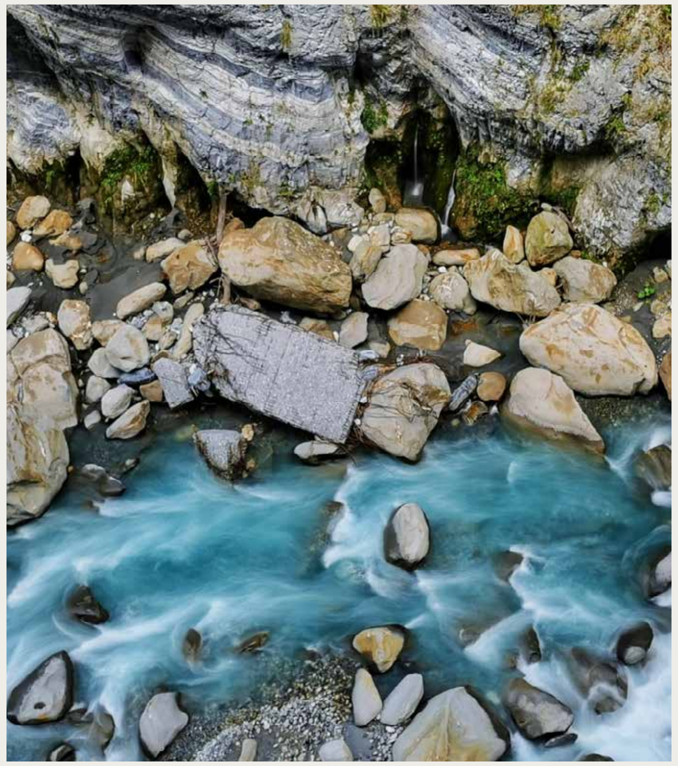
JUNE 2023

ESG TOOLKIT

The Future of Business

RESPONSIBLE JEWELLERY COUNCIL

Contents



Welcome

Dear valued RJC members and stakeholders.

We are delighted to present the RJC's first ESG toolkit, created as a blueprint for members to apply environmental, social and governance criteria to their businesses globally.

On 20th November 2022, the world turned its attention to Sharm el-Sheikh, Egypt, for the 27th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP27). This momentous event culminated in a historic decision to establish and operationalize a loss and damage fund designed to aid countries disproportionately affected by climate disasters such as floods and droughts.

The climate summit put Environmental, Social and Governance (ESG) data and ESG reporting firmly in the spotlight, placing the Financial Sector front and centre in solving global sustainability challenges. It asked governments and regulators to keep developing ESG reporting mandates and work together on a global framework.

In May 2023, G7 leaders convened at a summit in Hiroshima, Japan, reiterating their commitment to the Paris Agreement's goal of limiting global temperature rise to 1.5°C. In line with this commitment, they pledged to support the International Sustainability Standards Board's (ISSB) development of sustainability and climate-related corporate reporting standards.

The RJC decided to contribute by creating this toolkit, providing insights into key ESG frameworks, trends and regulatory requirements. It helps our members understand and apply ESG in a practical fashion to their business as members will eventually have to be ESG ready in what is now a mission critical business requirement.

The work presented in this toolkit is the mapping of the COP against the relevant ESG frameworks and the SDGs.

RJC certified members have demonstrated that they are compliant against the COP but by using this guidance, members will save valuable time by complying with multiple reporting frameworks at the same time. We understand that our membership is comprised of a multitude of business models, all varying in complexity and maturity. Our measure of success is one singular framework that meets the needs of all.

Regardless of where you are in the supply chain, ESG will affect your business. We have created this toolkit to guide you on that journey.

Learning Objectives

By the end of this toolkit, you will understand:

- HOW ESG COMPLIANCE CAN HELP YOUR BUSINESS
- HOW ESG REGULATION WILL AFFECT YOUR BUSINESS
- THE RELEVANCE OF ESG TO SMES
- UNDERSTANDING SCIENCE BASED TARGETS AND THE SBTI
- A BREAKDOWN OF KEY GLOBAL REPORTING FRAMEWORKS (GRI, SASB, TCFD)
- UNDERSTANDING HOW GLOBAL REPORTING FRAMEWORKS LINK TO THE RJC CODE OF PRACTICE (COP)
- HOW TO IMPLEMENT ESG IN ACCORDANCE WITH THE COP
- GRI CHIEF OF STANDARDS' RECOMMENDATIONS TO THE JEWELLERY AND WATCH INDUSTRY
- A 3-STEP GUIDE TO AN EFFECTIVE ESG REPORT

CHAPTER 1

An introduction to ESG

ESG has gained considerable momentum in recent years. ESG investment, reporting, regulation, and consulting are all seemingly new ideas which are now deemed business critical.

Investors are diverting money away from companies and portfolios performing poorly on ESG. Governments and regulatory bodies worldwide are developing and implementing a range of new mandatory ESG reporting obligations. Consumers want products from sustainable brands that are transparent about their ESG performance. In this chapter, we explain how ESG came to be, what it is, and why it matters. .

WHAT IS ESG?

Environmental Social Governance, also known as 'ESG' is an umbrella term that refers to a variety of factors and metrics that support the analysis of non-financial performance of an organization or investment.

These categories are not exhaustive and there is no global consensus on the exact issues under each of them, but it is common to think of them as follows:

Environmental

The environmental impact of a company and its role as a steward of our natural environment as well as the key environmental-related issues that impact its operations.

- Biodiversity
- Climate change
- Greenhouse gas emissions
- Pollution
- Water management
- Land degradation
- Circular economy
- Natural resources
- Waste

Social

The social impact and interactions a company has with employees, suppliers, and customers and how its operations affect communities where it does business and vice versa.

- Consumer protection
- Data security
- Working conditions
- Health & safety
- Diversity and integration
- Compensation and services
- Human rights & forced labour
- Education
- Privacy & data security
- Human capital

Governance

The policies, practices, and processes of a company and how it complies with the law and interacts with external parties.

- Risk management
- Corporate ethics & corruption
- Incentives, compensation & salaries
- Accounting and Taxes
- Board and management structure
- Board diversity & independence
- Ownership structure

E, S and G can serve as powerful drivers of financial, operational, and reputational risk. An ESG report contains company performance data within these three key areas. This provides stakeholders with insight into the ambitions, achievements, and overall impact of a business.

THE EVOLUTION FROM CSR TO ESG

Corporate Social Responsibility (CSR) became the term of choice in the 2000's to embody the idea that corporations have a responsibility to society in addition to a responsibility to their shareholders.

In the RJC's Small Business Sustainability Toolkit[1] we defined CSR as a set of voluntary actions by businesses to take responsibility for the impacts of its activities on society and the environment - going beyond legal compliance.

Many of the resulting corporate initiatives from the CSR movement were related to philanthropy, charitable services, employee volunteering, and human rights. Through the founding of the Global Reporting Initiative (GRI) in 1997, reporting and transparency also became an intrinsic part of the CSR movement.

Later in the 2010's, the term "sustainability" began to eclipse CSR as the most popular buzzword. Whilst sustainability has many interpretations and applications, the most widely acknowledged definition is typically rooted in the Brundtland Commission's definition of "sustainable development", published in Our Common Future in 1987[2]:

> Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

The issuance of the United Nations Sustainable Development Goals (SDGs) outlined a universal call to action towards sustainable development in the 2030 Agenda. The 17 ambitious goals, such as ending poverty and hunger, are to be achieved by 2030 (refer to the RJC's 'Roadmap to 2030 and Beyond' for further information on how we are advancing action against the SDGs).

The proliferation of CSR and sustainability as serious concepts in investment and business hit a tipping point in the past decade, albeit at different paces in different regions, under the new umbrella term "ESG".

ESG is a term developed by the investment community that has been adopted by companies as the most recent evolution in the journey of corporate sustainability. It is now used by both corporate and investment circles as a set of criteria to measure and evaluate a company. Corporate governance and the consideration of environmental and social concerns are of course not new concepts, but the focus from the international business community on climate change as a prominent, disruptive global risk has intensified the debate.

Amongst the key changes brought about by the ESG wave is the emphasis on reporting metrics. CSR often involves self-regulated practices and policies that capture a company's commitment to positive impact. Whilst these CSR commitments can be communicated widely through marketing messages, they often lack quantifiable and comparable data to validate their outcomes. Storytelling remains key with ESG, but it is validated with specific metrics that gauge a company's holistic performance.

1 Responsible Jewellery Council. 2021. Small Business Sustainability Toolkit. https://responsiblejewellery.com/wp-content/uploads/RJC-SME-Toolkit-June-2021.pdf

2 World Commission on Environment and Development (WCED). 1987. Our common future. https://www.are.admin.ch/are/en/home/media/publications/sustainable-development/brundtland-report.html

CSR and ESG can be used by a business simultaneously, in its journey to become more sustainable. For example, CSR may provide an internal framework for certain impact-driven initiatives, whilst ESG may provide measurable goals and performance metrics.

KEY PLAYERS IN THE ESG ECOSYSTEM

ESG is largely driven by an increased focus on the non-financial performance of corporates, with ESG data at the centre of the puzzle. A wide range of constituencies (including investors, companies, policy makers, regulators, NGOs, and civil society) increasingly use and depend on this data to inform their decisions.

Information producers

- **Reporters (companies):** Companies that collect, validate, and publish information on ESG performance. Example: RJC members
- **Software providers:** Digital tool providers and disclosure platforms enable filers to collect and report information. These also help standards setters to build taxonomies and information validation pathways.
- **Auditors:** Auditors use standards as a criterion against which they provide external assurance, and other related services. Example: SGS, PwC, KPMG, EY, Deloitte.

Reporting frameworks and standards

- **Reporting frameworks & standards:** ESG reporting frameworks and standards provide the structures that facilitate ESG data reporting on the one hand, and interpretation and analysis of ESG performance on the other. Examples include GRI, SASB, TCFD, ISSB, etc.

