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Comments Regarding Global Reporting Initiative's Draft G3 Sustainability Reporting Guidelines

We are pleased to have an opportunity to comment on the Global Reporting Initiative's (GRI) draft Sustainability Reporting Guidelines ("G3" or "Guidelines"). As an accounting organization representing 64,000 members and students worldwide, we continue to support initiatives such as the GRI, that promote improvements in corporate transparency and accountability.

In fact, our commitment to sustainability reporting is demonstrated by a major study launched in June of last year that examined sustainability reporting practices in Canada. The main outcome of this initiative was a report titled *Measuring Up: A Study on Corporate Sustainability Reporting in Canada* that presents the perspectives of Canadian corporations on significant sustainability reporting issues including their views on key stakeholders and reporting driving forces and their awareness and support for GRI and its objectives. In addition, the paper puts forward a number of recommendations regarding future directions in sustainability reporting and offers our support for the GRI and its goal of developing a generally accepted sustainability reporting framework.

Significant Progress made with G3

We recognize the complexities involved in developing guidelines for the reporting of non-financial information and commend the GRI and its supporters for the progress that has been made to date with the release of the draft G3 Guidelines. In particular, we are pleased to see the following characteristics evident in G3, all of which are consistent with recommendations contained in our paper:

- A balance between standardization and flexibility recognizing the importance of comparability while at the same time allowing for incremental adoption and reporting based on an organization's unique circumstances;
- Recognition that sustainability reporting is still in its infancy and that guidelines must continue to evolve over time gaining from the experience of users and reporters;
- More efficient and effective guidance with technical protocols for all indicators and a more succinct and logically flowing document to facilitate greater consistency in reporting and ultimately greater comparability within and between organizations;
- Principles and guidance that draw from financial reporting guidelines and principles (for example, the tests used for assessing control and significant influence when boundary setting);
- Efforts to make qualitative indicators more comparable and results-oriented to enable greater period-to-period and organization-to-organization comparisons, and produce disclosures more amendable to assurance;
- Sensitivity to the number of indicators with a reduction of core and total indicators to encourage reporting and reduce concerns of information overload for users.

In keeping with GRI's commitment to the continuous improvement of its reporting framework, we recommend that GRI continue to collaborate with its stakeholders to refine and improve the Guidelines in the areas just identified.

ADDITIONAL COMMENTS REGARDING G3

Our remaining comments regarding the draft G3 Guidelines focus on those issues that directly impact the credibility of sustainability reports. It was clear in our analysis of sustainability reporting in Canada that the “credibility” of reporting is the area of greatest concern to those most experienced with reporting on their sustainability performance. To enhance credibility, we believe that sustainability reporting guidelines should promote disclosures that are suitable for third party assurance. As a result, the following comments are made with the aim of promoting consistent interpretation of the Guidelines and the reporting of information amenable to assurance. In addition, we offer comments on disclosures and guidance related to assurance. In addressing these issues, we believe that our comments will also speak to a number of the specific questions raised by GRI in its request for public comment.

Sustainability Impact vs. Stakeholder Focus

The working groups debated at length what the definition of relevance and materiality should be. Do you think it should be defined in terms of the organization's sustainability impact OR in terms of information that would influence the decisions of an organization's stakeholders?

In moving through the analysis in this section and the two that follow, it is concluded that Relevance and Materiality should be defined in terms of those “sustainability impacts that would influence the decisions of an organization's stakeholders”. How this definition is interpreted will depend on the degree to which an organization applies the G3 Guidelines. The following discussion and recommendations attempt to provide clarity on this perspective.

Discussion

The GRI describes the GRI Reporting Framework as a “generally accepted framework for reporting on an organization's economic, environmental, and social performance” and defines sustainability reporting as the “practice of measuring, disclosing and being accountable for organizational performance towards the goal of sustainable development”. It is clear from these definitions that the Guidelines are intended to guide organizations in disclosing to stakeholders their sustainability impacts.

It is felt that the multi-stakeholder process used to develop the Guidelines ensures that the Guidelines best reflect society's values as to what is important (i.e. relevant and material) for measuring the sustainability performance or sustainability impacts of an organization after taking into account cost and benefit considerations and the experiences of reporters and users.

“Disclosure Items”, “Core Indicators” and “Sectoral Indicators” (Core Disclosures) include society's views on what information is considered *relevant* and *material* for measuring the sustainability performance of a majority of organizations, while the principles and additional indicators guide reporters on what other information or sustainability impacts (Additional Disclosures) are *material* based on the organization's particular circumstances. A *material* item, as discussed in more detail in the next section, should be defined in terms of the information on sustainability performance that would influence the decisions of an organization's shareholders.

Based on this understanding, sustainability reports would include information on an organization's sustainability impacts that are defined as relevant and material through a combination of Core Disclosures defined by society (ie. GRI's multi-stakeholder process) and Additional Disclosures defined by its stakeholders.

