



Item 05 – GRI Universal Standards Project – Revised governance disclosures

For GSSB review

Date	6 April 2021
Meeting	29 April 2021
Review by	19 April 2021
Project	GRI Universal Standards Project
Description	<p>This document presents the revised draft of Section 4. Governance in <i>GRI 102: About the Organization</i> following the public comment feedback and feedback received from ICGN during peer review.</p> <p>An interim version of this draft has been shared with the GSSB for review on 17 March 2021, with its subsequent discussion in a GSSB meeting on 25 March 2021.</p> <p>New changes have been marked with the code 'NEW' in the comment boxes. ICGN's feedback and the Standards Division's responses and proposals are included in table 1. A draft tracking new changes to the text has been included in the Annex.</p> <p>The GSSB members are invited to review and comment on the new changes as well as any and all changes they have not been able to comment on during the meeting on 25 March 2021.</p> <p>The public comments can be found here.</p>



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20 **Feedback received from ICGN on governance disclosures**

21 The Standards Division reached out to ICGN to provide clarifications on several comments received during the public comment and to review
 22 the draft governance disclosures based on ICGN’s latest revision to Global Governance Principles. The questions shared with the ICGN, the
 23 comments received from ICGN and the proposed responses from the Standards Division in response to these comments are presented below.

24 **Table 1. Comments received from ICGN with proposed responses from the Standards Division**

#	Disclosure	Question to ICGN	ICGN response	SD proposed response
1	All disclosures	The use of ‘sustainable development topics’ has been replaced with ‘impacts on the economy, environment, and people, including on human rights’ because this terminology aligns more strongly with the concept of ‘impact’ in the GRI Standards.	The revision to focus on “the economy, environment and people” comes across as broader in scope than the former use of “sustainable development topics”. But for ICGN the role of directors in the first instance is to promote the long-term success of the company itself. Sustainable development is part of that role, but not an end unto itself. And to do that directors need to manage appropriately stakeholder relations and material ESG issues. So the latest GRI version is probably closer to ICGN’s own approach, but there still seems to be a fundamental difference in emphasis, which reflects GRI’s stakeholder focus.	No further change.
2	Disclosure GOV-1 Governance structure and composition	Respondents to the public comment suggested to expand diversity criteria to age, disability, marriage and civil partnership, civil registration gender, race,	Not sure what is meant by “authoritative list”. Diversity can be tricky to define, particularly as different issues present themselves in particular jurisdictions. For example, in the US ethnic diversity is an important issue to focus	No further change to requirements given the existing requirements:

		<p>religion or belief, sex and sexual orientation, geographical diversity.</p> <p>ICGN revised its principle 3.1 which now emphasizes importance of board diversity.</p> <p><u>Can ICGN offer an authoritative list of generally accepted diversity criteria that relevant to board composition?</u></p>	<p>on but in France it is apparently illegal to focus on ethnicity in a diversity context. In the current redrafting of our own Global Governance Principles (GGP) our language on diversity is:</p> <p>Boards, and the workforce, should comprise a diverse group of individuals to ensure effective and inclusive decision-making in alignment with the company's purpose and values, and taking into consideration the interests of key stakeholders. This includes individuals from different genders, ethnicities (in jurisdictions where it applies), nationalities, social and economic backgrounds, professional skills and personal attributes. In the case of gender diversity boards should at least aspire to having 30% representation by the least represented gender. Boards should disclose and report against the company's policy on diversity which should include measurable targets and period for achievement. The report should include an explanation of how the diversity policy aligns with the company strategy and succession planning for the board and workforce.</p>	<ol style="list-style-type: none"> 1) GOV-1-c-iv to report representation of under-represented groups; 2) GOV-2-b-ii to report on how diversity is considered when nominating and selecting the highest governance body. <p>Added a guidance note recommending an organization specify groups reported under requirement GOV-1-c-iv based on GRI's existing definition and examples of 'indicators of diversity' in the Glossary.</p> <p>See lines 64-67.</p> <p>The SD proposes to defer further refinement of reporting related to diversity to the revision of <i>GRI 405: Diversity and Equal Opportunity 2016</i> during phase 2 of the Human Rights-related Standards project.</p>
3	<p>Disclosure GOV-1 Governance structure and composition</p>	<p>Respondents to public comment suggested that the term 'significant roles' needed clarification.</p> <p>ICGN refers to 'significant roles on non-profit/ charitable organizations'.</p> <p><u>Does ICGN define or can it offer further explanation on when a role/position is significant? Would it be correct to define this as 'being an executive or non-executive member of a governance body of</u></p>	<p>The main point about "significant" roles is the extent to which they demand time and attention from the director that could potentially distract the director from fulfillment of his/her duties at the individual company. We don't provide any further definition, and it is probably not tenable to cover all possible situations. But your suggested wording should capture most instances of this.</p>	<p>Added guidance clarifying the term.</p> <p>See lines 60-63.</p>