Information users

- **Data providers and analytics platforms:** Data providers aggregate information and make it available through technology tools. Analytics platforms provide advanced analysis capabilities. Example: GRESB, Reprisk, Refinitiv.
- **Rating agencies:** An ESG ratings agency provides proprietary assessments and scores of company performance. Example: S&P Global, Fitch Ratings, MSCI, ISS ESG, Sustainalytics.
- **End users:** Investors and other stakeholders such as civil society, communities, senior executives, employees, customers, governments, and suppliers will consume the available data and analysis.
- **Regulators:** Regulators are increasingly interested in sustainability data, with some moving to mandate it in accordance with standards and some using the information for regulatory purposes. Example: London Stock Exchange, UK government.

Understanding the 'E' within ESG

Climate change is the most important ESG topic in the global sustainability agenda today and arguably represents the gravest threat to humanity.

The World Economic Forum's 2022 Global Risks Report highlights the most severe risks over the next 10 years, with climate action failure and extreme weather ranking as the top two. A key component of the fight to climate change is the reduction of emissions and phasing out the dependency of polluting fossil fuels with an aim of reaching net zero emissions.

As climate change continues to dominate the agenda of politicians, business, civil society, and regulators, it is critical for companies to reduce their carbon footprint and communicate transparently on how they are managing their climate-related impacts. The recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD) have emerged as the most widely acknowledged framework to report on climate-related disclosures, compelling new laws, rules and guidance globally.

Key Concepts

- **Net Zero Carbon Emissions:** Acheiving net zero or becoming 'carbon neutral' means balancing carbon emitted with an equivalent amount sequestered or offset.
- **Climate Transition Plans:** Deadline driven action plans that outline how a company will move its entire business model toward the requirements of climate science. These plans are vital ensuring that investors and other stakeholders can see companies evolving their business models as the economy transitions to net zero.
- **Carbon Offsetting:** Purchasing credits through emission reduction projects or carbon trading schemes to compensate for carbon emitted.
- **Science-Based Targets:** Science Based Targets is a joint initiative of CDP, the UN Global Compact (UNGC), the World Resources Institute (WRI) and WWF. Their goal is to enable leading companies to set ambitious and meaningful corporate GHG reduction targets. Targets adopted by companies to reduce GHG emissions are considered "science- based" if they are in line with the level of decarbonization required to keep global temperature increase below 2°C compared to preindustrial temperatures, as described in the Fifth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC).

SCIENCE-BASED TARGETS EXPLAINED

Companies are increasingly asked to report on their emissions and set emission reduction targets. But how much carbon reduction is enough? And how can companies be sure to work on a plan that will make a real difference?

The Science Based Targets initiative (SBTi) is now the gold standard to answer these questions. More than 4,000 businesses and financial institutions worldwide are already working with them. The SBTi sets guidelines for carbon reduction targets and validates those submitted by companies to ensure that targets are based on scientific information in line with the Paris Climate Agreement and COP climate goals of limiting global warming to well below 2°C and for emissions to be Net Zero by 2050.

The underlying logic is simple – if every organization had a Science Based Target and achieved it, the world may avoid the worst of climate change.

SBTi guidelines are complex, and vary by industry – but they're all rooted in a few key ideas:

- **Set a temperature target:** The Climate Agreement, signed by nearly 200 countries in 2016, commits the world to keep global temperature rise "well below" 2°C. Since then, the UN IPCC has urged a ceiling of 1.5° C. When a company sets an SBT, it starts by picking a temperature target, and then works backwards to set emission reductions in line with that.
- **Start reducing now:** Targets must be achieved in the next 5-15 years. SBTi doesn't give credit for long-term goals that will be too late for solving climate change. SBTs must count down from your most recent emissions inventory—meaning no credit for prior reductions. (You can use 2019 as a base year, or a multi-year average, if COVID skewed your footprint).
- **Offsets don't count:** SBTi only gives credit for true reductions in your carbon footprint, not carbon offsets or avoided emissions.
- **All emissions are in scope:** SBTs look broadly at all of a company's carbon emissions. 95% of Scope 1 and 2 emissions must be incorporated, and all Scope 3 emissions if they equate to 40% or more of the whole (whilst companies with <40% aren't required to have Scope 3 SBTs at this time, those emissions still need to be measured, reported and managed).

According to the SBTi there are five initial steps to take when setting SBTs (SMEs and Companies with fewer than 500 employees are allowed to enter a streamlined program that skips steps 1 and 2):

- **Commit:** submit a letter establishing your intent to set an SBT, reflecting either a commitment to reducing your emissions consistent with a 2°C or a 1.5°C global target. Filing based on either target will get your company listed as "committed" by both SBTi and the We Mean Business coalition, those with a 1.5°C goal will also get highlighted as part of the UN's Race to Zero campaign for extra recognition.
- **Develop:** Once your letter of intent is acknowledged by SBTi, a 24-month countdown begins for you to put together a detailed plan on how much you'll reduce emissions, and by when.
- **Submit:** present targets to the SBTi for official validation. This will typically take 30 days and may involve a "revise and resubmit" request before a final answer – most commonly because the submitter failed to account for all their Scope 3 emissions in their initial inventory. (Remember: even if your company isn't required to have an SBT, you must still report them so that SBTi can approve your exemption).
- **Communicate:** Once your target(s) have been officially validated, you can announce your target and inform your stakeholders, then get deep into the work of actual reductions.
- **Disclose:** Report company-wide emissions and track target progress annually. This is often done following the TCFD framework guidelines and disclosed in a standalone report, within your sustainability report, and/or by filing with CDP.

Understanding the 'S' within ESG

Social issues within the jewellery and watch industry are well documented and perhaps the most widely understood. Human Rights Watch has catalogued human rights abuses, trafficked and forced labour, deaths, injuries, and threatened rights to health, water, food and the environment.

The RJC Small Business Sustainability Toolkit highlights the significance of this industry's impacts on such topics. For example, artisanal and small-scale mines (ASM) account for about 20% of global gold supply, 80% of global sapphire supply and 20% of global diamond supply. ASM is also where child labour is most problematic, accounting for a significant portion of the more than one million children engaged in child labour. These mining activities often have serious health consequences for children, such as silicosis related respiratory diseases, joint and bone deformities, eye injuries and neuroglial damage. Freedom from child labour and forced labour are part of the fundamental principles and rights at work and are also basic human rights.

A new development is the increased focus by investors and commercial banks on ESG performance, incorporating key data points into investment and lending decisions. In 2018 through the Investor Alliance, more than 60 entities issued a statement on Responsible Sourcing in the Jewellery Supply Chain, calling on jewellery companies to review their policies and practices and take action to ensure responsible sourcing of gold, diamonds, and other precious minerals and gems with an emphasis on:

- Jewellery manufacturers and retailers to conduct human rights due diligence in line with the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas; and
- The RJC to strengthen its standards to set a high bar for responsible sourcing practices in the industry.

Key Concepts

- **Human Rights:** There are two broad categories of human rights:
  1. Civil and political rights
  2. Economic, social, and cultural rights

  In the context of a business's responsibility, the list of rights that international guidance documents often refer to are rights that are covered by the International Bill of Human Rights. However, your business's responsibility might also cover other types such as economic, social, and cultural rights protected under the domestic law where you operate. (See provision 6 on the RJC website training page for more info)
- **Labour Rights:** Labour rights often refers to International Labour Standards and the International Labour Organization (ILO) Fundamental Principles and Rights at Work. Other issues such as wages, working hours, harassment and abuse, health and safety are often addressed by domestic laws that have to be considered within the scope of a company's responsibility. To learn more about labour rights (provisions 15-22), refer to the RJC COP 2019 Guidance document.

Understanding the 'G' within ESG

Governance refers to the systems and processes by which businesses are directed and controlled. In essence, it's the framework for decision-making across an organization. Governance encompasses the culture, policies, and rules that provide a business with structure whilst ensuring ethical behaviour and compliance with laws and regulations. Corporate governance encompasses virtually every aspect of management, making its risks material to all companies, regardless of the industry.

In the jewellery industry, the importance of governance cannot be overstated. From ensuring ethical sourcing of precious materials, maintaining labour rights in production processes, to adopting environmentally friendly practices, governance shapes the very fabric of industry operations. Proper governance allows for transparency and accountability, leading to trust from customers, stakeholders, and regulatory bodies.

This is why governance has always been a top priority for RJC, best captured through our Code of Practices (COP), which outlines the ethical practices that all members must adhere to. It serves as a roadmap, guiding our members towards responsible governance that goes beyond the letter of the law. Adherence to the COP not only helps in maintaining the highest standards but also boosts the reputation and credibility of our member organizations in the eyes of consumers and regulators alike.

Key Concepts

- **Risk Management:** Effective governance requires identifying, assessing, and managing risks that could impact the company's ability to achieve its objectives. This includes ESG-related risks, such as those related to climate change, human rights, and regulatory compliance.
- **Ethics, Integrity and Compliance:** A strong ethical culture is a fundamental component of good governance. It includes establishing a clear corporate purpose, adhering to core values, and creating a culture that goes beyond mere compliance to regulations. It also involves taking a proactive stance against corruption and bribery, and creating mechanisms for addressing ethical issues when they arise.
- **Stakeholder Engagement:** Governance isn't just about decision-making within the company, it also involves open dialogue and collaboration with stakeholders. This could include employees, shareholders, customers, suppliers, communities, and others affected by the company's operations. Their voices should be considered in the decision-making process, particularly when it comes to ESG matters.

CHAPTER 2

The Business Case for ESG

Publicly traded companies and large private companies are facing a range of new and evolving pressures around the disclosure of ESG data, from regulators, consumers, suppliers and investors. SMEs often fall behind larger corporates in integrating ESG factors into their strategy and publicly reporting on their performance.

In this rapidly evolving world of ESG, SMEs have fewer resources to dedicate and face less pressures from stakeholders. It is bad news for sustainable outcomes and ultimately business, given the combined impact of SMEs.

In this chapter we describe how ESG drives business value and the distinction between what makes ESG relevant for large companies vs SMEs.