Although this assessment is not significantly different from that already envisaged by GRI, it does imply that in order for an organization to report on its "true" sustainability performance or sustainability for a given time period, it must report on all Core Disclosures as well as those material issues and indicators not yet covered (Additional Disclosures). Therefore, rather than applying a materiality test to assess whether to include "Core Indicators" or "Disclosure Items", an organization reporting on its "true" sustainability performance must include these disclosures as, by definition, they are material by process of their designation as such in the Guidelines.

It may be argued that in some circumstances Core Disclosures may have no or limited relevance to an organization and that inclusion of this information will be overly burdensome for both reporters and users. However, it is felt that provided the Core Disclosures are evaluated by GRI as critical for measuring sustainability impacts, the extent to which each disclosure applies to an organization no matter how large or small, will still prove useful to the users of the reports. In particular, Core Disclosures will provide users with the information needed to make assessments of an organization's impact on broader sustainability development goals and conditions and will allow them to compare these impacts to those of other organizations.

Since application of the Guidelines is voluntary, those organizations that do not have the resources or desire to fully apply the Guidelines and report on their "true" sustainability performance, have the option of taking an incremental approach to reporting. In this regard, we feel that by making Core Disclosures mandatory for those reporting on their "true" sustainability performance, the Guidelines will not become unnecessarily burdensome for those wishing to disclose only certain aspects of their sustainability performance.

Recommendations

- GRI continue to strive for the creation of a comprehensive framework that provides guidance for an organization to report on its material economic, environmental, and social performance (i.e. its sustainability impact);
- If an organization is to fully apply G3 and report on its "true" sustainability performance, it must report on all Core Disclosures (i.e., "Disclosure Items", "Core Indicators" and "Sectoral Indicators"). Omissions of Core Disclosures based on "feasibility assessments" would not result in a report reflecting an organization's "true" sustainability performance, but instead, would require the organization to disclose a limited application of the Guidelines (i.e. an alternative Reporting Level, as discussed later);
- To address concerns of information overload and excessive preparation costs, GRI should continue to review Core Disclosures to confirm their relevance in measuring the sustainability impacts of a majority of organizations. This evaluation may result in a reduction of the number of Core Disclosures and/or a shift of current Core Indicators to indicators contained in Sectoral supplements. The review should also consider removing redundancies in the Core Disclosures (for example, "Disclosure Items" 3.10 and 4.16 and 3.11 and 4.17 appear redundant and may be consolidated);
- GRI should review the Sustainability Context principle and guidance on "Data Aggregation and Disaggregation" for their implications on measuring sustainability impacts. There appears to be limited integration of the Sustainability Context principle into actual indicators which puts into question whether organizations are required to include this information along with individual performance associated with

the Core Indicators. In addition, although aggregation of information included in the disclosures may assist users in assessing sustainability impacts in a broader sense, it is questionable whether the onus should be on reporters to gather data or make assessments on the limits and demands placed on environmental or social resources. Further clarification in this area would be useful.

Relevance and Materiality

The information in a report should cover issues and indicators that would substantively influence the decisions of the stakeholders using the report

Discussion

We agree that the definition for Relevance and Materiality should be defined in terms of those issues and indicators considered important to stakeholders expected to use a sustainability report. As reporting is voluntary, it is felt that the needs of stakeholders, weighed in conjunction with the values of management and the costs and benefits of reporting, that ultimately determine the extent of an organization's sustainability reporting.

Organizations that take an incremental approach to reporting would apply this definition of Relevance and Materiality to determine which Core and Additional Disclosures are within the scope of their reports and need to be reported. Organizations with full application of G3 would also use a stakeholder approach for identifying material disclosures. However, as stated in the previous section, these organization would report on *all* Core Disclosures and would determine which additional issues and indicators are Relevant and Material based on what is important to the stakeholders expected to use the report.

Although we agree with the definition of Relevance and Materiality stated above, we feel that the "Explanation" section supporting this definition requires greater consistency and clarity to ensure more uniform interpretation and reporting by organizations. A brief summary of the content contained in the "Explanation" section will hopefully aid in understanding our subsequent recommendations.

The "Explanation" describes relevant issues as those that are "considered to be important" to "organizations" and "stakeholders", while materiality is referred to as the threshold at which an indicator becomes "sufficiently important". The section later indicates that relevance and materiality should be determined by considering "management or organizational priorities, organization's sustainability impacts, and the interests of stakeholders" and that the majority of the focus of the sustainability report should be on those issues "most material to users" and issues where an organization has the "most significant sustainability impacts". Finally, the "Tests" at the end of the explanation section state that in defining material issues, reporters should make reference to external and internal factors including the "main issues for the sector reported by peers and competitors" and "local, regional, national and international regulations, laws or voluntary agreements".

