ESRS G1: Governance, risk management and internal control
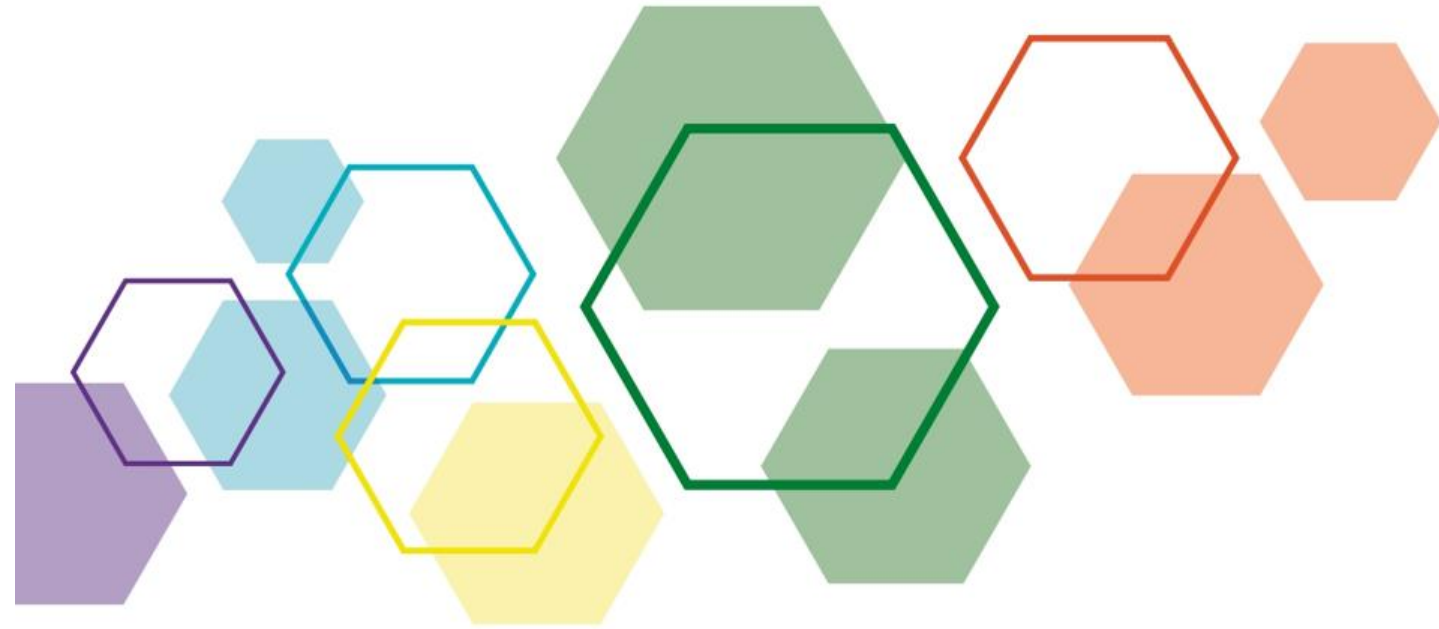
EFRAG SRB and SR TEG educational session