GROWING REGULATION AFFECTS THE WHOLE VALUE CHAIN

ESG regulation and reporting mandates are clearly on the rise at a global scale, with Europe and the US as the two key emerging markets. The ongoing development of the International Sustainability Standards and the European Sustainability Reporting Standards are two very strong signals of what is to come – technical, auditable, and in-depth mandatory corporate disclosure on a range of ESG issues across industries and business sizes.

Whilst there isn't yet an internationally agreed reporting standard for the jewellery industry, some of the most popular standards (such as SASB) already include industry-specific recommendations that give an indication of the expected topics and disclosures for this sector. Regulatory standards in the jewellery industry are starting to emerge to help structure sustainability best practices. The Dodd-Frank Wall Street Reform and Consumer Protection Act Implemented by the Securities and Exchange Commission (SEC), was enacted in July 2010 to improve accountability and transparency of US listed companies and contained specialised disclosure provisions for responsible sourcing of minerals. In addition, the EU issued the Conflict Minerals Regulation that came into force in the EU in January 2021 to ensure responsible sourcing of minerals such as gold.

Regulation already impacts SMEs. New regulatory frameworks are adopting a whole value chain approach – companies are responsible for reporting all the way down to the level of their subsidiaries. For example, when large multinationals are required to report on their emissions, they will need to understand their supply chain (Scope 3) emissions as well, and therefore will require subsidiaries and suppliers to report on that data. What's more, whilst first impacting large companies, regulation will eventually also pass on to SMEs.

> ESG (reporting) is thus quickly transitioning from being a voluntary nice-to-have, to a legal must-have requirement.

SUSTAINABLE PROCUREMENT CREATES COMPETITIVE ADVANTAGE

Reporting helps to differentiate yourself from competitors and attract new customers. Whether it becomes regulation or not, the reporting of scope 3 emissions is a B2B requirement. Therefore, SMEs need to develop the understanding and/or tools to report into the requirements of their upstream suppliers and clients. There is now increased competition for contracts driven by business preferences. More and more companies are now choosing to engage with suppliers that have a net zero strategy or are actively tracking their environmental footprint. The SMEs that don't track this data may risk being left behind by suppliers.

CHANGING CONSUMER DEMANDS

Calls for the jewellery industry to act more responsibly in terms of environmental and social impact are growing louder, particularly from younger consumers, who are increasingly favouring brands that do so with a compelling brand presence both online and offline. In fact, according to a McKinsey study, by 2025, 20-30% of global fine jewellery sales will be influenced by sustainability considerations from environmental impact to ethical sourcing practices. This is equivalent to as much as $110 billion, which is a 3 to 4 time increase in sustainability-influenced purchases since 2019. The study also finds that this trend is expected to impact companies of all sizes and geographies alike, with companies buying diamonds and gemstones wholesale coming under the same degree of scrutiny as vertically integrated players that operate their own mines.

To show consumers that they are credible and sincere about driving environmental and social progress, companies will need to improve the traceability and transparency within their supply chains. Not adapting to this shift in consumer desire is a high risk to reputational strategy. In an industry underpinned by emotion, the costs of such lapses can be significant. Whilst reporting is only part of the necessary action, the business case for transparency around ESG performance is clear.

Changing consumer demands are equally relevant for SMEs. Consumer behaviour is changing rapidly and whilst customers used to look at big, established brands as guarantors for quality, Millennials are now turning to small businesses and local brands with a compelling narrative and strong ideals. Failing to keep up with changing expectations will affect the bottom line.

ATTRACT CAPITAL AND ACCESS TO FINANCE

Reporting and tracking ESG performance helps businesses to attract new sources of capital, as investors put more emphasis on non-financial data in their due diligence process.

The jewellery industry has traditionally faced significant pressure on several ESG issues from civil society organizations. In recent years however there has been an increased focus by investors and commercial banks on the ESG performance by jewellery companies, incorporating key data points into investment and lending decisions. In 2018 through the Investor Alliance, more than 60 entities issued a statement on Responsible Sourcing in the Jewellery Supply Chain, calling on companies in the industry to review their policies and practices and take action to ensure responsible sourcing of gold, diamonds, and other precious minerals and gems.

On the one hand, the changing consumer demands steer investors towards creating sustainable portfolios. On the other, financial firms are increasingly subject to reporting mandates, such as the EU SFRD, that force them to be more transparent and show how they incorporate ESG in the investment policies. As a result, credit rating agencies are explicitly integrating ESG considerations into fixed-income ratings[3,4], asset managers increasingly disclose how they market "green" investment vehicles, and asset owners are making formal ESG commitments to the Principles for Responsible Investment (PRI) to name a few examples.

It's clear that ESG considerations are increasingly influencing capital allocation. As pressure from investors and the financial sector grows, the risk of inaction is clear – access to capital will be more difficult and more expensive.

With investors increasing relying on sustainability reporting to guide their funding decisions, SMEs who fail to share transparent and reliable information could be denied vital financing, stifling growth, and innovation. According to a Eurobarometer survey, more than a quarter of SMEs that have undertaken activities related to the circular economy reported difficulties in accessing financing due to a lack of clarity about their overarching sustainability strategy.

ONGOING KEY STAKEHOLDER PRESSURES

Next to regulators, consumers, and owners of capital, the pressure from civil society organizations is yet another factor that signals the importance of taking ESG reporting seriously. In 2018, 29 international NGOs and trade unions, called upon the jewellery industry in a joint letter to turn its commitment to responsible sourcing into effective action. They asked for the implementation of robust supply chain due diligence systems aligned with the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, as well as more human rights due diligence and reporting. In 2020, the EU committed to a legislative initiative on mandatory human rights and environmental due diligence obligations for EU companies in early 2021, which will include liability and enforcement mechanisms and access to remedy provisions for victims of corporate abuse.

At its core, ESG promotes business ethics and social prosperity. Adopting, promoting, and reporting on sustainable practices enhances both causes and allows companies to obtain and maintain a social license to operate.

IDENTIFICATION OF OPERATIONAL RISKS AND OPPORTUNITIES

ESG reporting should identify the most important ESG issues and adjust corporate strategy to address them. Doing that has several benefits that go beyond responding to key stakeholder expectations and regulatory demands. It helps you identify your strengths and weaknesses, across E, S and G factors.

Companies that manage climate change risks often benefit from financial savings resulting from improved energy efficiency, reduced exposure to carbon taxes or supply chain disruptions. Companies that make efforts to alleviate risks of bribery, corruption, and conflict sourcing can have more trust in their supply chain, reduce the likelihood of harmful events and penalties, and reduced operational costs from improved internal process[5]. Companies that improve their diversity and inclusion outperform less gender-balanced ones because diverse workforces tend to attract and retain talent and be more innovative, which contributes to better financial performance[6,7].

> Going beyond ESG compliance generally improves operational outcomes through better understanding and management of risks and opportunities.

3 G&A. 2020. How are credit rating agencies integrating ESG factors?

4 UN PRI. https://www.unpri.org/credit-risk-and-ratings/statement-on-esg-in-credit-risk-and-ratings-available-in-different-languages/77.article

ESG ENABLES YOU TO DEFINE YOUR BUSINESS VISION AND STRATEGY

ESG reporting helps you set and communicate your company's purpose, vision, and strategy in the context of sustainability. Engaging your employees in this process increases employee motivation, helps you attract new talent, and improves overall productivity. Transparent communication of your vision and strategy to your stakeholders builds reputation and trust. Once you have a clear company vision, management systems can be developed to capture, track, and validate data. This leads to improved risk management processes such as the identification of climate risks and implementation of risk-mitigation and adaptation strategies.

5 Transparency International. 2016. The benefits of anti-corruption and corporate transparency. https://images.transparencycdn.org/images/2016_WP1_CorporateTransparency_EN.pdf

6 HBR. 2019. Research: When Gender Diversity Makes Firms More Productive. https://hbr.org/2019/02/research-when-gender-diversity-makes-firms-more-productive

7 McKinsey. 2020. Diversity wins: How inclusion matters. https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters

CHAPTER 3

Regulatory Developments

Whilst the world comes up with a globally agreed reporting framework, governments and other regulatory bodies have been busy passing ESG reporting regulation.

Until these global and regional standards are implemented, it is vital for companies to understand applicable local regulations and think about the broader business case for ESG reporting. Coupled with an increasing focus on company ESG performance and fears over corporate greenwashing, these regulations could have a far-reaching impact on anything from raising capital to talent acquisition.

Corporate disclosure regulations are still mostly voluntary but they're on the rise globally. In fact, ESG regulations and standards have doubled in the last five years[8] and mandatory ESG regulation in the European Union, the US, and Asia are picking up pace. Such efforts are carried out by both international organizations as well as national governments and other local regulatory bodies.

The following illustration highlights mandatory and/or pending ESG reporting requirements by country and/or region. Please note that these tend to apply first to larger businesses, but if you are an SME in scope of a large business's supply chain, they apply to you too because you will be subject to their supply chain regulations.

Global shift to ESG reporting

Regulations in various stages of proposal, implementation and phase-in

EUROPE

- EU COMMISSION
  EU Taxonomy for Sustainable Activities
  APPLIES IN ALL EU
- EU COMMISSION
  Corporate Sustainability Reporting Directive (CSRD)
  APPLIES IN ALL EU
- SWISS FEDERAL COUNCIL
  Ordinance on Climate Disclosure
  APPLIES IN ALL EU
- UK FCA
  TCFD-Aligned Climate-Related Disclosure Requirements for Listed Companies
  APPLIES IN THE UK
- UK DEPARTMENT FOR BUSINESS, ENERGY AND INDUSTRIAL STRATEGY
  Companies (Strategic Report) (Climate-Related Financial Disclosure) Regulations 2022
  APPLIES IN THE UK

AMERICAS

- BRAZIL SECURITIES AND EXCHANGE COMMISSION
  Resolution no. 59
  APPLIES IN BRAZIL
- CANADA SECURITIES ADMINISTRATORS
  Bill S-211 Fighting Against Forced Labour and Child Labour in Supply Chains Act
  APPLIES IN CANADA
- CHILE FINANCIAL MARKET COMMISSION
  General Standard / Act 461
  APPLIES IN CHILE
- U.S. SECURITIES AND EXCHANGE COMMISSION (SEC)
  Climate-Related Disclosures
  APPLIES IN THE USA

ASIA

- CHINA MINISTRY OF ECOLOGY AND ENVIRONMENT
  Measures for Corporate Disclosures of Environmental Information
  APPLIES IN CHINA
- HONG KONG STOCK EXCHANGE
  HKEX Consultation Paper on Enhancement of Climate Disclosure under its ESG Framework
  APPLIES IN HONG KONG
- SECURITIES AND EXCHANGE BOARD OF INDIA
  Business responsibility and sustainability reporting by listed entities
  APPLIES IN INDIA

8 USB & GRI. 2020. Carrots & Sticks. **https://www.carrotsandsticks.net/media/zirbzabv/carrots-and-sticks-2020-june2020.pdf**

CHAPTER 4

Global ESG Frameworks Explained

Before you can begin reporting, you must first decide on the right ESG framework for your business. With the increased global interest in ESG, the practice of disclosing data has also risen and become an indispensable activity for businesses over the past decade.