		<u>another organization during the same reporting period'?</u>		
4	GOV-5 Delegation of responsibility for managing impacts	<p>Respondents suggested that the term 'internal resources' is unclear and is not feasible to report due to resources being dispersed across the organization and functions.</p> <p><u>Can ICGN offer any guidance?</u></p>	Not sure we have any specific guidance on the sustainable development function beyond what you might see in our existing GGP.	<p>Deleted the requirement to report on internal resources.</p> <p>The requirement was included following ICGN's feedback prior to the public comment which suggested that organizations should disclose:</p> <ol style="list-style-type: none"> 1) Who has responsibility for managing risks related to economic, environment and social topics: does sustainability integration in everyday operations come from executives or from the highest governance body? 2) Does the company have in-house environment and social sustainability/corporate social responsibility person? What is this person's role? 3) Does the reporting organization have internal capabilities to deal with environment and social risks (time, people, knowledge)? <p>The SD suggests that these points are sufficiently covered by requirements GOV-5-a. ICGN's GGP do not include further guidance on the scope of internal resources beyond what is already covered by GOV-5-a.</p> <p>See lines 435-437.</p>

5	Disclosure GOV-6 Role of the highest governance body in sustainability reporting	<u>Can a position within a committee review sustainability reporting (e.g., the Chair) or is it always a committee?</u>	The board should be responsible for reviewing and approving sustainability reporting. Your language suggests that this could be done by a senior executive who is not part of the board. We would discourage that interpretation. The board as a whole is accountable for this oversight, not an individual or individual committee. But the board may wish to have a committee to take the lead on this for the benefit of the whole board.	Reformulated the disclosure based on the feedback to accurately reflect the HGB's sole accountability for the reporting process and its outcomes. A guidance note has been added to reflect potential delegation of implementation of the reporting process to a committee. See lines 141-153.
6	Disclosure GOV-6 Role of the highest governance body in sustainability reporting	<p><u>Following ICGN's revision to the Global Governance Principle and the inclusion of principle 7.6, should any further changes be made to this disclosure?</u></p> <p><u>In addition, should the focus be on 'reviewing and approving' the organization's sustainability reporting processes or on the reported sustainability information?</u></p>	You can see what revisions we are contemplating with regard to sustainability reporting in our GGP consultation document of 30 November 2020. The focus should be on the end result of sustainability information, but having a robust process may be important to achieving a quality outcome.	Reformulated the disclosure based on the feedback to reflect the equal importance of the HGB's accountability for the reporting process next to its outcomes. See lines 145-148.
7	Disclosure GOV-7 Conflicts of interest	<u>Can ICGN clarify whether disclosure of the conflicts of interest themselves is important, or only of the process how they are disclosed to stakeholders?</u>	Disclosing all potential conflicts publicly may not be feasible. But the emphasis should be on disclosing conflicts that are potentially material, and to disclose more generally how the board reviews any conflicts, whether or not they are all disclosed publicly.	No change.
8	Disclosure GOV-7 Conflicts of interest	<u>Can ICGN clarify this terminology - does 'cross-board membership' refer to membership in governance bodies of other organizations or to conflicts of interest</u>	By cross board memberships we would mean cases when two directors are both directors of Company A and Company B.	No change as the term is considered to be broadly understood.