Recommendations

Information in a report should cover issues and indicators that "would substantively influence the decisions of the stakeholders using the report". We agree with this definition for Relevance and Materiality and its application with the principles of Inclusivity and Completeness to identify appropriate report content. However, as mentioned above, we feel the definitions and discussion included in the "Explanation" section require more clarity. As a result, we recommend the following:

- Consistent with the definition of Relevance and Materiality, relevant issues and indicators should be defined in the context of what is of importance to stakeholders and not the organization. External

reports are intended to provide information to those that do not have direct access to information about an organization's performance. As a result, it should be explicit that relevant issues and indicators are those that are of importance to stakeholders identified through stakeholder engagement and that other factors such as "organizational priorities", "sustainability impacts", and the internal and external factor "tests", are secondary factors used for assisting with this identification;

- The phrase "considered to be important" when defining relevance requires further guidance. An expanded definition based on that used in financial reporting, could include the following:

"Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the sustainability impact of past, present or future performance or correct previous evaluations – relevance is achieved through information that has predictive value or feedback value and by its timeliness."

- Inherent with materiality is the need to use judgment to determine whether a relevant issue or indicator is material and requires disclosure. In this respect, we feel the phrases "substantively influence" and the "threshold at which an indicator or issue becomes sufficiently important" do not provide sufficient guidance to make this judgment. As a result, we also suggest expanding the definition to one that is similar to that used in financial reporting:

"Materiality is the term used to describe the significance of information on an organization's sustainability performance to decision makers. An item of information, or an aggregate of items, is material if it is probable that its omission or misstatement would influence or change a decision."

- The discussion surrounding the prioritization of issues and indicators on the basis of their materiality also requires further clarification. In reviewing this principle, it is not apparent on how a reporter would prioritize issues. Does prioritization relate to the relative ordering of disclosures in the sustainability report, the amount of coverage dedicated to each disclosure, and/or an explicit ranking of priorities? Does it apply to all preparers using the Guidelines or only to those employing incremental adoption? Is prioritization even necessary provided an organization's report, within its scope, covers issues and indicators that would substantively influence the decisions of the stakeholders using the report? In our view, more clarification on this issue is required;
- With the emphasis on stakeholder engagement as a means for identifying relevant and material issues, GRI should consider providing additional guidance for preparers on how the stakeholder engagement process can be used to ensure all stakeholders and relevant issues are considered. This may include further guidance on the extent and timing of the stakeholder engagement process and/or reference to other relevant guidance (i.e. AccountAbility's AA1000SES).

Reporting Levels

In the future, a system of approximately 3-5 reporting levels that reflect the extent of application of the GRI Reporting Framework will be designed.

Discussion

As the preceding discussion has indicated, we believe the GRI Reporting Framework should represent a comprehensive framework that provides guidance for organizations to report on their material sustainability performance for a particular period of time. Organizations can select issues and indicators to report based on stakeholder demands balanced by organizational resources and management's proclivity to report.

As organizations are permitted to report incrementally, a clear indication of the degree to which the Guidelines have been applied by a reporting organization will improve transparency and should assist

assurers in identifying the scope of disclosures on which to base assurance. This is particularly important if an organization omits certain material disclosures due to a “feasibility assessment” or decides to report on one particular aspect of performance.

Recommendations

- Clear indication to preparers that the GRI Reporting Framework and Guidelines provide guidance for full disclosure of all material sustainability performance and that incremental adoption is available;
- To provide clarity on incremental adoption, the GRI should follow through with its plans to develop specific Reporting Levels. These Reporting Levels may include the following:
 - Material sustainability performance in accordance with the GRI Reporting Framework;
 - Material sustainability performance in accordance with the GRI Reporting Framework except for specific indicators or standard disclosures;
 - Reporting on performance in a particular performance area or area of operations using specific indicators or standard disclosures provided in G3;
- Regardless of which Reporting Levels are ultimately used, the scope of each should be clearly defined so that the principles (i.e. Inclusivity, Relevance and Materiality, Sustainability Context and Completeness) used to define report content within the scope of each Reporting Level can be applied;
- Add a “Disclosure Item” that indicates Reporting Level and the degree to which the Guidelines have been applied. Consider locating this Reporting Level disclosure near disclosures on Plans for Future Reporting (3.5) and Assurance (3.17);
- Consider providing further guidance on how sustainability information provided in more than one location will impact an organization’s qualification for the identified Reporting Levels. This guidance is necessary as sustainability information may appear in multiple reports (i.e. web-based report, annual report, sustainability report) or may be included as part of other disclosures (i.e. in Canada, publicly traded companies are now required to provide disclosures on material social and environmental risks that impact current and future performance in their Management Discussion & Analysis filed with Canadian securities regulators).

