

International Sustainability Standards Board
International Financial Reporting Standards Foundation
Columbus Building, 7 Westferry Circus
Canary Wharf, London, E14 4HD
United Kingdom

27 July 2022

Re: General Disclosure Requirements on Community Stakeholder Engagement and Grievance Redress are Essential to Meet the Objectives of IFRS Sustainability Reporting

To the International Sustainability Standards Board:

Introduction

Thank you for the opportunity to provide feedback on the Exposure Draft on General Requirements for Disclosure of Sustainability-related Financial Information (Exposure Draft). Accountability Counsel and Inclusive Development International are non-profit organizations that support communities who have been harmed by international investments to seek justice. We write in response to specific prompts posed by the Exposure Draft to **recommend the inclusion of baseline general reporting on stakeholder engagement and grievance redress in line with internationally accepted standards and guidance.**

As human rights organizations, we are concerned by ISSB’s conception of financial materiality, which focuses exclusively on sustainability-related risks and opportunities to enterprise value. This approach limits the usefulness of the standards only to investors that seek to use environmental and social data to determine how an individual reporting company will perform financially. This is problematic, as a growing number of investors consider non-financial sustainability data critical to their investment decisions. We are concerned that adopting a narrow definition of materiality fails to encourage the disclosure of decision-useful information that extends beyond that which affects immediate enterprise value. We encourage ISSB to adopt a broader approach to materiality that includes non-financial impact data and stakeholder data, which reasonable investors increasingly consider material to their investment decisions (“double materiality”);¹ or, minimally, that encompasses “beta” data aimed at capturing systemic sustainability-related risks to diversified investors as a result of companies’ externalizing costs to protect individual enterprise value.²

Nonetheless, we do preliminarily agree with the Exposure Draft that adverse external impacts on local communities are very often detrimental to an entity’s enterprise value with respect to reputational effects

¹ *Double materiality* encompasses both *financial materiality*, or information on economic value creation for the benefit of investors; as well as *impact materiality*, or information on the reporting company’s impact on the economy, environment and people for the benefit of multiple stakeholders, including but not limited to investors. This approach has been adopted by the Global Reporting Initiative (GRI) and the European Financial Reporting Advisory Group (EFRAG) in the construction of the European Sustainability Reporting Standards (ESRS). See, e.g. Global Reporting Initiative, <https://www.globalreporting.org/media/r2oojx53/gri-perspective-the-materiality-madness.pdf>

² For more explanation of beta stewardship, see Harvard Law School Forum on Corporate Governance, “One Small Step from Financial Materiality to Sesquimateriality: A Critical Conceptual Leap for the ISSB,” May 2022. <https://corpgov.law.harvard.edu/2022/05/04/one-small-step-from-financial-materiality-to-sesquimateriality-a-critical-conceptual-leap-for-the-issb/>.

and regulatory fallout.³ Moreover, engagement with investment-impacted communities and working to remedy adverse impacts on local communities are financially material with respect to the entity's ability to stay relevant, competitive, and responsive to shareholder and stakeholder demands for greater environmental and social due diligence. Reporting on community stakeholder engagement and grievance redress has become a feature of other widely accepted international sustainability standards such as the UNDP SDG Impact Standards for Private Equity Funds, Bond Issuers, and Enterprises,⁴ the OECD-UNDP Impact Standards for Financing Sustainable Development,⁵ and the Global Reporting Initiative Universal Standards for sustainability impacts across business sectors.⁶ In each case, the standards have relied on the effectiveness criteria outlined by the UN Guiding Principles for Business and Human Rights (UNGPs)⁷ to assert how entities should report qualitatively on the availability, use, and design of their respective grievance redress mechanisms. With this background in mind, please see below for our responses to the following questions presented by the Exposure Draft.

QUESTION 1 – OVERALL APPROACH

(b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?

QUESTION 4 – CORE CONTENT

(b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

³ Exposure Draft, at p. 5.

⁴ See UNDP SDG Impact Standard 2.1 (requiring that institutions seeking to align with the 2030 Sustainable Development Goals establish or participate in effective grievance and reparation mechanisms for affected stakeholders), available for download at <https://sdgimpact.undp.org/practice-standards.html>.

