
MAKING HEADWAY IN EUROPE

LINKING GRI'S G4 GUIDELINES AND THE
EUROPEAN DIRECTIVE ON NON-FINANCIAL
AND DIVERSITY DISCLOSURE



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Linking G4 and the European Directive on non-financial and diversity disclosure

This linkage document shows the Disclosures from the Global Reporting Initiative (GRI)'s *G4 Guidelines* that can be used to comply with the European Directive on non-financial and diversity information disclosure by certain large undertakings and groups.

The Directive came into force in December 2014. To improve the disclosure of non-financial information, it stipulates that certain large undertakings¹ should prepare a non-financial statement with information on environmental, social, employee-related, anti-corruption and bribery matters, respect for human rights, and diversity.

The Directive's mandate to disclose sustainability information is intended to lead to the identification of impacts and risks, and to increase the trust of investors and consumers in public-interest entities.

Measure, monitor and manage

In the words of the Directive, 'The disclosure of non-financial information is vital for managing change towards a sustainable global economy by combining long-term profitability with social justice and environmental protection.'² In this context, disclosing non-financial information helps undertakings to measure, monitor and manage their performance and their impact on society.

The European Commission will publish non-binding guidelines for reporting non-financial information by the end of 2016. But the Directive already recommends that undertakings use internationally-recognized frameworks and standards to prepare and publish their responses. The G4 Guidelines, which include all aspects covered by the Directive, will be a fundamental tool for companies during the implementation.

Pioneers of sustainability reporting

GRI is a non-profit organization that works in the public interest towards a vision of a sustainable global economy. GRI pioneered sustainability reporting; released in 2013, G4 is the fourth generation of its renowned sustainability reporting framework. At the time of writing, more than 5,000 organizations across more than 90 countries have used the GRI Guidelines for their sustainability reporting, and 25 countries or regions have referred, mentioned, or recommended the Guidelines in their policies, regulations, or other instruments.

G4 is fully aligned with the requirements of the Directive

Its Disclosures cover all of the Directive's aspects. GRI develops its framework via the use of expert working groups with a multi-stakeholder and multi-constituency composition.

G4 is highly adaptable

It was designed as a consolidated framework for reporting performance against different codes and norms for sustainability. This includes sharing links with other important global frameworks which have also greatly influenced, and are recommended by, the Directive; including the *OECD Guidelines for Multinational Enterprises*, the '*Ten Principles of the UN Global Compact*', the *International Labour Organisation's Tripartite Declaration of principles concerning multinational enterprises and social policy*, and the *UN Guiding Principles on Business and Human Rights*.

While G4 can be used for standalone sustainability reporting, it is compatible with a range of different reporting formats.

The Directive mandates the disclosure of non-financial information in differing statements and/or reports, depending on the undertaking in question; these may include financial statements, management reports, and corporate governance statements. In all cases, G4's Disclosures enable the robust measurement and clear communication of the necessary information. G4 also offers a widely-recognized global standard for sustainability information to be included in integrated reports.

The significance of materiality

In introducing this document, it is worth highlighting some especially significant links between the European Directive and G4.

The first is the concept of materiality. The Directive requires undertakings to 'provide adequate information in relation to matters that stand out as being most likely to bring about the materialization of principal risks of severe impacts, along with those that have already materialized.'

G4 places the concept of materiality at the heart of sustainability reporting

This means encouraging reporting organizations to only provide information on the issues that are really critical in order to achieve the organization's goals for sustainability and manage its impact on the environment and society.

Materiality is the threshold at which the sustainability subjects covered in G4 – known as 'Aspects' – become important or relevant enough to be reported. G4-based reports should cover Aspects that reflect the organization's significant economic, environmental and social impacts; or substantively influence the assessments and decisions of stakeholders. Key stakeholders have a vital role to play in informing an organization's materiality assessment. Taking their views into

¹ Art. 3 of the 2013 Accounting Directive defines 'large companies' as those having an average number of employees in excess of 500, and Art. 2 defines 'public-interest entities' as: listed companies, credit institutions, insurance undertakings, and others defined by Member States as public-interest entities.

² *Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014*

account is crucial in developing a proper understanding of an organization's sustainability impacts, and how they relate to its business model and strategy.

Direct and indirect impacts

Another important shared theme – and a burgeoning focus area of CSR – is the supply chain. According to the Directive, once the materiality of a sustainability subject has been established by an awareness of its actual or potential impact, 'The severity of such impacts should be judged by their scale and gravity. The risks of adverse impact may stem from the undertaking's own activities or may be linked to its operations, and, where relevant and proportionate, its products, services and business relationships, including its supply and subcontracting chains.'

