

The Reporting and Assurance Frameworks Initiative (RAFI)

Meeting of the Eminent Persons Group

June 17, 2014

Summary Report

A conference call of the Eminent Persons Group (“EPG”) of the Reporting and Assurance Frameworks Initiative (“RAFI”) took place on June 17, 2014. The following report provides a summary of the discussions. Annex A provides the agenda for the conference call.

Participants

Participating EPG members:

1. Sue Almond in lieu of Helen Brand, Chief Executive Officer of the Association of Chartered Certified Accountants (ACCA)
2. Filip Gregor, Lawyer at Frank Bold
3. Peter Hall in lieu of Chair of UN Working Group on Business and Human Rights
4. Thomas Thomas, Chief Executive Officer of the ASEAN CSR Network
5. Peter Herbel, Former Senior Vice-President and General Counsel of Total
6. Adam Kanzer, Managing Director and General Counsel, Dominic Social Investments

Participating project team members:

1. Richard Karmel, Mazars
2. Caroline Rees, Shift
3. John Sherman, Shift
4. Anna Triponel, Shift

The RAFI project team also held individual phone conversations with other EPG members who were unable to join this conference call.

Session 1: Overview of Agenda & Recent Developments

This session focused on sharing information about recent developments in the field of reporting and assurance that are of relevance for RAFI. In particular:

- The EU non-financial reporting directive, which calls for human rights disclosure from around 6,000 EU companies. The directive does not mention materiality and calls for the reporting of information necessary “for an understanding of the undertaking's development, performance and position and of the impact of its activity.” Impacts on society are deemed important – this is a major step forward and RAFI fits well within this new definition. It will be relevant for RAFI to engage further with the European Commission staff tasked with developing

guidelines for the application of this new directive, especially as the directive does not apply the terminology of the UN Guiding Principles word for word which could result in some confusion

- The UK's Financial Reporting Council ("FRC") recently issued its final guidance relating to human rights reporting for UK quoted companies. Shift engaged directly with the FRC to help shape its draft guidance. The final document now specifically refers directors to the UN Guiding Principles for further guidance and notes that a description of the key components of the responsibility to respect can be included in the company's report when they are considered relevant. The FRC's Accounting Council also observed that it would not be best practice for an unquoted company to prepare a strategic report which omitted information on a material human rights issue, simply because there was no explicit legal or regulatory requirement. Less helpfully, the FRC guidance adopts materiality as a threshold for human rights reporting, even though this is not contained in the underlying legislation.
- The ACCA and Deloitte recently hosted a forum on non-financial reporting. Of particular note was the shift being seen in sustainability reporting towards a focus on thinking about the companies' impacts.

The RAFI project team is working on a background paper that will set out RAFI's proposed approach to materiality. Materiality entails selecting information that is the most relevant for the intended audience, and therefore requires that that audience be defined. By contrast, human rights reporting would focus on the company's salient human rights risks, i.e., those human rights that are most at risk through the company's operations. These risks do not change depending on who the reader of the report is. EPG members advised the project team to be clear that it is taking a different approach to materiality, and to highlight RAFI's focus on impacts on people. It was noted that the integrated reporting space also focuses on the company's impacts, but to the extent that they impact the company's long-term value.

Session 2: Update on London and NY RAFI Consultations

RAFI Project Team Update

An update was provided regarding the project team. Mazars Indonesia - with Mazars UK and US - was a founding member of the RAFI project team, together with Shift. In May 2014, the Indonesia firm became independent of Mazars and now operates under the name Moores Rowland. Due to differences in its approach to business and human rights from those followed by RAFI, it will no longer participate in the initiative.

Feedback from the latest consultations

The RAFI project team provided an overview of the discussions that took place during the RAFI expert consultations in London and New York in April/ May 2014. These were the second round of expert consultations. Due to scheduling complications around the

Indonesian elections, the expert consultation in Jakarta had been postponed to later in the year, and was being replaced by conference calls with former participants instead.