⁵ See OECD-UNDP Impact Standard 2 (requiring that independent functioning grievance and reparation mechanisms are in place), available for download at <https://www.oecd.org/dac/oecd-undp-impact-standards-for-financing-sustainable-development-744f982e-en.htm#:~:text=In%20order%20to%20help%20mend,a%20positive%20impact%20on%20sustainable.>

⁶ See GRI Universal Disclosures 2-25 (reporting on the effectiveness of operational grievance redress mechanisms) 2-29 (meaningful two-way engagement with community stakeholders), 3-1 (the availability of grievance mechanisms to address adverse community impacts), 3-3(e)(1) (how grievance mechanism have helped manage impacts and facilitate remedy for negative impacts), available for download at https://www.globalreporting.org/standards/standards-development/universal-standards/?utm_campaign=12712183_Follow%20up%20on%20launch%20of%20the%20updated%20Universal%20Standards&utm_medium=Engagement%20Cloud&utm_source=Global%20Reporting%20Initiative&dm_i=4J5,7KGS7,34VHC5,UT3YB,1

⁷ See UN GUIDING PRINCIPLES ON BUSINESS AND HUMAN RIGHTS, Principles 29 and 31, available at https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr_en.pdf#page=38.

RESPONSE

Without disclosures that specifically account for stakeholder engagement and grievance redress, the proposed requirements will fall short of providing the most useful information on significant sustainability-related risks and opportunities to primary users of general purpose financial reporting. As recognized by the International Finance Corporation's Performance Standards⁸ and Operating Principles for Impact Management,⁹ as well as the World Economic Forum/International Business Council Stakeholder Capital Metrics,¹⁰ establishing direct lines of communication with communities vis-à-vis stakeholder engagement and grievance redress mechanisms are essential to optimizing investment dollars and managing risks to enterprise value.

We see this as well in our work. Take for example an investment in a hydroelectric facility in [Oaxaca, Mexico](#):¹¹ investors were able to salvage losses and avoid devastating environmental and social impacts because of the availability of a grievance redress mechanism.

In 2010, Conduit Capital Partners, LLC contracted with the United States Overseas Private Investment Corporation (OPIC) for the \$60 million USD Cerro de Oro Hydroelectric Project. Communities neighboring the project, located in an area with Mexico's poorest populations, were repeatedly denied their right to informed participation in the Project; some were compelled to negotiate away their land rights without essential information about the project or adequate compensation for their potential loss of livelihood, while other rights holders were not consulted at all.

⁸ See International Finance Corporation Performance Standard 1 ("Stakeholder engagement is the basis for building strong, constructive, and responsive relationships that are essential for the successful management of a project's environmental and social impacts. Stakeholder engagement is an ongoing process that may involve, in varying degrees, the following elements: stakeholder analysis and planning, disclosure and dissemination of information, consultation and participation, grievance mechanism, and ongoing reporting to Affected Communities") and the accompanying implementation resources STAKEHOLDER ENGAGEMENT: A GOOD PRACTICE HANDBOOK FOR COMPANIES DOING BUSINESS IN EMERGING MARKETS (May 2007), both available for download at https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/performance-standards/ps1.

⁹ See International Finance Corporation, INVESTING FOR IMPACT: OPERATING PRINCIPLES FOR IMPACT MANAGEMENT, Principle 5 (referencing the UN Guiding Principles on Business and Human Rights, including its requirements for effective operational-level grievance mechanisms, as good international industry practice for monitoring and managing potential negative ESG impacts of investments) (2019), available at https://www.ifc.org/wps/wcm/connect/720ed26b-48fe-40fb-9807-711d869c5bf9/Impact+Investing_Principles_FINAL_4-25-19_footnote+change_web.pdf?MOD=AJPERES&CVID=mJ20IIA#page=6.

¹⁰ World Economic Forum, MEASURING STAKEHOLDER CAPITALISM: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation (metrics include: "Material Issues Impacting Stakeholders," which requires companies to identify issues that are important, relevant, or concerning to critical stakeholders; "Human Rights Review, Grievance Impact, and Modern Slavery," which calls for disclosures on the number and type of grievances reported with associated impacts related to salient human rights issues and detail the types of impacts; and "Significant Indirect Economic Impacts," requiring disclosures on positive and negative impacts to community livelihoods, local economies and labor markets) (2020), available at <https://www.weforum.org/stakeholdercapitalism>.

¹¹ Oaxaca case study available at <https://www.accountabilitycounsel.org/client-case/mexico-oaxaca-hydroelectric/#case-story>.

After discovering that the project would fundamentally change local waterways, water quality, and the cultural integrity of land, the affected communities attempted to raise concerns about the project's potential impacts on the environment and the wellbeing of nearby residents to governmental authorities and project contractors. When they received no meaningful response, they filed a complaint through the grievance mechanism of OPIC. The complaint resulted in a professionally-mediated dialogue process that included participation from the communities, the Mexican operating company, government officials, and investors. The dialogue process offered communities an opportunity to raise serious objections to the project design, and the investors chose to stop the investment. But for the existence of an institution's independent grievance mechanism, the investors might not have been made aware of the true risks and externalities of their investments.