Further, the Directive calls for statements and reports to 'also include information on the due diligence processes implemented by the undertaking, also regarding, where relevant and proportionate, its supply and subcontracting chains, in order to identify, prevent and mitigate existing and potential adverse impacts.'

G4 places a strong emphasis on due diligence processes and the supply chain

G4 encourages organizations to consider more than just their direct activities. Extending the materiality assessment to include the supply chain helps organizations to understand where their biggest impacts occur, regardless of whether those impacts are within their direct control. In recent years, this conceptual change has been heavily influenced by the UN Guiding Principles on Business and Human Rights. The resulting focus of the Directive and of G4 aims to ensure that the outsourcing of production does not permit the outsourcing of responsibility.

The Directive is careful to encourage further improvements to the transparency of undertakings' non-financial information, which is by its nature a continuous endeavour. CSR and sustainability – the combining of long-term profitability with social justice and environmental care – are also long-term endeavours, and will become increasingly well-formulated and widely engaged.

GRI's G4 Guidelines and Reporting Process are designed to be embedded within the heart of an organization's operations and business strategy. Use of the Guidelines for tokenism or as a tick box exercise is not likely to serve the ultimate purpose of the Directive, namely fostering sustainable growth.

Using G4 Disclosures to comply with the European Directive

There are seven elements to the disclosures stipulated in the Directive:

1. General Disclosures (required by Article 19). These three disclosures cover the undertaking's business model; its explanation for not having a relevant sustainability policy or for not disclosing certain information; and its use of external assurance.

2. Diversity (required by Article 20). This disclosure request is for a description of the undertaking's diversity policy in relation to its administrative, management and supervisory bodies. In the words of the Directive, such disclosure 'facilitates a good understanding of the business organisation and affairs of the undertaking concerned. It enables members of those bodies to constructively challenge the management decisions and to be more open to innovative ideas [...] It contributes thus to effective oversight of the management and to successful governance of the undertaking. It is therefore important to enhance transparency regarding the diversity policy applied.'

If the undertaking does not have a relevant diversity policy, it should explain why.

Disclosures on 'sustainability matters' (required by Article 19, and in the Directive's Recital):

3. Environmental matters

4. Social matters

5. Employee matters

6. Human Rights matters

7. Anti-corruption and bribery matters

For each of these five sustainability matters, the required disclosures take the same, two-part form:

a) Clauses of Article 19 request the same points of disclosure for each sustainability matter:

- a description of the policy pursued by the undertaking in relation to those matters, including due diligence processes implemented;
- the outcome of those policies;
- the principal risks related to those matters linked to the undertaking's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks;
- non-financial key performance indicators relevant to the particular business.

It should be noted that included in the disclosure of these four points should be 'information on the due diligence processes implemented by the undertaking, also regarding, where relevant and proportionate, its supply and subcontracting chains, in order to identify, prevent and mitigate existing and potential adverse impacts.' That is, consideration of the supply chain or 'value chain' is required – not just a focus on the undertaking's direct ownership or control.

b) Specifications from the Directive's Recital request more specific, detailed disclosures about each sustainability matter.

Using G4

Using G4 to comply with to the European Directive is straightforward. In almost all cases³, the same four types of G4 Disclosures are used: (1) Disclosures on Strategy and Analysis, (2) Organizational Profile, (3) Disclosures on Management Approach (DMA) and (4) Indicators. Often, it is G4's Indicators that undertakings will use to respond to disclosure requests on key performance indicators.

An additional level of detail in G4 is that the five 'sustainability matters' are covered by the terms 'Category' and 'Aspect'. The four types of G4 Disclosures above apply to the various GRI Categories and Aspects.

A Category is a broad sustainability subject matter (e.g., the environment, society) while an Aspect is a more detailed subject matter that falls under a Category (e.g., the Aspect of Water, which falls under the Environmental Category).

A closer look at the General Disclosures

Using G4 to comply with the Directive's General Disclosures will give a clear, at-a-glance understanding of the nature of your undertaking and its existing consideration of CSR and sustainability.

The General Disclosures also cover two areas where there is strong compatibility between the requirements of the Directive and G4: exemptions/omissions, and external verification of the disclosed information.

Both the Directive and G4 acknowledge circumstances in which it may not be possible to disclose certain information. The Directive gives governments the option to allow companies not to disclose information related to impending developments, or matters under negotiation. Such information can be omitted in exceptional cases and under specific conditions. Furthermore, a 'report or explain' approach can be adopted when the undertaking has no policies on sustainability matters: the company can explain why.