		<u>among committee members on the same board?</u>		
9	Disclosure GOV-7 Conflicts of interest	Respondents to public comment submitted that the term 'related parties' is unclear. <u>Can ICGN offer guidance on the correct terminology of 'related parties'?</u>	Our GGP language relating to RPTs is covered in sections 9.3-9.5 in the consultation document of 30 November 2020. Related parties are those who are captured in the conflicts of interest discussion in section 9.3 of the GGP.	A reference is provided to ICGN GGP. No change as the term is considered to be broadly understood.
10	Disclosure GOV-8 Communication of critical concerns	GRI Standards cover communication and resolution processes of concerns related to: <ul style="list-style-type: none"> • anti-corruption (GRI 205: Anti-corruption 2016); • tax (GRI 207: Tax 2019); • due diligence and conduct (RBC-5 Mechanisms for seeking advice and raising concerns and RBC-4 Grievance mechanisms and other remediation processes); • impacts (MT-1 Identification of material topics and related impacts). <p>Are there any other types of concerns that are unique to governance and governance of sustainability that need to be communicated to the board?</p>	The list of potential concerns could be very long, relating both to individual stakeholders and systemic risks that affect economies and markets generally (eg climate change, human rights, income inequality, etc). But for your own purposes these are probably captured under the bullet points relating to due diligence and conduct and impacts.	Deleted requirement GOV-8-c due to duplication with: <ul style="list-style-type: none"> • Disclosure SPP-4 Grievance mechanisms and other remediation processes; • Disclosure SPP-5 Mechanisms for seeking advice and raising concerns. <p>See line 483.</p> <p>Added guidance clarifying the scope of critical concerns.</p> <p>See lines 179-183.</p>
11	Disclosure GOV-12 Process for determining remuneration	Respondents to public comment submitted that 'relationships between the remuneration consultants and the organization' is not clear.	I agree that the wording is a bit unclear in how it is drafted. I think the key is to look for an independent remuneration consultant or to disclose any other relationships with	Reformulated the requirement to speak of the leading issue of 'independence of remuneration consultants'.

		<p><u>Can ICGN offer any guidance on this?</u></p>	<p>management that might cloud this relationship. We do not try to define this relationship, but we say that the Remuneration Committee is responsible for “<i>appointing any independent remuneration consultant including their selection and terms of engagement. This includes scrutiny of the rationale for consultancy proposals (particularly if levels appear industry benchmarked). The consultant’s identity and fees should also be publicly disclosed.</i>”</p>	<p>See lines 256-257.</p>
12	<p>Disclosure GOV-13 Annual total compensation ratio</p>	<p>Several respondents to the public comment raised concerns about the feasibility of this disclosure and its meaningfulness as an indicator of fair compensation and income inequality.</p> <p>ICGN revised principle 6.1 states that “Societal norms reflect concerns about income inequality and call for executive remuneration levels to take into consideration the level of pay of the average company worker and relative to the average median income of the company’s place of domicile”.</p> <p><u>Can ICGN share further insight from its consultation process in support of the approach to measure income inequality comparing level of pay of the average company worker to the average median income of the company’s place of domicile?</u></p>	<p>These sorts of pay ratios are well-intended to reflect disparities and extremes of executive pay, but they are at best crude and can be subject to gaming. We add national median income to provide for a common denominator in comparing companies across industries. The average pay of employees in a mass market retailer is likely to be much lower than the average pay of an investment banker. Average median income is one way to get around industry bias. Note that we may be dropping or rephrasing the reference to “societal norms” in our GGP, as we have gotten feedback from our members that this term is not clear.</p>	<p>Made the following decisions and changes to the disclosure:</p> <ol style="list-style-type: none"> 1) Retained the disclosure as designing remuneration policies and determining remuneration are one of board’s key responsibilities in ensuring effective governance balanced with long-term interests of the organization and societal norms and expectations; 2) Retained the highest-paid individual in the numerator but added a recommendation to disclose the title of the individual; 3) Retained the median total annual compensation in the denominator as more representative than the average and aligned with the methodology used in other instruments (see Annex 2 in GSSB paper from 17 March 2021);