Not only are stakeholder engagement and grievance redress disclosures useful to primary users of general purpose financial reporting, they are essential components of due diligence and accountability for underpinning governance, managing risk, and optimizing on sustainability targets. The governance, risk management, and metrics and targets disclosures therefore can be improved by including expectations to disclose (a) stakeholder engagement and grievance redress mechanism policies, (b) the issues and investments implicated by complaints received through grievance mechanisms (including mechanisms established by an enterprise itself, as well as third party mechanisms an enterprise may participate in), and (c) decisions and outcomes in response to complaints. Doing so would comport with existing international sustainability reporting standards and emerging regulations.¹² Additionally, reporting on the use and outcomes of effective grievance mechanisms would serve to enhance the verifiability of reporting, considering that direct feedback from investment impacted communities is a fundamental way to ground-truth environmental and social impacts, as well as whether risk management policies are being followed.

Governance

While the Exposure Draft's governance disclosures require, among other things, a description of the bodies responsible for the oversight of sustainability-related risks and opportunities as well as how and how often they are informed about sustainability-related risks and opportunities, there are no requirements to disclose relevant policies and data related to the existence, use, and effectiveness of grievance redress mechanisms. This is out-of-step with peer sustainability reporting standards,¹³ which have embraced grievance mechanism disclosures primarily for two reasons: (1) they provide insight into whether an entity is proactively identifying and addressing concerns to prevent problems from escalating and harm from compounding; and (2) they can provide important feedback on the effectiveness of the

¹² See, e.g., PROPOSAL FOR A DIRECTIVE ON CORPORATE SUSTAINABILITY DUE DILIGENCE, European Commission, Article 9 (requiring that companies establish complaints procedures to provide the possibility for communities to raise legitimate concerns regarding actual or potential adverse human rights impacts and adverse environmental impacts in a value chain) (2022), available for download at https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12548-Sustainable-corporate-governance_en.

¹³ E.g., Global Reporting Initiative Universal Standards, Disclosures 2-25, 3-1, 3-3(e)(1); UNDP SDG Impact Standard 2.1.

organization's environmental, social, and human rights due diligence from those who are directly affected.

The governance disclosure objective, *i.e.*, “to enable the primary users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage significant sustainability-related risks and opportunities,” can be improved with requirements specific to effective grievance mechanisms, inasmuch as they provide a necessary accountability layer to underpin governance and due diligence, and to keep sustainability reporting honest. We therefore recommend the following language:

12. The objective of sustainability-related financial disclosures on governance is to enable users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage sustainability-related risks and opportunities.

13. To achieve this objective, an entity shall disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of sustainability-related risks and opportunities, and information about management's role in those processes. Specifically, an entity shall disclose:

- Whether it has established or participates in an effective grievance redress mechanism to ascertain environmental, social, and human rights concerns from potentially-affected stakeholders, and whether the grievance mechanisms are sufficiently independent from management and governing bodies to avoid complaints mishandling.*
- A description of where and how to access the full texts of grievance mechanism policies and procedures to allow consideration of their effectiveness (i.e., whether they are legitimate, accessible, predictable, equitable, transparent, rights-compatible, a source of continuous learning, and based on engagement and dialogue per the UN Guiding Principles on Business and Human Rights).*

Risk Management

The Exposure Draft's risk management disclosures require general reporting on the process(es) used to monitor and manage sustainability-related risks and opportunities, without requiring specific reporting on the use and effectiveness of policies and processes designed for community consultation and feedback to ascertain and address sustainability-related risks. As good stakeholder relations are a prerequisite for good risk management,¹⁴ the disclosure requirements would be remiss to omit reference to stakeholder

¹⁴ International Finance Corporation, STAKEHOLDER ENGAGEMENT: A GOOD PRACTICE HANDBOOK FOR COMPANIES DOING BUSINESS IN EMERGING MARKETS, 12 (May 2007), available at https://www.ifc.org/wps/wcm/connect/affbc005-2569-4e58-9962-280c483baa12/IFC_StakeholderEngagement.pdf?MOD=AJPERES&CVID=jkD13-p#page=12.

engagement. Allowing entities to frame their risk management processes without addressing stakeholder engagement and grievance redress will create discrepancies in reporting and compromise the ability of users of general purpose financial reporting to fully evaluate and appreciate one entity's overall risk profile against another's, to the detriment of the disclosure objective. We therefore recommend the following language:

25. The objective of sustainability-related financial disclosures on risk management is to enable users of general purpose financial reporting to understand the process, or processes, by which sustainability-related risks and opportunities are identified, assessed and managed. These disclosures shall enable users to assess whether those processes are integrated into the entity's overall risk management processes and to evaluate the entity's overall risk profile and risk management processes.