The RAFI project team put a number of documents on the table for discussion at the expert consultations:

- A preliminary report from Shift, describing how companies are currently reporting with regard to the components of the UN Guiding Principles, and highlighting some trends and specific examples of information provided.
- A background document from Adam Carrell at EY, providing an overview of the different definitions, strengths and weaknesses of current non-financial assurance and audit processes, with some suggested lessons for RAFI.
- An outline construct for the RAFI Reporting Framework, which proposes some basic categories of information that might be included and indicates how they might be structured relative to each other
- A first draft of some ‘smart questions’ that could provide core content for the RAFI reporting framework.¹

The views expressed during this second round of expert consultations will be captured in public meeting reports, due to issue shortly. The project team summarized a few highlights:

- The discussions were very constructive, with all participants focused on how to get the frameworks right. Participants highlighted that there is a dearth and deluge of human right information: people spend a lot of time wading through reports to find information on human rights performance, but when they do, the information is typically of poor quality.
- There was strong support for the outline construct, which closely follows the UN Guiding Principles and therefore resonated with participants.
- There was also strong support for using this filter of a company’s “salient human rights risks” to define the content of reporting, while many emphasized the importance of setting the criteria for this right if the reporting is to have value.
- Participants emphasized that the reporting should highlight challenges as well as progress in implementing the UN Guiding Principles.
- At the same time, participants underscored the fear in-house counsel often have of disclosing information about on-going processes or future targets that may or may not be met.
- There was considerable support for the use of ‘smart questions’ as the entry point to get narrative information on the company’s performance. Participants highlighted a number of suggestions to revise these smart questions, including:
 - Emphasizing the importance of the Board’s role in owning the issues and in standing behind the reporting

¹ All of the documents circulated at the expert consultations are available on the RAFI portal, <http://business-humanrights.org/en/business-and-human-rights-reporting-and-assurance-frameworks-initiative-“rafi”-0>.

- Keeping the questions simple, and avoiding the possibility of misinterpretation (with a suggestion that social survey experts look at the questions)
- Thinking of small and medium-sized enterprises starting on the path of reporting, with many suggesting that there might be an overarching question for each of the categories, with supporting questions that companies could work towards addressing over time.
- The RAFI project team had proposed three potential levels of indicator: possibly a few in the reporting framework itself; others from industry/issue-specific/other reporting frameworks that the framework could cross-reference; and companies' own indicators, which the framework might encourage for inclusion in support of narrative responses to questions. Participants noted that there were merits in pursuing each approach as they were not mutually exclusive.
- Many participants noted that other reporting initiatives have found a risk that companies copy-paste examples from a framework, without thinking carefully about their relevance or specificity to their own operations, and noted that RAFI should seek to avoid this.
- Discussions on human rights assurance had been helpful for participants to raise their concerns, including the frequent and excessive caveats in many assurance opinions, that dilute or remove their value; unclarity on what sections of a report have been assured and how; and concerns that assurance providers will lack the requisite competence (in human rights) and independence (since they are paid by companies).
- Participants also discussed a number of suggestions to address such concerns and help ensure that human rights assurance has value. For example, there might be a minimum level of information that would need to be assured in order for the assurance to be valid; assurance opinions might provide fuller information about the issues identified and addressed with management, to show how assurance is advancing improved practices; there could be strong process standards to build confidence in the assurance methodology; and competence criteria for assurance teams (including external experts) could be established.

EPG Discussion

EPG members welcomed the update and discussed the following themes.

Lawyers: Stock exchanges are increasingly requesting human rights-related information from listed companies. One idea could be for RAFI to develop a dialogue with stock exchanges, and incorporate lawyers into that dialogue. In-house lawyers are concerned about litigation, but at the same time their companies are already disclosing considerable information in their reports on litigation risks. One large company is working on how to inform the general public about human rights issues in a way comparable to how it discloses legal risks. Another suggestion was to learn from the US SEC's safe harbor for forward-looking statements, and to integrate a similar thought

process into the reporting framework. Investors are looking for this forward-looking information that by its very nature is less certain.

Overarching questions: The EPG echoed that it will be important for there to be a minimum baseline from which companies can start their reporting, enabling smaller companies, or companies just starting to address human rights issues, to use the reporting framework. It would therefore be appropriate for the overarching questions to be quite general. One company that has been thinking about how to respond to the draft smart questions internally had found that they helped it develop criteria for the business units to report against, while allowing that those criteria are different for each business sector.