7 June 2022

EFRAG

PTF-ESRS
Project Task Force on European sustainability reporting standards

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OVERVIEW

1) Background and methodology

2) Overview

3) Q & A

4) Appendix with further details
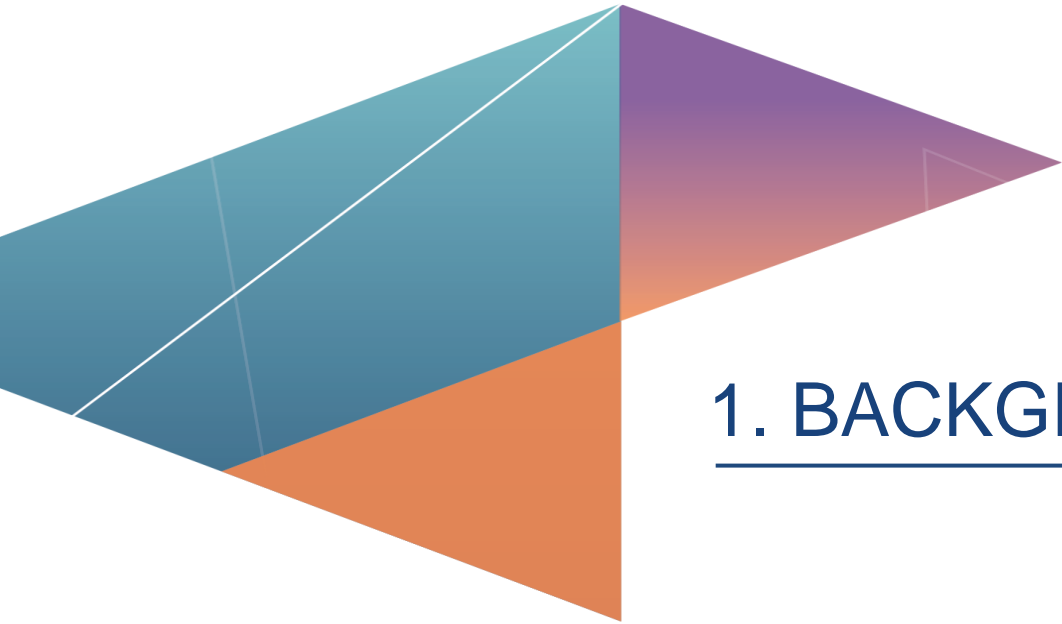
1. BACKGROUND AND METHODOLOGY

Background

GOVERNANCE+

The Governance+ category (G+) is broader than traditionally considered under the concept of 'governance'. The aim is to cover the full spectrum of relevant matters in order to report on sustainability aspects relating to the reporting undertaking itself, including but not limited to governance.
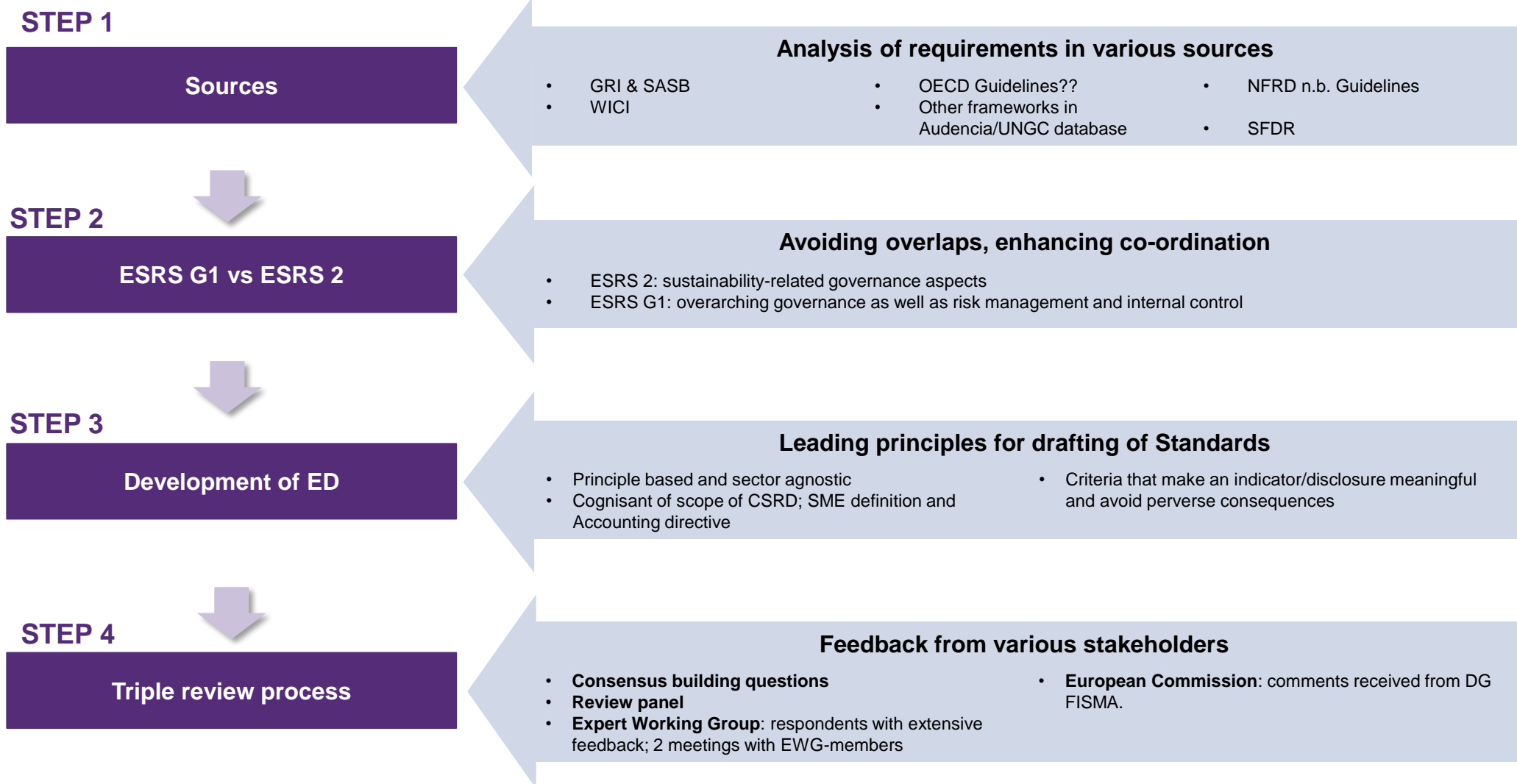
Background