				<p>4) Changed the requirement to report one ratio – of the total annual compensation of the highest paid individual to the median total income of all employees globally:</p> <ul style="list-style-type: none"> i. this approach is aligned with existing statutory reporting (see Annex 2 in GSSB paper from 17 March 2021); ii. it encourages the organization to understand the scale and drivers of pay disparity internally and improve its remuneration policies and practices. <p>5) Added a requirement to disclose contextual information to understand the data and how it has been compiled address concerns about the level of insight that the pay ratio provides about the organization’s remuneration practices;</p> <p>6) Retained the requirement to report the change in the pay ratio to understand changes and trends in the organization’s remuneration practices;</p> <p>See lines 265-313.</p>
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26 **Section 4. Governance**

27 The disclosures in this section provide transparency on an organization's governance
28 structure and composition, roles, and remuneration. The information reported under these
29 disclosures is important to ensure the accountability of governance bodies and senior
30 executives with respect to the organization's impacts on the economy, environment, and
31 people, including impacts on human rights, and their contribution to sustainable
32 development.

33 **Disclosure GOV-1 Governance structure and** 34 **composition**

35 **Requirements**

36 **The organization shall:**

- 37 **a. describe its governance structure, including committees of the highest**
38 **governance body;**
- 39 **b. list the committees of the highest governance body that are responsible for**
40 **decision-making on and overseeing the management of impacts on the economy,**
41 **environment, and people;**
- 42 **c. describe the composition of the highest governance body and its committees by:**
- 43 **i. executive and non-executive members;**
- 44 **ii. independence;**
- 45 **iii. tenure of members on the governance body;**
- 46 **iv. number of other significant positions and commitments held by each**
47 **member, and the nature of the commitments;**
- 48 **v. gender;**
- 49 **vi. representation of under-represented social groups;**
- 50 **vii. competencies relating to sustainable development that are relevant to the**
51 **organization and the sector in which it operates;**
- 52 **viii. stakeholder representation.**

53 **Guidance**

54 ***Guidance to GOV-1-b-ii***

55 'Independence' refers to conditions that enable the members of the highest governance
56 body to exercise independent judgement free from any external influence or conflicts of

57 interest. See reference X in the [Bibliography section](#) for more information on independence
58 criteria for governance bodies.

59 **Guidance to GOV-1-b-iv**

60 A position or commitment held by a governance body member is significant when the time
61 and attention it demands compromises the member's ability to perform its duties in the
62 organization. Significant positions can include cross-board memberships.

63 **Guidance to GOV-1-b-vi**

64 The organization can specify under-represented social groups reported under GOV-1-b-vi
65 based on additional indicators of diversity such as age, ancestry and ethnic origin,
66 citizenship, creed, or disability; or based on any other indicators of diversity used in its own
67 monitoring that are relevant for reporting.

68 **Disclosure GOV-2 Nomination and selection of the**
69 **highest governance body**

70 **Requirements**

71 The organization shall:

- 72 a. describe the nomination and selection processes for the highest governance
73 body and its committees;
- 74 b. describe the criteria used for nominating and selecting highest governance body
75 members, including whether and how the following are taken into consideration:
- 76 i. views of stakeholders (including shareholders);
- 77 ii. diversity;
- 78 iii. independence;
- 79 iv. competencies relating to sustainable development that are relevant to the
80 organization and the sector in which it operates.

81 **Guidance**

82 **Guidance to GOV-2-b-iii**

83 'Independence' refers to conditions that enable the members of the highest governance
84 body to exercise independent judgement free from any external influence or conflicts of
85 interest. See reference X in the [Bibliography section](#) for more information on independence
86 criteria for governance bodies.

87 **Disclosure GOV-3 Chair of the highest governance**
88 **body**

89 Requirements

90 The organization shall:

- 91 a. report whether the chair of the highest governance body is also a senior
92 executive in the organization;
- 93 b. if the chair is also a senior executive, explain their function within the
94 organization's management, the reasons for this arrangement, and how conflicts
95 of interest are prevented and mitigated.