Assurance: It was suggested that if a company is reporting using RAFl, it should perhaps be asked to provide a minimum set of information before it can say that it is disclosing in accordance with RAFl. This would serve as the baseline for the assurance. Both the reporting and assurance could then extend beyond this minimum baseline. This would avoid assurance being sought on a clearly inadequate level of content.

Disclosing specific impacts: A risk was highlighted that the information provided by companies on their policies and processes might not be matched with disclosure of actual impacts and other issues that the society at large is concerned with. In the event of such a mis-match, the reports would not be seen as credible and the reporting framework will lose its value. Instead, the reporting framework should challenge companies to step out of their comfort zone, to think about what they can disclose, rather than taking the easy route. Investors are equally eager to see performance information to complement the information on processes. At the same time, information on processes was seen as important as it helped readers understand how companies are embedding human rights into their business strategies.

Disclosing examples: It was noted that the smart questions ask for specific examples to illustrate processes. However, where the questions ask for examples to illustrate effectiveness, this would imply to the company that they need to look for examples where the process works well - an invitation to cherry pick examples. The key is for companies to disclose information that is representative of the whole data set, including some examples of where processes failed, and the smart questions should enable this.

It was further suggested that the reporting framework could include specific criteria to guide the selection of impacts and examples provided. The smart questions could also ask the company how its Board and management monitors progress on human rights issues, and what kind of data it uses to do so. The reporting framework could specifically reference the need for the reporting to be fair and balanced, with the disclosure of impacts and examples that provide a representative snapshot of the company.

The RAFI project team will be revising the smart questions to reflect the EPG's suggestions, as well as those heard during the expert consultations.

Session 3: Update on RAFI Piloting Phase

The RAFI project team reported that one large company, which has already demonstrated leadership on broader sustainability, is eager to start using the outline construct to report on its efforts to implement the UN Guiding Principles. This company would start piloting the reporting framework and the lessons learned from the pilot would feed into stakeholder consultations on proposed revisions to the smart questions. The company's assurance provider will be involved in the process at arms length with a view to considering how the resulting report might be assured. This pilot will be announced publicly after the summer, and the RAFI project team will look to identify other companies in other sectors who would be interested in piloting the framework in late 2014 and early 2015.

Session 4: Discussion of Next Steps for RAFI in 2014

In terms of next steps:

- The RAFI project team will send a doodle to pin down future EPG meeting dates
- The RAFI project team is working on two papers, one which describes RAFI's proposed approach to materiality and one that summarizes the pitfalls of human rights assurance and possible solutions.
- The project team is also working on mapping the RAFI reporting framework against GRI to ensure that RAFI dovetails with them, and with industry-specific initiatives in the business and human rights space, to appropriately cross-reference them, highlight them, and ensure RAFI does nothing to undermine them.
- Further work is needed on the key issues that need to be addressed in the assurance framework, drawing upon the expertise of those already doing human rights assurance work.
- The project team will be seeking further funding for RAFI among grant providers for 2015.
- The next EPG meeting is schedule for September 10 in London.

Annex A: Agenda of EPG Conference Call of June 17, 2014

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| 12:00 – 12:45 | Overview of Agenda & Recent Developments Update on recent developments in the field of reporting and assurance of relevance for RAFI. EPG members will be invited to share their own insights, in addition to some updates from the project team. |
| 12:45 – 13:45 | Update on London and NY RAFI Consultations The RAFI project team will provide an overview of the discussions that took place during the RAFI consultations in London and New York in April/ May 2014, including feedback received on the reporting framework's outline construct and smart questions, and describe suggested next steps on the RAFI reporting framework. This will be followed by a conversation by EPG members. |
| 13:45 – 14:15 | Update on RAFI Piloting Phase The RAFI project team will describe thoughts for the piloting process of the RAFI human rights reporting framework, for discussion by EPG Members. |
| 14:15 – 14:45 | Discussion of Next Steps for RAFI in 2014 This concluding session will briefly discuss next steps for RAFI in the second half of 2014. In particular, the RAFI project team would welcome hearing from the EPG on organizations to liaise with regarding the future ownership and oversight of the RAFI frameworks. |
| 14:45 – 15:00 | Closing remarks |