Assurance and Related Disclosures

3.17 Policy and current practice with regard to seeking independent assurance for the report. If not included in the assurance report accompanying the sustainability report, explain the scope and basis of any independent assurance provided as well as nature of the relationship with the assurance provider.

Discussion

It is agreed that assurance can help organizations improve the credibility of their sustainability reports in the eyes of stakeholders. However, for assurance to have value, it is critical that the users of sustainability reports have a clear understanding of what extent assurance has been provided on the reports (i.e. the level of assurance provided, disclosures for which assurance has been provided, and by whom the assurance was performed).

This transparency is especially important given that the assurance of sustainability information, like sustainability reporting, is still in its infancy and is currently provided by a number of different individuals and

organizations with varying degrees of experience and expertise and in accordance with various codes, guidelines and/or standards.

It is believed that as experience with reporting and assurance increases, generally accepted methodologies and assurance processes will develop, similar to what has occurred with financial reporting. However, until generally accepted assurance standards mature, we feel it is necessary for reporters to provide adequate disclosure on the extent external assurance has been provided on the information contained in their sustainability reports. Although “Disclosure Item” 3.17 above helps achieve the required transparency, we feel that further guidance, along with a clearer definition of what constitutes assurance, is needed.

Recommendations

Defining Assurance:

- Assurance should be defined as “opinions made by independent, impartial and competent parties on the assertions made by management” contained in a sustainability report. As a result, it should be made clear to preparers that stakeholder statements, certifications, the use of internal audit processes, or statements indicating compliance with codes, although they enhance the credibility of sustainability information, do not constitute assurance but are rather assertions made by management;

Assurance Disclosures:

- An additional “Disclosure Item” is needed that states that management is responsible for the content of a sustainability report including any assertions surrounding compliance with codes, certifications, stakeholder statements or the use of internal audit processes. Although this statement is mentioned as a “Test” under the Assurability principle, it should be an explicit “Disclosure Item” in the Guidelines;
- For an organization to reference the Guidelines, an organization must state its current policy and practice towards assurance whether one is used or not. If assurance is not provided, GRI should consider providing guidance on standard wording indicating that the content and statements included in a report have not been verified by an independent third party;
- If third party assurance is provided, we agree that the reporting organization should refer to the “scope and basis” of the independent assurance. However, if an organization is to communicate that assurance has been provided, the sustainability report must include an assurance statement from the third party assurer;
- In the absence of generally accepted assurance standards, GRI should provide minimal requirements for what is to be included in an assurance statement. These statements should include disclosures similar to those required in assurance opinions used in financial reporting and those referenced by the International Auditing and Assurance Standards Board (IAASB) in its ISAE 3000 standard *Assurance Engagement’s Other than Audits or Reviews of Historical Financial Information* (ISAE). At the very least these disclosures should include the following:
 - Scope (i.e. reporting period and boundary, content assured including Reporting Level if applicable) and any restrictions on scope;
 - Level(s) of assurance provided;
 - Summary of work performed and conclusions;
 - Independence and relevant professional competencies and experience of the assurance provider;
 - Standards, codes and/or guidelines, if any, used to perform the assurance engagement (i.e. ISAE 3000, AccountAbility AA1000 Assurance Standard);

Summary

The table below attempts to summarize our recommendations regarding the content of a sustainability report based on the definition of Relevance and Materiality and disclosures relating to Reporting Level and Assurance.

Basis for Disclosure	Full Application of Guidelines	Incremental Approach
Required	Core Disclosures: <ul style="list-style-type: none"> • Disclosure Items (including Reporting Level and Assurance disclosures) • CORE Indicators • Sectoral Indicators (if available) 	<ul style="list-style-type: none"> • Reporting Level • Other Disclosure Items (ie. Report Scope, Boundary, Assurance)
Dependent on principles of Inclusivity, Sustainability Context, Relevance and Materiality and Completeness and further guidance on Reporting Levels	Additional Disclosures: <ul style="list-style-type: none"> • Additional Indicators • Content of Disclosure on Management Approach • Other material issues and performance 	<ul style="list-style-type: none"> • All Indicators, Disclosure Items, and other <i>material</i> disclosures within scope of Reporting Level selected

With respect to implementation, the recommendations referred to in the above table that relate to the definitions and explanation of Relevance and Materiality and disclosures associated with Reporting Levels and Assurance are changes recommended prior to the finalization of G3. Recommendations made with respect to Assurance Guidance, although preferred prior to release of G3, are not considered critical for the release of the G3 Guidelines.

We thank you again for the opportunity to provide comment on the draft G3 Guidelines. If you have any questions regarding our recommendations, we invite you to contact Philip Gans at pgans@cga-canada.org or by telephone at (613) 789-7771 ext. 231.

Regards,

[Original signed by:]

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