96 Disclosure GOV-4 Role of the highest governance 97 body in overseeing the management of impacts

98 Requirements

99 The organization shall:

- 100 a. describe the role of the highest governance body and of senior executives in
101 developing, approving, and updating the organization's purpose, value or mission
102 statements, strategies, policies, and goals related to sustainable development;
- 103 b. describe the role of the highest governance body in overseeing the organization's
104 due diligence and other processes to identify and manage the organization's
105 impacts on the economy, environment, and people, including:
- 106 i. the role of any committees of the highest governance body that have
107 specific responsibilities in relation to these processes;
- 108 ii. whether and how the highest governance body engages with
109 stakeholders to support these processes;
- 110 iii. how the highest governance body considers the outcomes of these
111 processes;
- 112 c. describe the role of the highest governance body in reviewing the effectiveness of
113 the organization's processes as described in GOV-4-b, and report the frequency of
114 this review.

115 Guidance

116 See references X in the [Bibliography section](#).

117 **Guidance to GOV-4-b-ii**

118 GOV-4-b-ii requires the organization to report information on the role of the highest
119 governance body in stakeholder engagement. The organization is also required to report on
120 stakeholder engagement under [Disclosure SE-1](#) in this Standard, and under [MT-1-a-iii](#) and
121 [MT-3-f](#) in *GRI 103: Material Topics*.

122 The organization can describe the frequency of engagement between the highest
123 governance body and stakeholders as well as the means of consultation. If stakeholder
124 engagement is delegated, the organization can report to whom it is delegated, and how the
125 feedback received is provided to the highest governance body.

126 **Disclosure GOV-5 Delegation of responsibility for**
127 **managing impacts**

128 **Requirements**

129 The organization shall:

- 130 a. describe how the highest governance body delegates responsibility for identifying
131 and managing the organization's impacts on the economy, environment, and
132 people, including:
- 133 i. whether it has appointed any senior executives with responsibility for the
134 management of impacts;
 - 135 ii. whether it has delegated responsibility for the management of impacts to
136 other employees;
- 137 b. describe the process and frequency for senior executives or other employees to
138 report back to the highest governance body on the management of impacts on
139 the economy, environment, and people;

140 **Disclosure GOV-6 Role of the highest governance**
141 **body in sustainability reporting**

142 **Requirements**

143 The organization shall:

- 144 a. describe the process undertaken by the highest governance body to review and
145 approve the organization's sustainability reporting, including the organization's
146 material topics.

147 **Guidance**

148 The organization can report whether the highest governance body has established a
149 committee with responsibility for sustainability reporting. The organization can also report
150 whether the highest governance body has set up and maintains internal controls to
151 strengthen the integrity and credibility of the organization's sustainability reporting. See
152 [Section 5 of GRI 101: About the Organization](#) for more information.

153 **Disclosure GOV-7 Conflicts of interest**

154 **Requirements**

155 The organization shall:

- 156 a. describe the processes for the highest governance body to ensure that conflicts
157 of interest are prevented and mitigated;

- 158 b. report whether conflicts of interest are disclosed to stakeholders, including, at a
159 minimum, conflicts of interest relating to:
- 160 i. cross-board membership;
- 161 ii. cross-shareholding with suppliers and other stakeholders;
- 162 iii. existence of controlling shareholders;
- 163 iv. related parties, their relationships, transactions, and outstanding balances.

164 **Guidance**

165 See reference X in the [Bibliography section](#).

166 ***Guidance to GOV-7-b-iii***

167 The organization should use the definition of controlling shareholder applied in the
168 organization's consolidated financial statements or equivalent documents.

169 **Disclosure GOV-8 Communication of critical** 170 **concerns**

171 **Requirements**

172 The organization shall:

- 173 a. describe whether and how critical concerns are communicated to the highest
174 governance body;
- 175 b. report the total number and the nature of critical concerns that were
176 communicated to the highest governance body during the reporting period.

177 **Guidance**

178 Critical concerns include concerns about the organization's potential and actual negative
179 impacts on stakeholders raised through grievance mechanisms. They also include concerns
180 about responsible business conduct in the operations of the organization and its business
181 relationships, identified through other mechanisms and processes. See [Guidance to](#)
182 [Disclosures SPP-4 and SPP-5](#) of this Standard for more information.

183 **Disclosure GOV-9 Collective knowledge of the** 184 **highest governance body**

185 **Requirements**

186 The organization shall:

- 187 a. report measures taken to advance the collective knowledge, skills, and
188 experience of the highest governance body on sustainable development.

