ESG Disclosure Frameworks – Recent Updates

July 15, 2020

Updates in the past two months to voluntary ESG disclosure frameworks raise questions for companies about these overlapping and arguably competing standards.

GRI Launches Sector-Specific Disclosure Framework

On July 8, 2020, the Global Reporting Initiative (GRI) **published an initial draft** of a standard for ESG disclosures for the oil & gas industry. The draft, open for public comment until October 6, 2020, marks the first sector-specific ESG disclosure framework created by GRI, which, unlike the Sustainability Accounting Standards Board (SASB), has before now provided only a uniform framework for all industries.

The **GRI sector program**, currently in its pilot phase, "focus[es] reporting on the sustainability issues that matter most" to an industry. It is intended to work in conjunction with the underlying GRI standards, which are applicable across industries, by assisting more than 40 "high-impact sectors" to identify and address ESG impacts.

For each sector standard, a working group of stakeholders chosen by GRI's sponsor will assist in:

- describing a given sector's most significant impacts;
- assessing which topics are likely to be "material" (as defined by GRI) based on the significant impacts identified; and
- recommending disclosures for reporting purposes.

Unlike SASB's approach of creating standards for 77 industries across 11 sectors, the GRI program has not yet identified all sectors it will cover or when it plans to publish these standards. In a **press release**, GRI stated an intent for the comments process on the oil & gas sector standard to shape the development of future standards, notably its next for agriculture & fishing.

GRI and SASB Joint Statement on Collaborating in the ESG Disclosure Landscape

On July 13, 2020, GRI and SASB issued **a joint statement** announcing their collaborative approach to ESG reporting, asserting that GRI and SASB provide "compatible standards for sustainability reporting", and affirming their intent to facilitate companies' efforts to disclose against multiple frameworks.

Compatibility on ESG Reporting. In the statement, the two organizations explain their view that the SASB conceptual framework and the GRI standards are compatible because they fulfill different purposes.

- SASB's conceptual framework contains industry-specific standards focusing on ESG matters most likely to affect a company's financial condition, operating performance and risk profile. For SASB, "material" matters are those which have a financial impact.
- GRI standards identify and describe how a company's "economic, environmental and social impacts" contribute toward sustainable development. For GRI, "material" matters are not necessarily limited to those which have a financial impact, but also include those that may become financially material over time.

Collaboration on ESG Disclosure Materials. The statement suggests that, because GRI's and SASB's respective frameworks fulfill different purposes, companies may need to disclose against **both** to satisfy different stakeholders. To assist companies in disclosing against both frameworks, the statement commits GRI and SASB to jointly prepare, by the end of 2020, **communication materials** and **examples based on real-world reports** to help stakeholders identify how to use the frameworks concurrently.

What Do These Updates Mean for Companies?

The joint SASB/GRI statement identifies the central issue – "[for] companies that use both standards, the reporting effort can be high." How high this burden will be going forward, however, is a function of how developed a company's ESG reporting infrastructure and actual reporting are, as well as the makeup of a company's investors and other stakeholders.

According to **GRI**, over 14,000 organizations disclosed against its standards. According to **SASB**, hundreds of public and private companies have issued some SASB-aligned disclosure. Comparing the two lists, several of these entities provide both GRI and SASB-aligned disclosure whether due to investor demand, third party ESG ratings pressure, company culture or otherwise. While these companies will be best placed to adapt to further developments or changes in market sentiment due to experience, they may feel pressured to provide disclosure against any forthcoming GRI sector standard if market participants have come to expect more disclosure from them. Companies in the oil & gas and agriculture & fishing industries should stay apprised of GRI's developing standards over the next 18 months, as well as peer uptake, if any. Most public companies have not issued SASB-aligned disclosures, but some are considering disclosing in the near term given influential investor support for them. GRI's activities should not alter in the near-term whatever course these companies were planning to take in this regard, as it will take months, if not years, to develop new industry-specific standards. Companies can seek to join GRI's or SASB's disclosure working groups to have a seat at the table.

Companies should stay abreast of these developments through the November elections to be prepared for any questions during fall investor engagement. A change in administration in 2021 could give rise to regulatory changes in the ESG landscape, particularly by requiring public companies to report on additional ESG factors, thus reducing the importance of third-party voluntary ESG frameworks. Some market commentators have said that this "private ordering" has filled the void of regulatory inaction.

World Economic Forum ESG Metrics

In January 2020, the International Business Council of the World Economic Forum (WEF), headed by the leaders of several public companies, **released a paper** proposing ESG metrics for all companies, regardless of industry. WEF issued its draft ESG standard, which is effectively a "best of" compilation drawing from GRI, SASB and other existing frameworks, in part, to alleviate the burden on companies of having to disclose against numerous different standards. **WEF's website** notes that it is "refining the final set of recommendations" and that the "next phase of work" will start in Fall 2020. This is despite WEF's initial intent to publish the final set of ESG metrics in late August 2020. While some companies may have welcomed the ability to disclose against one uniform framework created by a prominent international institution, it remains to be seen whether and how the changes to GRI and any potential changes to SASB will affect the timing and substance of WEF's ESG standard.

If you have any questions regarding the matters covered in this publication, please contact any of the lawyers listed below or your usual Davis Polk contact.

Joseph A. Hall	212 450 4565	**joseph.hall@davispolk.com**
Betty Moy Huber	212 450 4764	**betty.huber@davispolk.com**
Alexandra Munson	212 450 4204	**alexandra.munson@davispolk.com**