G4 similarly recognizes that in exceptional cases it may not be possible to disclose certain information. In those cases, the report should clearly identify the information that has been omitted; and G4 offers a prepared list of reasons for omission which the undertaking can select from.

The Directive and G4 also maintain flexibility regarding the use of external assurance. The Directive allows Members States to decide whether independent assurance of the disclosed information should be a requirement. As for GRI, external assurance is not required for a report to be 'in accordance' with G4. But GRI does stress its desirability; assurance has the potential to greatly enhance the credibility of sustainability disclosures.

The linkage tables

The tables below present the G4 Disclosures that can be used to gather information, and formulate responses, to each element of the European Directive.

EU DIRECTIVE	G4 GUIDELINES
GENERAL STATEMENTS	
Art. 19a (1)(a) a brief description of the undertaking's business model;	G4-Disclosures on Strategy and Analysis and Organizational Profile
Art. 19a (1): Where the undertaking does not pursue policies in relation to one or more of those matters, the non-financial statement shall provide a clear and reasoned explanation for not doing so.	Reasons for omission
Art. 19a (5) Member States shall ensure that the statutory auditor or audit firm checks whether the non-financial statement referred to in paragraph 1 or the separate report referred to in paragraph 4 has been provided; (6): Member States may require that the information in the non-financial statement referred to in paragraph 1 or in the separate report referred to in paragraph 4 be verified by an independent assurance services provider. Also Art. 20(b).	G4-Disclosures on External Assurance
Art. 20 (1)(g): a description of the diversity policy applied in relation to the undertaking's administrative, management and supervisory bodies with regard to aspects such as, for instance, age, gender, and educational and professional backgrounds, the objectives of that diversity policy, how it has been implemented and the results of its implementation in the reporting period. If no such policy is applied, the statement shall contain an explanation as to why this is the case.	G4-38, G4-40, G4-Disclosures on Employment (Indicator G4-LA1 and DMA) and Diversity and Equal Opportunity (Indicator G4-LA12 and DMA), and Reasons for omission

³) The only exceptions are for the disclosures that cover 'reasons for omission' and external assurance.

EU DIRECTIVE		G4 GUIDELINES	
MATTERS			
Environmental	Art. 19a (1)(a-e)		
	(a) a brief description of the undertaking’s business model;	G4-Disclosures on Strategy and Analysis and Organizational Profile	
	(b) a description of the policy pursued by the undertaking in relation to those matters, including due diligence processes implemented;	G4-Disclosures on Management Approach for environmental Aspects (b)	
	(c) the outcome of those policies;	G4-Disclosures on Management Approach for environmental Aspects (c)	
	(d) the principal risks related to those matters linked to the undertaking’s operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks;	G4-2 (contextualized by G4-Disclosures on Management Approach (a, b, c))	
	(e) non-financial key performance indicators relevant to the particular business.	G4 Indicators for environmental Aspects	
	Further specifications in Recital		
	(7) use of renewable and/or non-renewable energy	G4-Disclosures on Aspects “Energy” (Indicators and DMA)	
	(7) greenhouse gas emissions	G4-Disclosures on Aspects “Emissions” and “Energy” (Indicators G4-15 to G4-19, G4-EN3-G4-EN7, and DMAs)	
	(7) water use	G4-Disclosures on Aspects “Water” (Indicators and DMA)	
(7) air pollution	G4-Disclosures on Aspects “Emissions” (Indicators G4-20 to G4-21 and DMA)		
(17) land use	G4-Disclosures on Aspects “Biodiversity” (Indicators and DMA)		
(17) use of materials	G4-Disclosures on Aspects “Materials” (Indicators and DMA)		

EU DIRECTIVE		G4 GUIDELINES	
MATTERS			
Social	Art. 19a (1)(a-e)		
	(a) a brief description of the undertaking’s business model;	G4-Disclosures on Strategy and Analysis and Organizational Profile	
	(b) a description of the policy pursued by the undertaking in relation to those matters, including due diligence processes implemented;	G4-Disclosures on Management Approach for society Aspects (b)	
	(c) the outcome of those policies;	G4-Disclosures on Management Approach for society Aspects (c)	
	(d) the principal risks related to those matters linked to the undertaking’s operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks;	G4-2 (contextualized by G4-Disclosures on Management Approach (a, b, c))	
	(e) non-financial key performance indicators relevant to the particular business.	G4 Indicators for the different Aspects under the “Society” category	
	Further specifications in Recital		
	(7) dialogue with local communities	G4-Disclosures on Aspects “Local Communities” (Indicator SO1 and DMA)	
(7) actions taken to ensure the protection and the development of those communities	G4-Disclosures on Aspects “Local Communities” (Indicators and DMA)		