Since July 2020 about 90% of the companies in the S&P 500 have already created annual ESG reports and made it a standard[9]. Globally, 96% of the world's leading 250 companies engage in sustainability reporting[10].

WHAT IS THE PURPOSE OF REPORTING?

Reporting primarily allows for the communication of information that is relevant for understanding a company's long-term economic value and contribution towards a sustainable global economy, taking account of the company's economic, environmental, social and governance performance and impacts. ESG or sustainability reports contain summaries of quantitative and qualitative data and are complemented by a performance analysis in these three areas to provide stakeholders and investors with an insight into the goals, achievements, and the impact of your business.

Reporting is done mostly for the benefit of key stakeholders who will make decisions based on that information. Key stakeholders typically include both external and internal groups, each with their own needs and expectations. E.g., investors want concise, actionable data to base investment decisions on, while customers may be more interested in companies' missions and values.

9 G&A. 2020. S&P 500 Flash Report

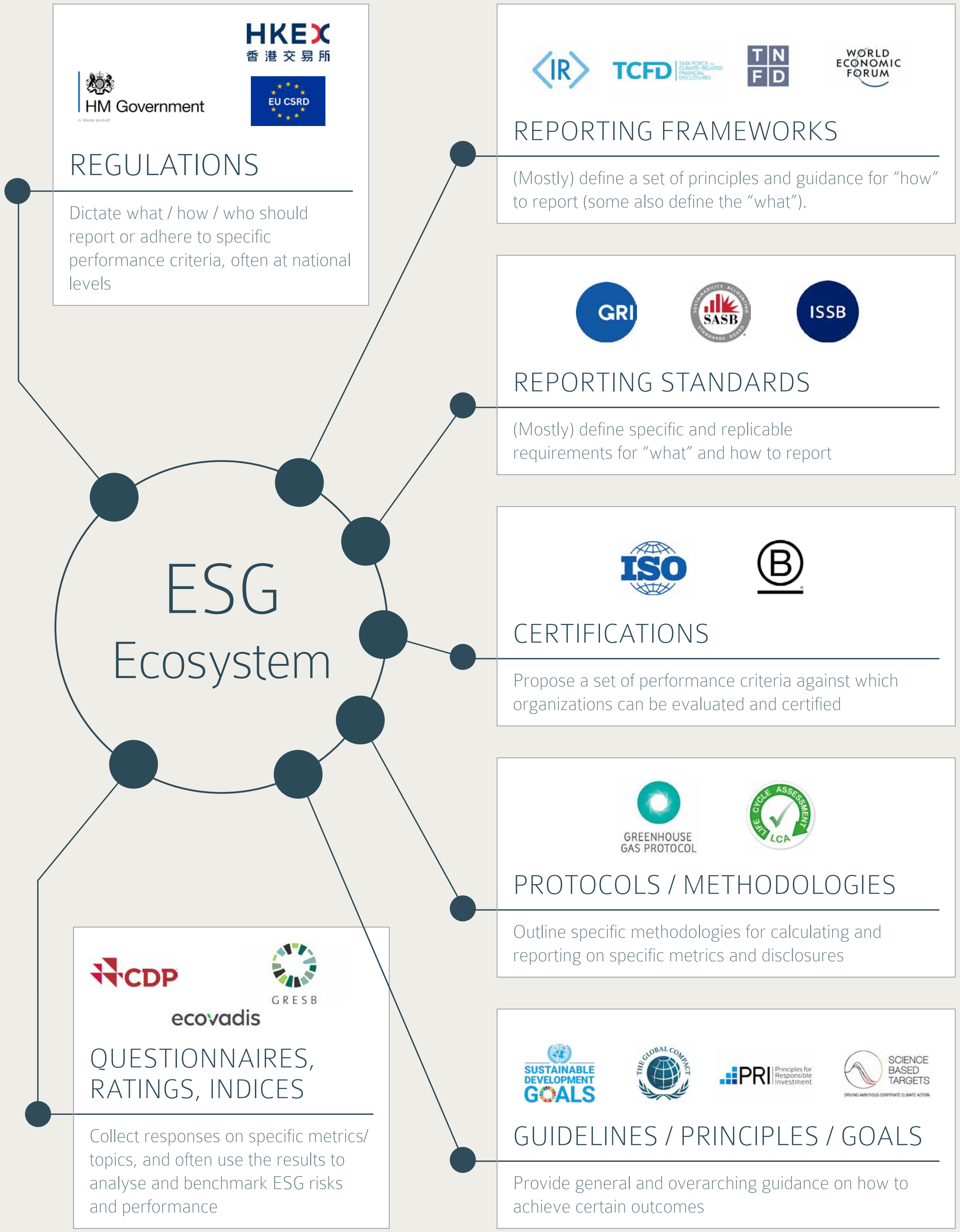
10 KPGM. 2022. Big Shifts Small Steps. https://assets.kpmg/content/dam/kpmg/xx/pdf/2022/10/ssr-small-steps-big-shifts.pdf

KEY REPORTING FRAMEWORKS

As ESG reporting has gained traction in recent years, (in response to the 2015 Paris Agreement on Climate Change and the introduction of the SDGs) several voluntary standards and frameworks have been introduced to help companies share relevant environmental, social and governance information with interested parties. Some of the most popular include the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the Taskforce for Climate-Related Financial Information (TCFD), amongst many others.

This proliferation of voluntary disclosure frameworks from intergovernmental and nongovernmental organisations fills a void left by regulators who have yet to provide clear guidance around ESG disclosures. As described in the previous chapter, governments and regulatory bodies around the world are starting to develop and implement mandatory ESG reporting provisions, particularly in the EU and the USA. At the same time, many of the large voluntary framework-setters are already collaborating and there is a big push for convergence. Yet whilst an internationally agreed standard is yet to be achieved, companies are left with a vast array of choices.

There are many ways to categorise ESG frameworks, as each has a different purpose, thematic focus, industry scope, and relevance. A first key distinction to make is the general purpose of the framework. The graphic opposite summarizes some of the key categories that are used today. While many involve corporate reporting at some level, their core purpose creates a useful way to start making sense of the ecosystem.



Zooming in to some of the most popular and relevant names in the ESG ecosystem, the table below summarises the main differences between them.

Differences in key reporting frameworks, standards and guidelines

NAME	TYPE	PURPOSE	WHERE TO REPORT?	KEY AUDIENCE	INDUSTRY GUIDANCE	TOPIC SCOPE	MATERIALITY FOCUS
GRI	Standards	Organizational disclosure on economic, governance, social and environmental impacts	Sustainability reports	Broad audience	Yes	Across ESG	Impact
SASB/VRF	Standards	Corporate disclosure of financially material sustainability information	ESG reports, annual reports, and other	Mainly investors	Yes	Across ESG	Financial
TCFD	Framework	Corporate disclosure of financially material information on climate-related risks and opportunities	Mainstream financial fillings, ESG reports	Mainly investors	Yes	Climate	Financial
CDP	Questionnaire / Rating	Collect, assess and disclose information on the environmental performance of companies, cities and regions	CDP reporting system	Mainly investors	Yes	Carbon, Water, Forests	Unclear
SDGS	Goal setting and target Initiatives	Guide worldwide action, particularly among governments, towards sustainable development objectives	Sustainability reports, website, and other	General public	NA	Across ESG	NA
UN GLOBAL COMPACT	Principles & Guidelines	Guide corporate action via key principles and allow companies to demonstrate their commitments	Dedicated reports	General Public	No	HR, labour, environment, corruption	NA
EU CSRD, SFRD, TAXONOMY	Regulatory frameworks	Require companies to disclosure key ESG data to guide investments and actions toward sustainable goals	Dedicated portal, ESG reports and other	Regulators	No	Across ESG	Double
IR	Framework	Explain how organisations use capital to interact with the external environment to create/preserve/erode value	Integrated Reports	Mainly investors	No	Across ESG	Unclear
WEF	Framework	Corporate disclosure on key ESG metrics	Annual reports to investors and proxy statements	Mainly investors	No	Across ESG	Unclear
ISSB	Standards	Comprehensive global baseline for sustainability disclosures	Dedicated reports, ESG reports and other	Mainly investors	Yes	Across ESG	Financial
SBTI	Goal setting and target initiatives	Define and promote best practices in emissions reductions and net-zero targets in line with climate science.	ESG/sustainability reports and other	Broad audience	Yes	Emissions	NA

CONVERGENCE OF ESG FRAMEWORKS

The fragmented patchwork of different ways for companies to report and be held accountable on their ESG performance may soon be replaced by widely accepted and endorsed international standards for corporate sustainability – as is already the case for financial performance.

What to do?