189 **Disclosure GOV-10 Evaluation of the performance of**
190 **the highest governance body**

191 **Requirements**

192 **The organization shall:**

- 193 a. describe the processes for evaluating the performance of the highest governance
194 body in relation to overseeing the management of impacts on the economy,
195 environment, and people;
- 196 b. report whether the evaluations are independent or not, and the frequency of the
197 evaluations;
- 198 c. describe actions taken in response to the evaluation, including, at a minimum,
199 changes to the composition of the highest governance body and organizational
200 practices.

201 **Disclosure GOV-11 Remuneration policies**

202 **Requirements**

203 **The organization shall:**

- 204 a. describe the remuneration policies for members of the highest governance body
205 and senior executives, including:
- 206 i. fixed pay and variable pay;
- 207 ii. sign-on bonuses or recruitment incentive payments;
- 208 iii. termination payments;
- 209 iv. clawbacks;
- 210 v. retirement benefits;
- 211 b. describe how the remuneration policies for members of the highest governance
212 body and senior executives relate to their objectives and performance in relation
213 to overseeing the management of impacts on the economy, environment, and
214 people.

215 **Guidance**

216 ***Guidance to GOV-11-a-i***

217 Fixed pay and variable pay can include performance-based pay, equity-based pay, bonuses,
218 and deferred and vested shares.

219 If the organization uses performance-based pay, it should describe how remuneration for
220 senior executives is designed to reward long-term performance.

221 ***Guidance to GOV-11-a-iii***

222 Termination payments are all payments and benefits given to a departing member of the
223 highest governance body or senior executive whose appointment is terminated. Termination
224 payments extend beyond monetary payments, from transferring property to automatic or
225 accelerated vesting of incentives.

226 If the organization provides termination payments, it should explain whether:

- 227 • notice periods for highest governance body members and senior executives are
228 different from those for other employees;
- 229 • termination payments for highest governance body members and senior executives
230 are different from those for other employees;
- 231 • departing highest governance body members and senior executives receive
232 payments other than those related to the notice period;
- 233 • any mitigation clauses that are included in the termination arrangements.

234 ***Guidance to GOV-11-a-iv***

235 Clawbacks are repayments of previously received compensation that a highest governance
236 body member or senior executive is required to make to their employer in the event that
237 certain conditions of employment or goals are not met.

238 ***Guidance to GOV-11-a-v***

239 The organization should report the differences between the retirement benefit schemes and
240 the contribution rates for the highest governance body members and senior executives, as
241 compared to other employees.

242 **Disclosure GOV-12 Process for determining** 243 **remuneration**

244 **Requirements**

245 **The organization shall:**

- 246 **a. describe the process for designing its remuneration policies and for determining**
247 **remuneration, including:**
 - 248 **i. whether independent highest governance body members or an**
249 **independent remuneration committee oversees the process for**
250 **determining remuneration;**
 - 251 **ii. how the views of stakeholders (including shareholders) regarding**
252 **remuneration are sought and taken into consideration;**
 - 253 **iii. whether remuneration consultants are involved in determining**
254 **remuneration and, if so, whether they are independent from the**
255 **organization, its highest governance body and senior executives;**
- 256 **ii. report the results of votes on remuneration policies and proposals, if applicable.**

257 **Guidance**

258 ***Background***

259 Remuneration policies are established to ensure that the remuneration arrangements help
260 recruit, motivate, and retain highest governance body members, senior executives, and
261 other employees, while supporting the organization's strategy and its contribution to
262 sustainable development, and aligning with the interests of stakeholders.

