.fsb-tcfd.org/wp-content/uploads/2017/12/FINAL-TCFD-Annex-Amended-121517.pdf
10 https://corporatereportingdialogue.com/
11 https://impactmanagementproject.com/
12 https://www.globalreporting.org/standards/work-program-and-standards-review/disclosures-on-tax-and-payments-to-government/

process has clearly established that CbCR is needed to enable stakeholders to derive a more informed understanding of possible intra-group profit shifting activities aimed at tax savings. The Standard was brought forth with primary interest from the investor community, who want to see better clarity on tax transparency and country-level disclosure. Transparency on corporate taxes will allow for more informed public debate, creating an environment for better policy and investment decisions. At the same time, greater transparency will promote trust and credibility in the taxation system while discouraging organizations from engaging in aggressive tax avoidance practices.

GRI is currently reviewing its disclosure standards pertaining to human rights practices[13]. A central premise of this work is aligning with internationally accepted norms such as the United Nations Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. We are planning to release the draft standards for public comment towards the end of this year/beginning of next year.

Funding

GRI has always offered its disclosure standards as a free public good. This policy enhances both the accessibility and credibility of the Standards. A small fraction of issuers, analysts or investors who rely on the GRI Standards support the development of the Standards. As the Subcommittee considers ESG disclosure legislation, it should include sustaining support for the establishment of independent, multi-stakeholder disclosure standards.

Conclusion

GRI applauds the Subcommittee's work to develop legislation to require ESG disclosure based on international, independent, multi-stakeholder Standards. This legislation can help protect investors, unlock free trade, reduce issuer burden and ultimately align capital with sustainable business practices.

Thank you for the opportunity to testify today.

[13] https://www.globalreporting.org/standards/work-program-and-standards-review/review-of-human-rights-related-gri-standards/