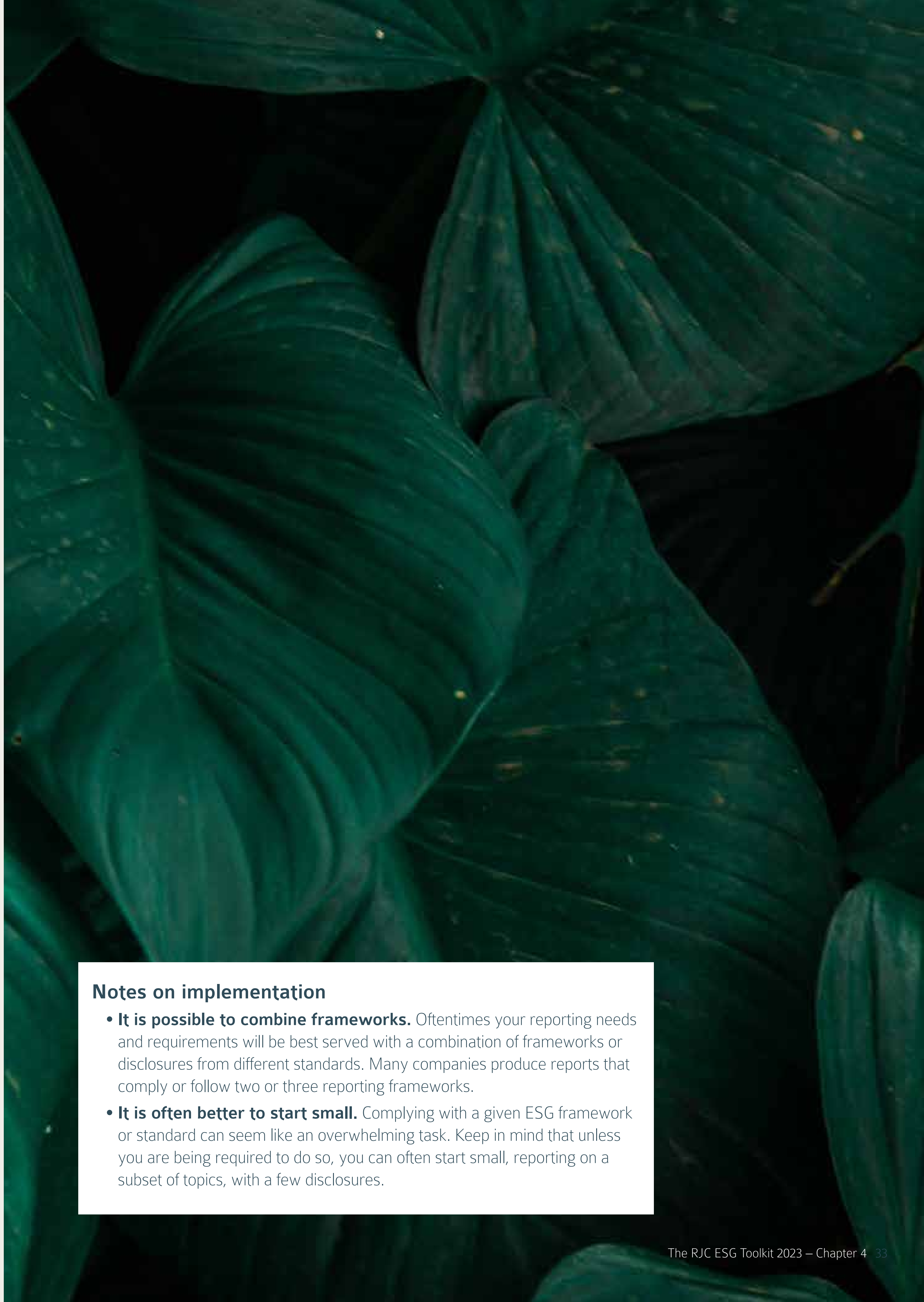
It may still take time until the world reaches a consensus on a single set of ESG standards. With that in mind, it's important that you:

- Understand the range of reporting frameworks and standards currently available, as well as their key differences and purposes.
- Understand the evolving reporting requirements and regulations in your country of operation and relevant industry.
- Select the frameworks that best suits your business and reporting needs.
- Develop internal mechanisms to track key ESG performance data so that you prepare your business for future reporting expectations.

How to choose a framework

Below are the most important consideration when selecting an ESG reporting framework:

- **Geography and disclosure requirements:** Understand whether your company is subject to any disclosure requirements through national regulations or mandates from key regulatory bodies (e.g., stock exchange). For example, if your company is based in the UK, you may be subject to SECR reporting and may soon need to report on TCFD-aligned disclosures. Or, if you are listed in Hong Kong, you are likely subject to ESG reporting listing requirements.
- **Materiality and topic-coverage:** Understand the issues that are material to your business, both in terms of impact and financial materiality. The results will help you focus on the most important topics and the best way to report on them. For example, if climate or GHG emissions is a material topic for your company, you might consider using TCFD and other climate-focused frameworks.
- **Stakeholder expectations:** Understand demands or requests from investors, industry associations, or a parent company. For example, investors might want to see more in-depth detail about ESG goals and performance than employees. Regulators and insurers might want to see more about material usage and risk management. SASB is better suited if your main stakeholders are investors, while may be a better option if your report is directed to the general public.
- **Sector:** Some frameworks are designed specifically to help companies in a particular sector or industry report on the most relevant topics. Understand if there are frameworks for your sector and industry-specific recommendations from other frameworks. For example, SASB gives sector-specific recommendations for companies in the consumer goods industry.



Notes on implementation

- **It is possible to combine frameworks.** Oftentimes your reporting needs and requirements will be best served with a combination of frameworks or disclosures from different standards. Many companies produce reports that comply or follow two or three reporting frameworks.
- **It is often better to start small.** Complying with a given ESG framework or standard can seem like an overwhelming task. Keep in mind that unless you are being required to do so, you can often start small, reporting on a subset of topics, with a few disclosures.

CHAPTER 5

How Global Reporting Frameworks Link To The RJC Code of Practices (COP)

The vast array of reporting frameworks, regulations, and stakeholder expectations are putting pressure on corporates to not only improve their ESG performance but to better report on it.

The ESG reporting landscape is constantly evolving and the lack of a harmonized framework leaves companies to unsure of what and how to report. Whilst there is a clear trend in convergence, corporates currently face several ESG reporting challenges, which the RJC is well positioned to support its members with.

This toolkit clarifies the world of ESG and provides useful steps on getting started, continuing the journey and best-practice guidance. The RJC provides tools to facilitate the smooth implementation of ESG reporting, streamlining the many processes and embarking on an exercise to map the COP provisions to the key global ESG reporting standards.

Through this exercise, it became clear that many of the provisions from the COP relate to some of the most common metrics in global ESG reporting frameworks. RJC member companies can leverage some of the processes and data used for COP compliance and audits to respond to ESG data requests and reporting against major standards. The extent to which the exact same data can be used is very much dependent on each metric, but a large percentage of the COP provisions link to metrics from the major reporting standards.

The data cannot simply be copied over as many of the requirements can be very specific regarding calculation and reporting methodologies. However, the overlap should help in identifying pools of data and processes that can be leveraged to cut down the amount of time and effort that it takes to find and report the right data.

The following table highlights which ESG metrics and SDGs have the closest alignment to the RJC's COP.

Code of Practices (COP) vs key ESG reporting frameworks and the SDGs

COP THEME	COP PROVISION	COP PROVISION TITLE	GRI	SASB*	TCFD	SDGS
General Requirements	1	Legal Compliance	2-27			16
	2	Policy and Implementation	2-23, 3-3		G. a.b.	12, 16
	3	Reporting	2-1,2,3,4,5			12, 16
	4	Financial Accounts				16
Responsible Supply Chains, Human Rights and Due Diligence	5	Business Partners	2-6, 205			16
	6	Human Rights	2, 405, 406, 408, 409	CG-AA-430b		All
	7	Due Diligence for Responsible Sourcing from Conflict-Affected and High-Risk Areas	414	EM-MM-210a,		12
	8	Sourcing Directly from Artisanal and Small-Scale Mining	204, 203, 414, 308	CG-AA-430a		12
	9	Sourcing Post-Consumer Industrial Precious Metals Directly from Informal Recyclers	204, 203, 414, 308	CG-AA-430b,		12
	10	Community Development	413	CG-AA-430a		8, 9, 10, 17
	11	Bribery and Facilitation Payments	205	CG-AA-430b		16
	12	Know Your Counterparty: Money Laundering and Finance of Terrorism	205	EM-MM-210b		16
	13	Security	410	EM-MM-510a		8, 16
	14	Provenance Claims	417			12
Labour Rights and Working Conditions	15	General Employment Terms	401			1, 8, 10
	16	Working Hours	407, 401			5, 8
	17	Remuneration	2-19,20			1, 2, 8, 9, 10
	18	Harassment, Discipline, Grievance Procedures and Non-Retaliation	2-25,26, 406, 403			5, 8, 9, 10
	19	Child Labour	408	CG-MR-310a		4, 8
	20	Forced Labour	409			8
	21	Freedom of Association and Collective Bargaining	407	CG-AA-430b		8
	22	Non-Discrimination	406	CG-AA-430b		4, 5, 8, 10

* Only links to relevant SASB industry categories (Apparel Accessories and Footwear, Metals & Mining, and Multiline and Specialty Retailers & Distributors).

COP THEME	COP PROVISION	COP PROVISION TITLE	GRI	SASB*	TCFD	SDGS
Health, Safety & Environment	23	Health and Safety	403	EM-MM-310a		2, 3, 5, 6
	24	Environmental Management	2-22,23,24, 3-3		RM a.b.c	13, 15
	25	Hazardous Substances	307			3, 15
	26	Wastes and Emissions	305, 306, 303, 307	EM-MM-110a, EM-MM-120a, EM-MM-150a, EM-MM-140a	MT b.c.	6, 7, 13, 15
	27	Use of Natural Resources	302, 303, 301	EM-MM-130a, CG-MR-130a, EM-MM-140a		6, 7, 12, 13, 15
Gold, Silver, PGM, Diamond and Coloured Gemstone Products	28	Product Disclosure	417	CG-MR-330a		16
	29	Kimberley Process Certification Scheme and World Diamond Council System of Warranties	204, 414			16
	30	Grading, Analysis, and Appraisal	417			16
Responsible Mining	31	Extractive Industries Transparency Initiative	207, 415	EM-MM-510a		12, 17
	32	Stakeholder Engagement	2-25, 2-29, 413, 203	EM-MM-210b		9, 11
	33	Indigenous Peoples and Free Prior Informed Consent	411, 414	EM-MM-210a		6, 11, 15
	34	Impact Assessment	308, 414	EM-MM-160a	RM a., MT a.	5, 6, 9, 11, 12, 15
	35	Artisanal and Small-Scale Mining and Large-Scale Mining	413	CG-AA-430b		6, 9, 11, 12, 15
	36	Resettlement	413			10, 11
	37	Emergency Response	403, 413		RM b.	3, 6, 11
	38	Biodiversity	304	EM-MM-160a		11
	39	Tailings and Waste Rock	306	EM-MM-150a		11, 12
	40	Cyanide	306	EM-MM-150a		3, 11, 12
	41	Mercury	305	EM-MM-120a		3, 11, 12
	42	Mine Rehabilitation and Closure	203, 413			14, 15, 11, 12

Q&A with the Global Reporting Initiative (GRI)

The mapping of the RJC Code of Practices (COP) against key ESG reporting frameworks shows that the greatest convergence is with the GRI standards. We sat down with them them to find out more.