263 **Disclosure GOV-13 Annual total compensation ratio**

264 **Requirements**

265 **The organization shall:**

- 266 **a. report the ratio of the annual total compensation for the organization's highest-**
267 **paid individual to the median annual total compensation for all employees**
268 **(excluding the highest-paid individual);**
- 269 **b. report the ratio of the percentage increase in annual total compensation for the**
270 **organization's highest-paid individual to the median percentage increase in**
271 **annual total compensation for all employees (excluding the highest-paid**
272 **individual);**
- 273 **c. report contextual information necessary to understand the data and how the data**
274 **has been compiled.**

275 **Guidance**

276 ***Guidance to GOV-13-a and GOV-13-b***

277 Annual total compensation includes salary, bonus, stock awards, option awards, non-equity
278 incentive plan compensation, change in pension value, and nonqualified deferred
279 compensation earnings provided during the reporting period. When calculating the ratio, the
280 organization should, depending on the organization's remuneration policies and availability
281 of data, consider all of the following:

- 282 • base salary, which is the sum of guaranteed, short-term, and non-variable cash
283 compensation;
- 284 • total cash compensation, which is the sum of the base salary and cash allowances,
285 bonuses, commissions, cash profit-sharing, and other forms of variable cash
286 payments;
- 287 • direct compensation, which is the sum of total cash compensation and total fair value
288 of all annual long-term incentives, such as stock option awards, restricted stock
289 shares or units, performance stock shares or units, phantom stock shares, stock
290 appreciation rights, and long-term cash awards.

291 This disclosure covers all employees as reported under Disclosure ACT-2 in this Standard.
292 The organization is required to report contextual information necessary to understand how
293 the data has been compiled under requirement GOV-13-c, including:

- 294 • whether any employees have been excluded from the calculation, e.g., part-time
295 employees are excluded;
- 296 • whether full-time equivalent pay rates are used for each part-time employee.

297 The organization should also:

- 298 • report the title of the highest-paid individual;

299 • list types of compensation included;

300 **Guidance to GOV-13-c**

301 Quantitative information about the annual total compensation ratio may not be sufficient on
302 its own to understand pay disparity and its drivers. For example, pay ratios can be influenced
303 by the size of the organization (e.g., revenue and number of employees), its sector, labor
304 sourcing strategy (e.g., reliance on outsourced workers or part-time workers, or a high
305 degree of automation), or currency volatility.

306 The difference in pay disparity reported over the years may be the result of the change in the
307 organization's compensation policy or the level of compensation for its highest paid
308 individual or employees, the change in calculation methodology (e.g., selection of the
309 median employee, inclusions or exclusions) or improvement in data collection processes.

310 For this reason, the organization is required to report contextual information to help
311 information users interpret the quantitative information and understand how it has been
312 compiled.

313 **Annex. Revisions with track changes**

314 **Section 4. Governance**

315 The disclosures in this section provide transparency on an organization’s governance
316 structure and composition, roles, and remuneration. The information reported under these
317 disclosures is important to ensure the accountability of governance bodies and senior
318 executives with respect to the organization’s impacts on the economy, environment, and
319 people, including impacts on human rights, and their contribution to sustainable
320 development.

321 **Disclosure GOV-1 Governance structure and** 322 **composition**

323 **Requirements**

324 **The organization shall:**

- 325 **a. describe its governance structure, including committees of the highest**
326 **governance body;**
- 327 **b. list the committees of the highest governance body that are responsible for**
328 **decision-making on and overseeing the management of impacts on the economy,**
329 **environment, and people;**
- 330 **c. describe the composition of the highest governance body and its committees by:**
- 331 **i. executive and non-executive members;**
- 332 **ii. independence;**
- 333 **iii. tenure of members on the governance body;**
- 334 **iv. number of other significant positions and commitments held by each**
335 **member, and the nature of the commitments;**
- 336 **v. gender;**
- 337 **vi. representation of under-represented social groups;**
- 338 **vii. competencies relating to sustainable development that are relevant to the**
339 **organization and the sector in which it operates;**
- 340 **viii. stakeholder representation.**

341 **Guidance**

342 ***Guidance to GOV-1-b-ii***

343 'Independence' refers to conditions that enable the members of the highest governance
344 body to exercise independent judgement free from any external influence or conflicts of
345 interest. See reference X in the [Bibliography section](#) for more information on independence
346 criteria for governance bodies.

347 **Guidance to GOV-1-b-iv**

348 A position or commitment held by a governance body member is significant when the time
349 and attention it demands compromises the member's ability to perform its duties in the
350 organization. Significant positions can include cross-board memberships.