CSRD, Article 19 b (extract)

(c) specify the information that undertakings are to disclose about governance factors, including information about:

(i) the role of the undertaking's administrative, management and supervisory bodies, including with regard to sustainability matters, and their composition;

(v) the undertaking's internal control and risk management systems, including in relation to the undertaking's reporting process.

Background

STEP 1

Sources

Analysis of requirements in various sources

- GRI & SASB
- WICI

- OECD Guidelines??
- Other frameworks in Audencia/UNGC database

- NFRD n.b. Guidelines

- SFDR

STEP 2

ESRS G1 vs ESRS 2

Avoiding overlaps, enhancing co-ordination

- ESRS 2: sustainability-related governance aspects
- ESRS G1: overarching governance as well as risk management and internal control

STEP 3

Development of ED

Leading principles for drafting of Standards

- Principle based and sector agnostic
- Cognisant of scope of CSRD; SME definition and Accounting directive

- Criteria that make an indicator/disclosure meaningful and avoid perverse consequences

STEP 4

Triple review process

Feedback from various stakeholders

- **Consensus building questions**
- **Review panel**
- **Expert Working Group**: respondents with extensive feedback; 2 meetings with EWG-members

- **European Commission**: comments received from DG FISMA.

Background

Step 1 – further detail

Sources	
TCFD	Capital Requirement Regulation (CRR)
SASB	Emissions Trading System Directive (ETS)
IIRC	Solvency 2
Sustainable corporate governance initiative (procedura e consultazione pubblica)	PRI REPORTING FRAMEWORK 2020 Strategy and Governance (Climate-related indicators only)
CE Climate-related disclosure guidance	G20/OECD Principles of Corporate Governance
COSO Framework (focus on ESG integration)	King IV report
ECB Guide on climate-related and environmental risks - Supervisory expectations relating to risk management and disclosure	EU climate benchmarks and benchmark ESG disclosure
Rating ESG (MSCI, FTSE, VIGEO, SUSTAINALITYCS, ISS)	Prospectus Regulation 2017/1129
Sustainable Finance Disclosure Regulation (SFDR) – 2088 / PAI	Shareholder rights Directive 2017/828
Taxonomy EU 852/2020	Markets in financial industry Directive II (MIFID II)
Corporate Governance codes in Italy, Germany, and other EU countries	Transparency Directive