Q: Why was GRI created - what is its mission, history, and governance?

A: GRI marked its 25th anniversary last year. We were founded in 1997 with the aim of creating the first reporting mechanism to hold companies accountable for their environmental conduct – which was then broadened to include social, economic and governance issues. This led to iterations of GRI sustainability reporting guidelines, which gradually become more and more widely used by organizations around the world. In 2016, we transitioned to become a global standard setter, with the launch of the GRI Standards, which are now used by most major companies (for example, 78% of the largest businesses in the world report with GRI).

Our mission is to empower sustainable decision-making, as enabled by transparency and open dialogue about impacts. We do this by providing the global common language for organizations to report their impacts. Central to our ways of working is to embody a 'multi-stakeholder' ethos. This is reflected through our governance and in all standard-setting activities. As such the GRI Standards are highly relevant to a multi-stakeholder audience, which includes reporting companies, investors, civil society and other groups.

Q: What is the key purpose behind sustainability reporting?

A: This question could be deemed as quite philosophical, and the answer here really depends on your perspective! For some it will be primarily to meet regulatory requirements, for others to respond to the information needs of stakeholders, and for other it's about how to track efforts to improve corporate sustainability performance.

Bastian Buck,
GRI Chief of Standards

From GRI's point of view, all of these aims are valid but at the core is demonstrating transparency on how an organization is contributing to sustainable development. Transparency is the catalyst for accountability. Ultimately, providing the data that leads to more responsible and sustainable decision-making is the purpose of sustainability reporting.

Q: How can the jewellery industry use and implement the GRI Standards?

A: The GRI Standards are relevant to all organizations – irrespective of size, location or sector. What this means is that a jewellery business can start to use our Standards to report on their impacts in a globally consistent way, which is designed to meet the information needs of their stakeholders.

The Standards are designed as an easy-to-use modular set, which can be used to provide an inclusive picture of a company's material topics, their related impacts, and how they are managed. An organization starts out with the Universal Standards – which apply to all, then use applicable Sector Standard(s) to determine material topics, and report on those using relevant Topic Standards. And as I'll come on to, we have a new Sector Standard under development that will apply to the jewellery industry.

Q: How will the adoption of the GRI Standards reap business benefits - what value can companies expect to see through reporting?

A: At the heart of effective reporting – sustainability or otherwise – is quality and decision-useful data. The old adage that 'you only manage what you measure' is very true: how can a company understand what its impacts are on the world around them if they don't report? Businesses that fully commit to GRI reporting will be better placed to respond to the legitimate expectations from customers, regulators, investors and other stakeholders on what their impacts are, positive and negative. By incorporating sustainability data into business strategy, they can unlock efficiencies and long-term viability.

Q: What advice does GRI have for SMEs who are at the beginning of their reporting journey?

A: For smaller companies and first-time reporters, the biggest challenge is often figuring out how and where to begin. The newly updated GRI Universal Standards provide excellent guidance on how to get started, through a materiality assessment and stakeholder engagement. Reporting is an iterative process though, and companies often find they can improve and deepen their reporting over time.

GRI also offers a variety of support services for reporters. From guidance with the content index to specific courses and a full Certified Training Program, we are here to help.

Q: How can we overcome reporting challenges - are there any common pitfalls to be aware of?

A: Sustainability reporting needs to be robust and comprehensive, reflecting the material impacts that an organization has, on the economy, environment, and people. Incomplete or selective reporting is a concern and opens up companies to accusations of 'greenwashing'.

That's why we always encourage companies to be open about both their positive and negative impacts, and if information is not available, to explain why. That's not always an easy conversation to have with stakeholders, yet full transparency is the route map to improvement and change.

Q: What is GRI's perspective on the jewellery industry – which sector standards should we be using?

A: GRI is currently working on the development of a Sector Standard for textiles and apparel, in which other fashion elements will be included, such as jewellery and accessories. Fine jewellery and watches are a key segment of the luxury industry, which also includes clothing and footwear, bags and accessories, and cosmetics. Thus, companies in the textiles industry tend to merge their businesses with jewellery and watches.

The major sustainability challenges in the textiles and apparel sectors also tend to coincide with some of the jewellery industry's main challenges. These include aspects such as traceability of supply chain, labour and human rights related topics, as well as waste and recycling.

We are now in the process of recruiting the multi-stakeholder Working Group who will be tasked with developing this new Sector Standard. The Group will include representatives from civil society, investment institutions, labour, and other parties with expertise in impact reporting. We expect to launch a draft standard open for public comment in mid 2024.

Q: What were the key learnings from COP27 regarding the sustainability reporting landscape?

A: The final outcome of COP27 set out the urgent need to address the climate crisis and biodiversity loss in a synergistic manner with explicit references to the importance of protecting, conserving and restoring natural ecosystems. This internationally agreed resolution is highly relevant for companies around the world because it raises the bar for expectations on business to be accountable for their climate impacts.

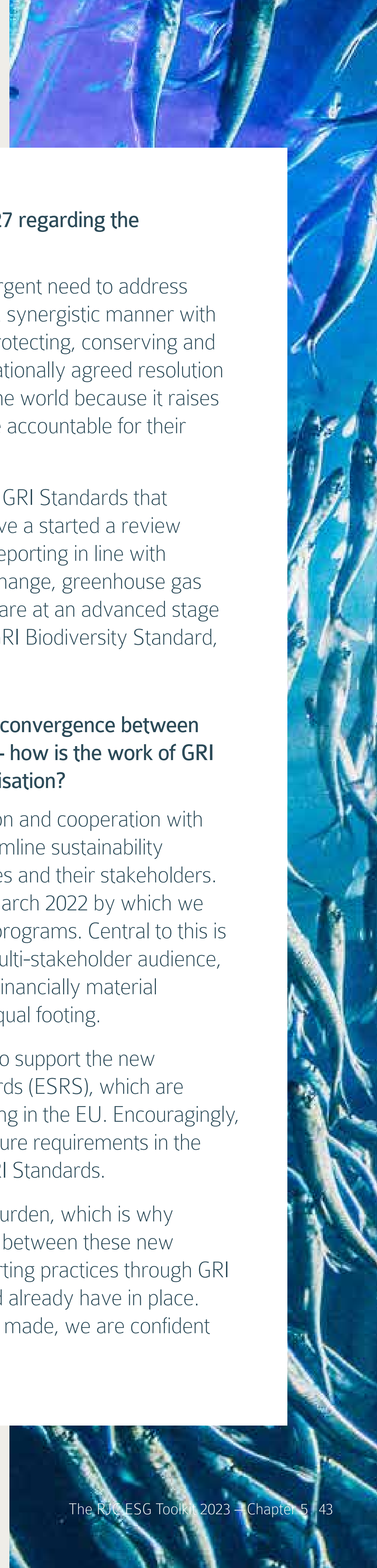
There are two developments through the GRI Standards that are significant in this space. Firstly, we have a started a review of all climate-related standards, to bring reporting in line with global instruments in the field of climate change, greenhouse gas emissions and energy. And secondly, we are at an advanced stage in the progress of a major update to the GRI Biodiversity Standard, expected to launch in a few months' time.

Q: We know that there is a strong need for convergence between frameworks to reduce reporting burden - how is the work of GRI and the ISSB helping to deliver standardisation?

A: GRI has built a track-record in collaboration and cooperation with other organizations, to improve and streamline sustainability reporting, meeting the needs of companies and their stakeholders. With the ISSB, we agreed on a MoU in March 2022 by which we have coordinated standard-setting work programs. Central to this is the premise that impact reporting for a multi-stakeholder audience, as enabled by GRI, and investor-focused financially material disclosure, through the ISSB, are on an equal footing.

We have also been working with EFRAG to support the new European Sustainability Reporting Standards (ESRS), which are coming soon for many companies operating in the EU. Encouragingly, it's been confirmed that the impact disclosure requirements in the draft ESRS are closely aligned with the GRI Standards.

We recognize concerns about reporting burden, which is why it's important that there is interoperability between these new developments and the sustainability reporting practices through GRI that many organizations around the world already have in place. While there remains more progress to be made, we are confident this will be achieved.



CHAPTER 6

A 3-Step Guide to Writing an Effective ESG Report

The previous section showed you which ESG metrics have the closest alignment to the RJC's COP. You now have a good understanding of which framework(s) to select, and which topic areas to focus on for your ESG disclosure. Most companies provide their ESG disclosure in an annual sustainability report. In this section, we will cover best-practices and useful tips to get started on or upgrade current practices around corporate ESG reporting.

STEP 1

MATERIALITY ASSESSMENT & STAKEHOLDER ENGAGEMENT

- Identify potentially material issues
- Assess double materiality
- Engage with internal and external stakeholders
- Mapping and Prioritization
- Alignment with key management and strategy development
- Document the process and outcome

STEP 2

DATA COLLECTION

- What data to collect?
- How to collect data?

STEP 3

REPORTING

- The basic elements of an ESG report
- Principles of ESG reporting
- Where to disclose?