EU DIRECTIVE	G4 GUIDELINES		
MATTERS			
Employees	Art. 19a (1)(a-e)		
	(a) a brief description of the undertaking’s business model;	G4-Disclosures on Strategy and Analysis and Organizational Profile	
	(b) a description of the policy pursued by the undertaking in relation to those matters, including due diligence processes implemented;	G4-Disclosures on Management Approach for labor practices and decent work Aspects (b)	
	(c) the outcome of those policies;	G4-Disclosures on Management Approach for labor practices and decent work Aspects (c)	
	(d) the principal risks related to those matters linked to the undertaking’s operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks;	G4-2 (contextualized by G4-Disclosures on Management Approach (a, b, c))	
	(e) non-financial key performance indicators relevant to the particular business.	G4 Indicators for the different Aspects under “Labor practices and decent work” category	
	Further specifications in Recital		
	(7) actions taken to ensure gender equality	G4-Disclosures on Aspects “Non-Discrimination” and “Diversity and Equal Opportunity” (Indicators and DMA)	
	(7) implementation of fundamental conventions of the International Labour Organisation	References to the ILO conventions are specifically mentioned (page 64), further: G4-Disclosures for the different Aspects under the “Labor Practices and Decent Work” category	
	(7) working conditions	G4-Disclosures for the different Aspects under the “Labor Practices and Decent Work” category	
	(7) social dialogue	G4-Disclosures for the different Aspects under the “Labor Practices and Decent Work” category	
	(7) respect for the right of workers to be informed and consulted	G4-Disclosures on Aspect “Labor Practices Grievance Mechanisms” and “Labor/Management Relations” and “Training and Education” (Indicators and DMAs), Stakeholder Inclusiveness Principle	
	(7) respect for trade union rights	G4-Disclosures on Aspect “Freedom of Association and Collective Bargaining” (Indicator HR4 and DMA)	
	(7) health and safety at work	G4-Disclosures on Aspect “Occupational Health and Safety” (Indicators and DMA)	

EU DIRECTIVE		G4 GUIDELINES
MATTERS		
employees (cont.)	Further specifications in Recital (cont.)	
	(18) Diversity of competences and views of the members of administrative, management and supervisory bodies (19) for instance age, gender and educational and professional backgrounds	G4-Disclosures on Aspects “Non-Discrimination” and “Diversity and Equal Opportunity” (Indicators and DMA) and G4-Disclosures on “The governance structure and its composition” in the Governance section
	(18) more diversified boards	G4-Disclosures on “The governance structure and its composition” in the Governance section
Human rights	Art. 19a (1)(a-e)	
	(a) a brief description of the undertaking’s business model;	G4-Disclosures on Strategy and Analysis and Organizational Profile
	(b) a description of the policy pursued by the undertaking in relation to those matters, including due diligence processes implemented;	G4-Disclosures on Management Approach for human rights Aspects (b)
	(c) the outcome of those policies;	G4-Disclosures on Management Approach for human rights Aspects (c)
	(d) the principal risks related to those matters linked to the undertaking’s operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks;	G4-2 (contextualized by G4-Disclosures on Management Approach (a, b, c))
	(e) non-financial key performance indicators relevant to the particular business.	G4 Indicators for the different Aspects in the Human Rights category
	Further specifications in Recital	
(7) prevention of human rights abuses	G4-Disclosures for the different Aspects under the “Human Rights” category	

EU DIRECTIVE		G4 GUIDELINES
MATTERS		
Anti-corruption and bribery	Art. 19a (1)(a-e)	
	(a) a brief description of the undertaking's business model;	G4-Disclosures on Strategy and Analysis and Organizational Profile
	(b) a description of the policy pursued by the undertaking in relation to those matters, including due diligence processes implemented;	G4-Disclosures on Management Approach for the Aspects "Anti-Corruption" and "Public Policy" (b)
	(c) the outcome of those policies;	G4-Disclosures on Management Approach for the Aspects "Anti-Corruption" and "Public Policy" (c)
	(d) the principal risks related to those matters linked to the undertaking's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks;	G4-2 (contextualized by G4-Disclosures on Management Approach (a, b, c))
	(e) non-financial key performance indicators relevant to the particular business.	G4 Indicators for the Aspects "Anti-Corruption" and "Public Policy"
	Further specifications in Recital	
(7) instruments in place to fight corruption and bribery	G4-Disclosures for the Aspects "Anti-Corruption" and "Public Policy" (Indicators and DMA)	



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