Background

Step 2: Governance in ESRS

G1: Overall Governance

ESRS 2: Governance over sustainability
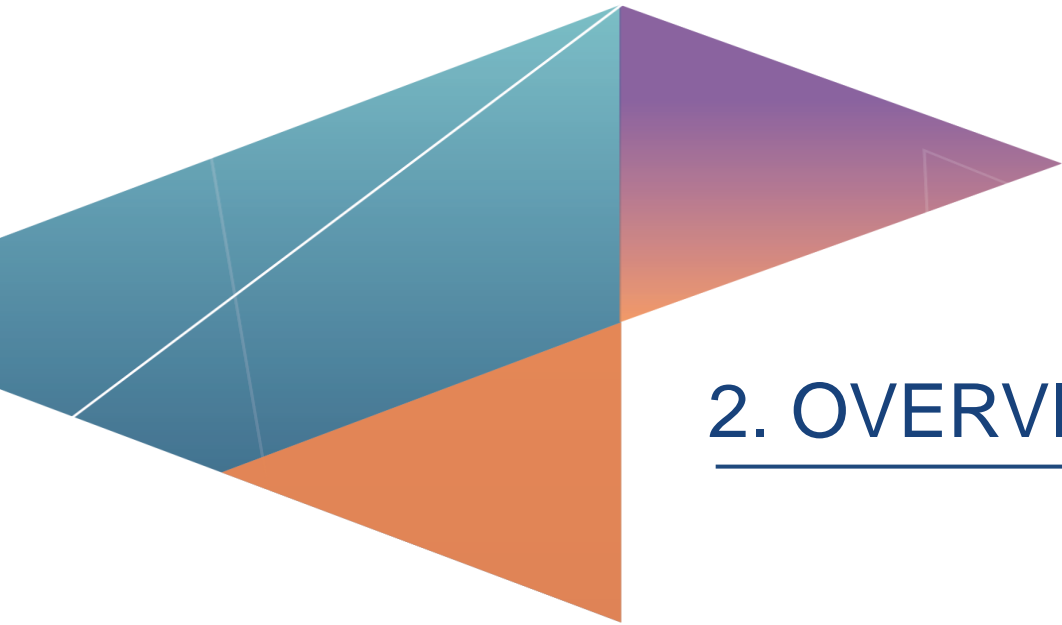
Governance in E, S

2. OVERVIEW

Overview

DR ORIGINS AND SUBJECTS COVERED

STRATEGY	**IMPLEMENTATION**	**PERFORMANCE MEASURES**

STRATEGY

DR G1-1: Governance structure `GRI` `Acc Dir`

IMPLEMENTATION

DR G1-2: Corporate governance code or policy `Acc Dir`

DR G1-3: Nomination process `GRI`

DR G1-4: Diversity policy `Acc Dir`

DR G1-5: Evaluation process `GRI`

DR G1-6: Remuneration policy `SR Dir` `GRI`

DR G1-7: Risk management `GRI`

DR G1-8: Internal control `GRI`

PERFORMANCE MEASURES

DR G1-9: Composition of ASMB `SFDR` `Acc Dir`

DR G1-10: Meetings and attendance rate

Understanding of the structure of the governance and the distribution of roles and responsibilities throughout the organization

- More detailed description of specific aspects
- General description of the risk management & internal control processes and how they enable the ASMB to exercise their responsibility to oversee the undertaking.

- Indicators to measure performance of policy objectives defined by previous DRs

ESRS G1: Strategy

STRATEGY

DR G1-1: Governance structure `GRI` `Acc Dir`

General description of ASMB and their composition

DR 1: The undertaking shall provide information on its governance structure and composition.

Expectations:

- Presentation of existing bodies and committees
- Description of the governance structure and the prescription of the local laws
- Detail on independence of the ASMB members
- Link/coherence with ESRS and ESRS G2-8

ESRS G1: Implementation

IMPLEMENTATION

DR G1-2: Corporate governance code or policy `Acc Dir`

DR G1-3: Nomination process `GRI`

DR G1-4: Diversity policy `Acc Dir`

More detailed description of specific aspects

DR2 - The undertaking shall disclose the corporate governance code, policy or practices that determine the function of its administrative, management or supervisory bodies.

DR 3 - The undertaking shall provide information about the nomination and selection processes for its administrative, management and supervisory bodies.

DR4 - The undertaking shall provide information on the diversity policy applied in relation to its administrative, management and supervisory bodies.

Expectations:

- Adoption of an internal code for CG and its relation with the local requirements
- Description of the criteria used for the nomination/evaluation process and link with the DR9 (composition)
- Description of the policy and its criteria and how is it applied
- Link/coherence with ESRS

Educational session: ESRS G2 Business conduct

ESRS G1: Implementation (continued)

IMPLEMENTATION

DR G1-5: Evaluation process   GRI

DR G1-6: Remuneration policy   SR Dir   GRI

More detailed description of specific aspects

DR5 - The undertaking shall describe the process, if any, followed for evaluating the performance of its administrative, management and supervisory bodies in overseeing the management of the undertaking.

DR 6 - The undertaking shall describe the policy used for the remuneration of its administrative, management and supervisory bodies.