26. To achieve this objective, an entity shall disclose:

- The process and policies of stakeholder identification, engagement, and involvement in decision making;*
- Stakeholder complaints received through grievance redress mechanisms established by an enterprise or established by a third-party in which the enterprise participates, and actions taken in response to investigate issues, consult with complainants, and remedy concerns.*

Metrics and Targets

While the Exposure Draft's metrics and targets disclosures are intended to convey how an entity measures, monitors and manages its significant sustainability-related risks and opportunities, as well as how it assesses performance on potential ESG and Impact targets, investors simply cannot know their *net* impact performance without input from investment-impacted communities provided through effective grievance mechanisms. We recommend the following language:

27. The objective of sustainability-related financial disclosures on metrics and targets is to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant sustainability-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set

33. An entity shall disclose:

- (a) Performance against its disclosed targets and an analysis of trends or significant changes in its performance, including issues presented by and lessons learned from complaints filed to its grievance mechanisms;*

QUESTION 1 – OVERALL APPROACH

(d) Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?

RESPONSE

The requirements proposed in the Exposure Draft are incomplete because they do not include reporting on effective grievance redress mechanisms. Disclosure requirements pertaining to the policies, use, and outcomes of grievance mechanisms are essential to ground-truth sustainability reporting to the actual lived experience of investment-impacted communities, as well as to ascertain potential externalities outside of an entity's investment metrics and targets. In this regard, reporting on grievance mechanisms can offer investors a direct link to community impacts that may implicate enterprise value. This type of knowledge could have prevented spoiling a substantial investment into what was intended to be a sustainable biomass project in [Liberia](#).¹⁵

From 2008 to 2011, The U.S. Overseas Private Investment Corporation (OPIC) approved three loans totaling \$216.7 million USD to Buchanan Renewables for a biomass project in Liberia. Buchanan Renewables intended to rejuvenate smallholder rubber farms and develop energy infrastructure by converting old rubber trees into biofuel to be used in a Buchanan Renewables-constructed power plant. Instead, inadequate due diligence, lack of community consultation, and poor project execution manifested in serious harm. The power plant was never constructed in Liberia, so they exported the biomass to Europe and dumped chemically-treated wood chips onto the rubber farms, contaminating water and soil. Moreover, the project was designed in a way that prevented previously self-sustaining farmers and charcoal producers from providing for their own welfare once the project began. Smallholder farmers who had subsisted previously on income from their rubber trees were struggling to satisfy basic needs. Charcoal producers lost access to rubber trees they needed to maintain their livelihoods, and Buchanan Renewables employees demanded bribes - including sex from women - to access wood the company had promised to give them for free. Additionally, Buchanan Renewables workers suffered from rampant labor rights violations, including intimidation, dangerous working conditions, and sexual abuse.

Efforts to engage directly with Buchanan Renewables on the negative impacts initially showed some promise; however, in early 2013, Buchanan Renewables abruptly closed the project, withdrew from the project area. OPIC did not ascertain the extent of harm that caused Buchanan Renewables to abandon the project until afterwards, when communities implored OPIC's institutional-level accountability mechanism to investigate the project. The mechanism independently reviewed the project, and its resulting report confirmed the harm

¹⁵ Liberia case study available at <https://www.accountabilitycounsel.org/client-case/liberia-buchanan-renewable-energy/>.

caused by the project and revealed institutional gaps in tracking impact, identifying vulnerable groups, and safeguarding those groups, all to the detriment of sustainability and the reputation of both the investor and the investee.

Auditors can benefit from grievance redress disclosures to better understand the on-the-ground impacts of investments throughout value chains as compared to an entity's self-reported sustainability achievements. We therefore urge enhancing verifiability with express grievance redress disclosure requirements under the general disclosure requirements for governance, risk management, and metrics and targets.

Conclusion

Thank you for your consideration of these recommendations. Accountability Counsel and Inclusive Development International welcome an opportunity for further discussion.

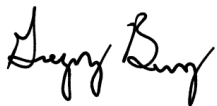
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