Step 1
Materiality assessment & stakeholder engagement

Materiality assessments are processes used to identify and evaluate the most relevant and significant ESG topics for a business and its key stakeholders. They are often regarded as the backbone of sustainability reporting and corporate sustainability strategies. These assessments help companies understand their most important ESG issues, which should inform business strategy and ultimately help decide on the topics to be included in a sustainability or ESG report.

Materiality can be defined from at least two key perspectives, external (impact) or internal (financial/operational). In other words, ESG topics and issues can be material from the perspective of how a company impacts society and the environment (outward or impact materiality) or vice versa, how the world impacts a company and its ability to operate (inward or financial materiality). That is the basis of the concept known as double materiality.

Given the different perspectives on materiality, and the diverging needs of different businesses and industries, there isn't a single way to conduct a materiality assessment. There are however some general best practice steps, outlined below:

Phase 1:
Identify potentially material issues

Start with the identification of a broad universe of potentially material issues. This is done by referencing multiple sources, which is essential to minimize the risk of overlooking any emerging issue and ensuring a comprehensive, credible analysis. These sources generally include:

- A previous materiality assessment
- Industry and peer reports or benchmarks
- Ratings and rankings
- Mandatory regulatory requirements
- Best practices and recommendations from voluntary policies (e.g., GRI, SASB)
- Online news and media

You can refine the long list of potential material topics by clustering them into a limited number of higher-level categories (e.g., by business unit, country, theme). Align them with existing terminology, strategy and policies used by your company to put them into context and language that your key stakeholders will understand.

Phase 2:
Assess double materiality

Phase 1 can produce a large range of different ESG issues, ranging from greenhouse gas emissions to the gender diversity of employees. It can seem daunting for a company to address and manage all of them. This is why it is important to use a standard process to prioritize the issues that are most material to its business and most relevant to its stakeholders.

To start measuring materiality, it is important to explore each material topic in detail to understand its relevance to the business and stakeholders. Applying a double materiality approach, identify evidence of materiality, both from an impact/outward and a financial/inward perspective (double materiality) for the shortlisted topics.

Remember, impact/outward materiality refers to the impacts of your company to society and the environment. As per GRI, these are:

> "Topics that represent the organization's most significant impacts on the economy, environment, and people, including impacts on their human rights"

By contrast, financial/inward materiality refers to the impacts that society and the environment have on your company. As per SASB, these are:

> "Topics that are reasonably likely to significantly impact the financial condition, operating performance, or risk profile of the typical company".

Phase 3:
Engage with internal & external stakeholders

A stakeholder is often defined as someone that is significantly affected by the reporting organization's activities, products, and services, or whose actions affect the ability of the organization to implement its strategies and achieve its objectives.

Engaging stakeholders is a core element of any materiality assessment, as no organization can be sustained without understanding the needs and expectations of its customers, employees, investors, or managing board. Stakeholder engagement is often both an instrumental source of inspiration in identifying potentially material issues and a crucial step in validating and prioritizing them.

Companies often use structured surveys as part of the materiality assessment to gather uniform information as to the most important topics for each stakeholder group. In these surveys, stakeholders are often asked to rank the list of issues identified in the previous Phases by their relative importance. The results are then used to map and prioritize key topics.

Make sure to define the methodology you will use to 'score' each topic and assess the strategic importance of each topic to the business. Set a threshold or cut-off point for defining which topics will be considered material. If possible, use the same thresholds used by enterprise risk management when conducting a materiality assessment, taking impact on corporate value creation as the basis for assessment.

Soliciting stakeholder feedback helps to get third-party perspective and adds credibility to the process. A company will generally publicize that it consulted experts in the field and used that engagement to guide its process. For a more detailed guide on stakeholder engagement, check out BRS's Five-Step Approach to Stakeholder Engagement.

Phase 4:
Mapping and prioritization

In this phase, all the data collected from internal and external stakeholders is put into a model or framework (generally with a quantitative ranking component) that can be used to map and prioritize issues.

With that goal, companies often use "materiality matrices" to map the prioritization of material topics based on assigned scores and weights. Whilst there is no global consensus on the use and methodology behind these matrices, one of the most common combinations is plotting business impact against stakeholder importance. With the increasing importance of double materiality, some companies have started using matrices that plot inward against outward materiality.

Materiality matrices are not always necessary. The important part of this phase is that you prioritize material topics, ideally based on both the strategic importance to the business as well the importance to stakeholders and the social, economic and environmental impacts of each topic in the value chain.

Make sure to identify relevant business functions and decide which internal stakeholders should be involved in prioritizing topics. Is every category linked to a relevant business function that is involved in prioritizing the final topic list? Are the business functions involved in assessing and prioritizing topics sufficiently senior and knowledgeable to provide meaningful insight?

Use the scoring methodology developed in Phase 3 to score each topic and select your list of most material topics based on internal and external feedback. It is important to note that while it is useful to make the mapping process quantitative and 'scientific', it is a process that tends to be more 'art' than 'science'.

Phase 5:
Alignment with key management and strategy development

With a final list of topics, potentially organized in a matrix, it is important to test the results of your materiality assessment with key internal audiences to validate the outcome.

Be sure to assign senior managers based on the scope of your assessment. For instance, for a company level assessment, this should at a minimum involve the executive in charge of sustainability and the relevant divisional managers.

This review process ensures the assessment and outcome are considered credible both internally and externally, and that management has accepted the results and considered the implications. The results can then feed into the wider corporate strategy development process, outlining how it will work on the identified material issues, and developing metrics to track impact.

It is best practice to revise materiality assessments at least once every two years, and ideally every year. This is because ESG issues evolve quickly and what used to be a minor issue can rapidly become material – and vice-versa. This is a concept known as "dynamic materiality". As such, materiality assessments should not be considered as static.

Phase 6:
Document the process and outcome

Documenting the materiality assessment process and outcome carefully is important, not only because it is often seen as a best practice to describe the process in your sustainability report, but also because it is increasingly expected and mandated.

The upcoming EU CSRD demands limited assurance of reported data, which means that presenting the results of the double materiality assessment is no longer good enough. Thorough documentation of the entire process is now expected.

Documentation should not be limited to a general description of the process but should include explanations of how sustainability matters were identified and assessed. This also includes how the evidence or information was used during the consideration process, the thresholds applied, and why and by whom sustainability matters were finally deemed material either from a financial, impact or both perspectives.

Step 2:
Data collection

Whether you are preparing your annual sustainability report, responding to data requests from key stakeholders, or simply trying to understand your ESG performance internally, you will need data – accurate, detailed, consistent, and comparable data.

This is generally one of the hardest and most time-consuming tasks in the sustainability reporting process for corporates, who need to figure out what data to collect as well as how to collect it.

What data to collect?

Given the vast data troves that live inside organizations today and the wide-ranging sustainability areas your company is likely to touch through the course of doing business, it's easy to get side-tracked by the data you could be collecting. To maintain focus, align your data collection efforts to your strategy. This is where the materiality assessment discussed in Step 1 comes into play. The data you collect should connect to your goals, which in turn reflect the issues most material to your business.

As your materiality analysis and goals drive which metrics to track, you should consult well-established reporting frameworks to inform your data collection approach. The most globally recognized reporting frameworks such as GRI, SASB and TCFD all provide extensive guidelines for the type of data and metrics to be reported for select material topics as well as sector-specific recommendations and best-practices.

Remember: If you're just starting out, create a roadmap, prioritize the data you need to acquire and grow this list over time.

How to collect data?

The data underpinning ESG reporting is often scattered throughout the business. It is often necessary to coordinate efforts across the company, engaging different business units and departments such as HR, finance, facilities, legal and other functions to execute data collection. Across the business world, the systems to produce, distribute and consume ESG data are in general significantly less mature than those for financial information[11].

Below are some best practice steps for collecting and processing data effectively:

Identify key roles across the company for different data sets

- Identify people directly involved in the collection (producers and owners) as well as those responsible for collating, bringing other teams together and consolidating (coordinators and reporters).
- Make sure to work together across the organisation and avoid siloed thinking – data collection requires collaboration.
- Engage with finance and internal audit teams to apply controls over the data, including evidence trails and identify responsibilities for reviews and sign-offs.
- Make the business case to build human resource either within the team or through external consultants.

Identify sources of data and collect

- Underlying data comes from different sources and can be internally generated or externally sourced.
- Identify the sources for the data and set out the methodology and frequency for gathering it.
- Engage with suppliers on data needs and consider where the ESG data can be useful to both parties.
- Consider collaborating with industry peers to facilitate collection of information from common suppliers – particularly where the supply chain is fragmented.
- Think of introducing different levels of review against evidence of the data source to help mitigate the risks of manual input.
    - Internal data can typically be derived from contracts, budgets, HR processes and staff surveys. Unless the data is input or uploaded directly onto an online/cloud-based solution, it is often input manually into spreadsheets or operational platforms (e.g., HR or specialised environmental tracking systems). Internal data can be measured directly, for example by taking site meter readings for energy usage, or generated automatically in real time, such as smart meters.

- External data consists of data from third parties, primarily from suppliers. It is typically requested at contract or onboarding stage and at regular periods during the business relationship. It often includes data on emissions in Scope 3, labour conditions and materials sourcing and can be further requested via questionnaires, online portals, or supply chain platforms. External data can be challenging to obtain, as it relies on external parties. Data on waste, recycling, packaging, ingredients of third-party products, or flight emissions are typically obtained from consultants, suppliers, or external agencies such as energy or waste management entities.

Process and analyse the data

- o Collate the date and organize it in one location to allow for analysis, using calculations and aggregation methodologies. This is typically done through the export of data into master spreadsheets, business intelligence platforms, specialized data platforms, financial reporting systems and/or enterprise resource planning systems.
- o Consider if your reporting tools and systems are suitable for current needs as well as those in the medium term. Introduction of new regulation and standards is an opportunity to think about building flexible, robust, and agile systems across financial and non-financial data.
- o Think about sharing lessons learnt on data collection across the group, from different functions to subsidiaries, to strengthen the maturity of data and improve related systems and controls.

Validate the data.