Expectations:

- Mechanisms for evaluation existing ASMB

- Detail of each component included in the remuneration policy

ESRS G1: Implementation (continued)

IMPLEMENTATION

DR G1-7: Risk management	GRI
DR G1-8: Internal control	GRI

General description of the risk management & internal control processes and how they enable the ASMB to exercise their responsibility to oversee the undertaking.

DR7 - The undertaking shall provide information on its risk management processes, with regards to risk arising for the undertaking and for the stakeholders.

DR8 - The undertaking shall provide information on its internal control processes, including in relation to the sustainability reporting process.

Expectations:

- Focus on the process in place to identify and assess risks
- How business model and strategy are integrated into the assessment
- Roles and responsibilities of the risk management
- Details of roles and responsibilities in internal control – by type of control - with a focus on sustainability
- Distinction between oversight and delegation authority
- Link/coherence with ESRS 2

ESRS G1: Performance measures

PERFORMANCE MEASURES

DR G1-9: Composition of ASMB   `SFDR`   `Acc Dir`

DR G1-10: Meetings and attendance rate

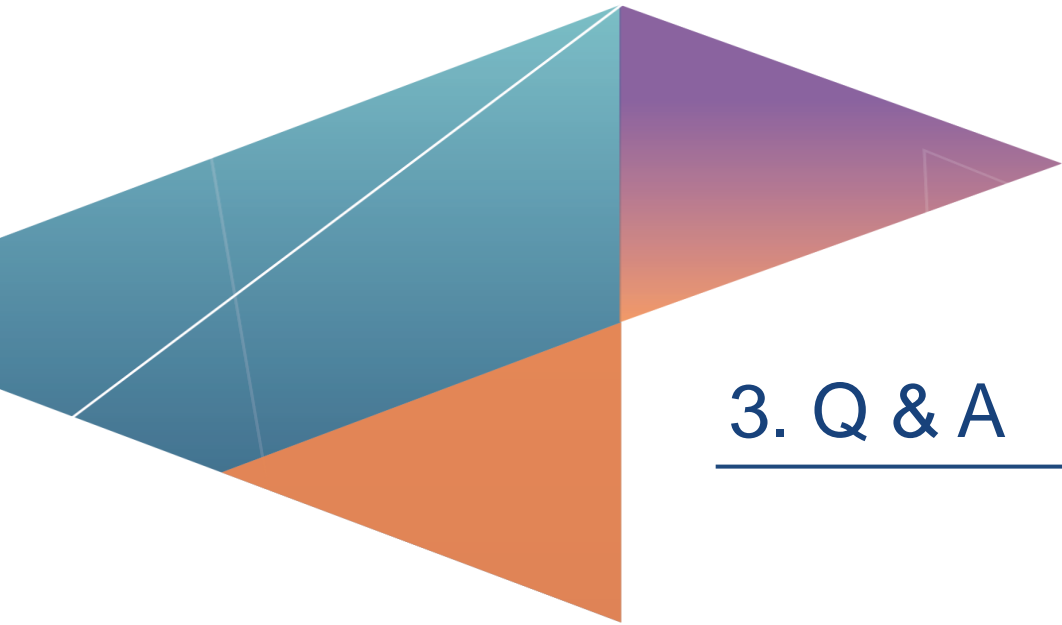Measuring the achievement of policies and objectives in previous DRs

- Gender balance and representation of the ASMB
- Engagement and participation of the ASMB

DR9 - The undertaking shall provide information about the composition of its administrative, supervisory and management bodies.

DR10 - The undertaking shall provide information about the number of meetings and the attendance rate for its administrative, management and supervisory bodies and committees

Expectations:

- % and ratio of women to men and age representation for all the ASMB
- Detail of other indicators of diversity when materials
- Changes between years and reporting period
- Attendance rate for different ASMB and topics

3. Q & A

APPENDIX: Further details

G1: Strategy

Disclosure topic	Proposed requirement
DR 1: Governance structure and composition	The disclosure shall include: (a) a description of the structure of its governance body and the roles and key responsibilities of each of its committees; (b) identity of members of the governance body; (c) classification of members between executive and non-executive; (d) independence of members; (e) tenure of members on the governance body; (f) for each member the number of significant positions and commitments, and the nature of the commitments; (g) representation of stakeholder groups; and (h) competencies relevant to the sector, products and geographic locations of the undertaking and associated regulation.