Once collected, the data should be assessed for accuracy and validity before it is used. Typically, this is performed through:

- o **Variance analysis:** The data is analysed through comparison with past periods or relevant forecasts. Think of implementing a system to spot unusual variances and try to provide explanations where relevant.
- o **Reporting control:** A series of control processes are applied to assess and review the data. In this case, companies often work with risk or governance control teams to help establish control frameworks and checklists for data preparation, applying similar principles to financial reporting controls.
- o **Internal audit:** Engaging an internal audit team to provide assurance over ESG data. Typically, this is done for specific data sets, such as climate-related data.
- o **External assurance:** Seeking external assurance over areas such as data processes and controls, as well as the data itself. Think of starting with a limited assurance engagement and then moving towards reasonable assurance.

For more detailed guidance, check out the publication by the UK's Financial Report Council (FRC), which provides a best-practice model for how companies should gather, and make effective use of, environmental, social and governance (ESG) data.

12 FRC, 2022. FRC Lab report: Improving ESG data production

Step 3: Reporting

Once companies have identified their key material topics and collected appropriate data, it is time to decide how and where to disclosure ESG performance data.

While ESG reporting frameworks and standards provide comprehensive technical guidance on what and how to report on key metrics for your material topics, companies still need to decide how they will structure and share this information with their key audiences.

There are currently no universally agreed guidelines for how to write and structure ESG reports, and indeed reports vary widely in their structure, content and designs across industries, business sizes, and jurisdictions. There are however several reporting best practices and basic elements worth keeping in mind.

BASIC ELEMENTS OF AN ESG REPORT

Some of the basic elements to consider incorporating in your ESG and sustainability reports are:

PROFILE AND CONTEXT

An overview of your business, including its mission and values, and the market environment in which you operate, to contextualise your reporting for the reader.

GOVERNANCE

A description of the governance processes, controls and procedures put in place to monitor and manage sustainability matters

STRATEGY

A description of your sustainability strategy over the short, medium and long term, demonstrating how this is integrated in your core corporate strategy and permeates throughout your business. This includes a description of the actual and potential impacts of the ESG risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.

IMPACT, RISK AND OPPORTUNITY MANAGEMENT

A description of the processes to identify, assess and manage material impacts, risks and opportunities, including how these processes are integrated with the organization's overall risk management.

PERFORMANCE, METRICS & TARGETS

A description of the metrics and targets used to assess and manage relevant ESG risks and opportunities, including disclosures on the performance against those metrics and targets.

Principles of ESG reporting

Next to some of the basic elements of an ESG report, it's important to consider key reporting principles to ensure that you are producing and publishing high-quality information that allows users to make informed assessments and decisions.

In that regard, the GRI Standards provide a useful list of industry-agnostic and widely applicable reporting principles which it notes are fundamental to achieving high-quality sustainability reporting:

- **Accuracy:** The organization shall report information that is correct and sufficiently detailed to allow an assessment of the organization's impacts.
- **Balance:** The organization shall report information in an unbiased way and provide a fair representation of the organization's negative and positive impacts.
- **Clarity:** The organization shall present information in a way that is accessible and understandable.
- **Comparability:** The organization shall select, compile, and report information consistently to enable an analysis of changes in the organization's impacts over time and an analysis of these impacts relative to those of other organizations.
- **Completeness:** The organization shall provide sufficient information to enable an assessment of the organization's impacts during the reporting period.
- **Sustainability context:** The organization shall report information about its impacts in the wider context of sustainable development.
- **Timeliness:** The organization shall report information on a regular schedule and make it available in time for information users to make decisions.
- **Verifiability:** The organization shall gather, record, compile, and analyse information in such a way that the information can be examined to establish its quality.

As you prepare your ESG report, and whether you adhere strictly to a specific reporting standard (e.g., GRI or SASB) or not, keep these principles in mind to guide your report content development.

For detailed guidance on the application of these principles in your report, see GRI 1: Foundation 2021. To see a similar list of reporting topic and metric principles from SASB's perspective, please see SASB's Conceptual Framework.

Where to disclose?

Where you choose to report ESG data ultimately depends on the reporting requirements you are subject to, your organization's communication goals, and your key audience.

Many businesses provide the information in one of three ways:

- As part of the audited financial statements or annual report
- As an independent sustainability report outside the financial report
- An integrated report, which combines the two approaches by interconnecting company sustainability and financial performance.

CHAPTER 7

Final Thoughts

Whichever way you choose to report on and prepare your ESG data, rest assured your strategy will evolve over time.

Simply starting, researching and reporting will take you on a valuable journey of ESG discovery and ultimately positively impact your business, society and the planet. At COP27 an urgent call to action at all levels was made. By reading and acting upon the RJC's ESG toolkit, you are part of that much needed change.

CHAPTER 8

Appendix

FREQUENTLY ASKED QUESTIONS (FAQS)

Q: What is the difference between ESG, Sustainability, and CSR?

A: CSR, Sustainability, and ESG represent an evolution in corporate responsibility. CSR primarily focuses on philanthropy, while Sustainability extends to long-term environmental preservation. ESG, as the most recent evolution in corporate responsibility thinking, is often used in corporate and investment circles and understood as a set of Environmental, Social, and Governance criteria or issues to measure and evaluate a company against.

Q: Am I required to report on ESG?

A: This largely depends on your jurisdiction and the specific regulations that apply to your company. Make sure you research and understand the relevant and applicable mandates for your business. However, even if not legally required, many investors and stakeholders are increasingly demanding ESG reporting due to its growing importance in business sustainability.

Q: What is the most important ESG issue to address first?

A: The 'most important' ESG issue depends on your specific business context, sector, and stakeholder concerns. However, a good starting point could be to conduct a materiality assessment to identify the ESG issues that are most relevant and impactful to your business.

Q: How can I get started with reporting?

A: Start by understanding the key ESG issues relevant to your business. Identify and engage with your stakeholders, set clear goals, collect relevant data, and communicate your progress transparently. You may also want to refer to established reporting frameworks like GRI, SASB, or TCFD.

Q: Who should take care of ESG reporting within my company?

A: Ideally, ESG reporting should involve cross-functional collaboration within your company. While it might be led by a dedicated sustainability team or individual, it should involve finance, operations, HR, legal, and other departments, with active support from senior leadership.

Q: How can I successfully implement and meet ESG requirements?

A: Start by understanding the ESG landscape and your company's specific risks and opportunities. Develop an ESG strategy, align it with your overall business strategy, and integrate ESG considerations into your business processes. Regularly monitor and report on your performance.

Q: Which ESG topics should I be reporting on?

A: This will depend on the results of your materiality assessment, which identifies what ESG topics are most relevant to your business and stakeholders. However, most companies will address topics related to environmental impact, social responsibility, and governance structures.

Q: What are the main things to be aware of for small businesses?

A: Small businesses need to consider the implications of supplying to larger businesses that may be under ESG regulation (for example the reporting of scope 3 emissions). ESG practices should be considered as a strategic opportunity. Despite potential resource constraints, focusing on ESG can drive innovation, enhance reputation, open up new markets, and attract talent and investment. It's about identifying the ESG issues most material to your business and stakeholders and integrating them into your operations and strategy. Starting small, with a clear focus, can lead to big benefits over time.

Q: What information should I look for on international companies belonging to groups to improve my due diligence?

A: Look for information on their ESG policies, practices, and performance. This might include their sustainability reports, disclosures to ESG rating agencies, public commitments on issues like climate change and human rights, and any controversies or legal actions they've been involved in.

Q: How does the RJC Code of Practices (COP) link in with ESG?

A: The RJC Code of Practices (COP) aligns with ESG principles, as demonstrated through RJC's exercise mapping the COP provisions to key global ESG metrics. This overlap allows RJC member companies to leverage data and processes from COP compliance in their ESG reporting, streamlining their efforts and making their ESG journey more efficient.

CHAPTER 9

References

1. Responsible Jewellery Council. 2021. Small Business Sustainability Toolkit. https://responsiblejewellery.com/wp-content/uploads/RJC-SME-Toolkit-June-2021.pdf
2. World Commission on Environment and Development (WCED). 1987. Our common future. https://www.are.admin.ch/are/en/home/media/publications/sustainable-development/brundtland-report.html
3. G&A. 2020. How are credit rating agencies integrating ESG factors?
4. UN PRI. https://www.unpri.org/credit-risk-and-ratings/statement-on-esg-in-credit-risk-and-ratings-available-in-different-languages/77.article
5. Transparency International. 2016. The benefits of anti-corruption and corporate transparency. https://images.transparencycdn.org/images/2016_WP1_CorporateTransparency_EN.pdf
6. HBR. 2019. Research: When Gender Diversity Makes Firms More Productive. https://hbr.org/2019/02/research-when-gender-diversity-makes-firms-more-productive
7. McKinsey. 2020. Diversity wins: How inclusion matters. https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters
8. USB & GRI. 2020. Carrots & Sticks. https://www.carrotsandsticks.net/media/zirbzabv/carrots-and-sticks-2020-june2020.pdf
9. G&A. 2020. S&P 500 Flash Report
10. KPGM. 2022. Big Shifts Small Steps. https://assets.kpmg/content/dam/kpmg/xx/pdf/2022/10/ssr-small-steps-big-shifts.pdf
11. FRC, 2022. FRC Lab report: Improving ESG data production. https://www.frc.org.uk/getattachment/f4c2877a-c782-4426-a10d-c81d7d6a1e9b/FRC-Lab-ESG-Data-Production-Report-_August-2022.pdf

Acknowledgement: This toolkit was prepared with the expert contribution of Diginex, whose experience and insights have been invaluable in creating this comprehensive and practical guide.

RESPONSIBLE
JEWELLERY
COUNCIL

THE COUNCIL FOR RESPONSIBLE JEWELLERY PRACTICES LTD.

Second Floor, Quality House, 5-9 Quality Court, Chancery Lane, London, WC2A 1HP.

The Responsible Jewellery Council is the trading name of the Council for Responsible Jewellery Practices Ltd.

Registered in England and Wales with company number 05449042.

Release date: June 2023
For feedback email:
rjcimpacts@responsiblejewellery.com