G1: Policies, targets, action plans and resources

Disclosure topic	Proposed requirement
DR2: Corporate governance code or policy	The disclosure shall include: (a) the corporate governance code (mandatory or voluntary and reference to where publicly available); (b) information about the corporate governance practices applied over and above the requirements of national law. If departure from a corporate governance code - provide an explanation about what and why.

DR3: Nomination process	The disclosure shall include:
	(a) a description of the nomination and selection processes for the AMSB and, where applicable, their committees;
	(b) a description of nomination and selection criteria used for AMSB, including whether and how:
	    i. stakeholders (including shareholders) are involved in the nomination process;
	    ii. diversity is considered in the selection process;
	    iii. independence is considered in the selection process; and
	    iv. competencies relevant to the sector of the undertaking are considered in the selection process.

DR4: Diversity policy	The disclosure shall include:
	(a) description of the diversity policy for AMSB for:
	    i. gender,
	    ii. age,
	    iii. minority or vulnerable groups,
	    iv. educational and professional backgrounds, and
	    v. other aspects where relevant.
	(b) the objectives of that diversity policy,
	(c) how the diversity policy has been implemented.

G1: Policies, targets, action plans and resources

Disclosure topic	Proposed requirement
DR5: Evaluation process	The disclosure shall include: (a) the evaluation process for performance of AMSB; (b) frequency and independence of evaluation; and (c) resulting actions.
DR6: Remuneration policy	The disclosure shall include: (a) the roles and responsibilities for the process, including independent oversight; (b) whether external consultants are involved; (c) whether stakeholders' views (including shareholders) are sought and taken into account, together with any corresponding voting results. Covers: (a) fixed pay and variable pay, including performance-based pay, equity-based pay, bonuses, and deferred or vested shares; (b) sign-on bonuses or recruitment incentive payments; (c) termination payments; (d) clawbacks; and (e) retirement benefits.

G1: Policies, targets, action plans and resources

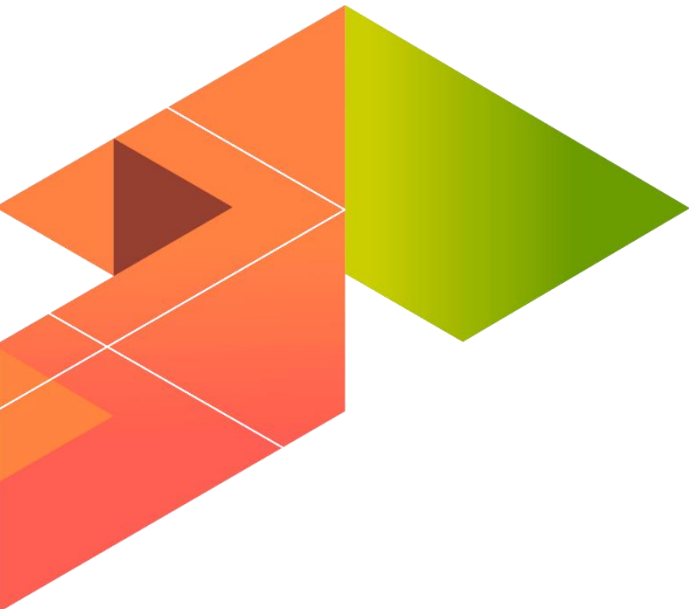| Disclosure topic	Proposed requirement
DR7: Risk management processes	The disclosure shall include: (a) the undertaking's risk assessment approach; (b) the risk prioritisation methodology; (c) the scope, main features and components of its risk management processes; (d) reporting on risk management to AMSB
DR8: Internal control processes	The disclosure shall include: (a) the scope, main features and components of the internal control process; (b) reporting to AMSB; (c) the main features of the undertaking's internal control systems over the sustainability reporting process.

G1: Policies, targets, action plans and resources

Disclosure topic	Proposed requirement

DR9: Composition of AMSB	The disclosure shall include:
	(a) % of independent shareholder-elected members;
	(b) % of each of the following diversity classifications:
	    i. gender;
	    ii. age group;
	    iii. any other relevant diversity indicators
	
	SFDR: The Board's gender diversity should be calculated as an average ratio of female to male board members expressed as a percentage of all board members.

DR10: Meetings and attendance rate	The disclosure shall include: (a) the number of meetings of the AMSB and their committees in the reporting period; and (b) the number of members who participated at each meeting in the reporting period.

Thank you

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