351 **Guidance to GOV-1-b-vi**

352 The organization can specify under-represented social groups reported under GOV-1-b-vi
353 based on additional indicators of diversity such as age, ancestry and ethnic origin,
354 citizenship, creed, or disability; or based on any other indicators of diversity used in its own
355 monitoring that are relevant for reporting.

356 **Disclosure GOV-2 Nomination and selection of the**
357 **highest governance body**

358 **Requirements**

359 The organization shall:

- 360 a. describe the nomination and selection processes for the highest governance body
361 and its committees;
- 362 b. describe the criteria used for nominating and selecting highest governance body
363 members, including whether and how the following are taken into consideration:
- 364 i. views of stakeholders (including shareholders);
- 365 ii. diversity;
- 366 iii. independence;
- 367 iv. competencies relating to sustainable development that are relevant to the
368 organization and the sector in which it operates.

369 **Guidance**

370 **Guidance to GOV-2-b-iii**

371 'Independence' refers to conditions that enable the members of the highest governance
372 body to exercise independent judgement free from any external influence or conflicts of
373 interest. See reference X in the [Bibliography section](#) for more information on independence
374 criteria for governance bodies.

375 **Disclosure GOV-3 Chair of the highest governance**
376 **body**

377 **Requirements**

378 The organization shall:

- 379 a. report whether the chair of the highest governance body is also a senior executive
380 in the organization;
- 381 b. if the chair is also a senior executive, explain their function within the
382 organization's management, the reasons for this arrangement, and how conflicts
383 of interest are prevented and mitigated.

384 **Disclosure GOV-4 Role of the highest governance**
385 **body in overseeing the management of impacts**

386 **Requirements**

387 The organization shall:

- 388 a. describe the role of the highest governance body and of senior executives in
389 developing, approving, and updating the organization's purpose, value or mission
390 statements, strategies, policies, and goals related to sustainable development;
- 391 b. describe the role of the highest governance body in overseeing the organization's
392 due diligence and other processes to identify and manage the organization's
393 impacts on the economy, environment, and people, including:
- 394 i. the role of any committees of the highest governance body that have
395 specific responsibilities in relation to these processes;
- 396 ii. whether and how the highest governance body engages with
397 stakeholders to support these processes;
- 398 iii. how the highest governance body considers the outcomes of these
399 processes;
- 400 c. describe the role of the highest governance body in reviewing the effectiveness of
401 the organization's processes as described in GOV-4-b, and report the frequency of
402 this review.

403 **Guidance**

404 See references X in the [Bibliography section](#).

405 ***Guidance to GOV-4-b-ii***

406 GOV-4-b-ii requires the organization to report information on the role of the highest
407 governance body in stakeholder engagement. The organization is also required to report on
408 stakeholder engagement under [Disclosure SE-1](#) in this Standard, and under [MT-1-a-iii](#) and
409 [MT-3-f](#) in *GRI 103: Material Topics*.

410 The organization can describe the frequency of engagement between the highest
411 governance body and stakeholders as well as the means of consultation. If stakeholder
412 engagement is delegated, the organization can report to whom it is delegated, and how the
413 feedback received is provided to the highest governance body.

414 **Disclosure GOV-5 Delegation of responsibility for** 415 **managing impacts**

416 **Requirements**

417 **The organization shall:**

418 **a. describe how the highest governance body delegates responsibility for identifying**
419 **and managing the organization's impacts on the economy, environment, and**
420 **people, including:**

421 **i. whether it has appointed any senior executives with responsibility for the**
422 **management of impacts;**

423 **ii. whether it has delegated responsibility for the management of impacts to**
424 **other employees;**

425 **b. describe the process and frequency for senior executives or other employees to**
426 **report back to the highest governance body on the management of impacts on**
427 **the economy, environment, and people;**

428 **Disclosure GOV-6 Role of the highest governance** 429 **body in sustainability reporting**

430 **Requirements**

431 **The organization shall:**

432 **a. describe the process undertaken by the highest governance body to review**
433 **and approve the organization's sustainability reporting, including the**
434 **organization's material topics.**

436 **Guidance**

437 The organization can report whether the highest governance body has established a
438 committee with responsibility for sustainability reporting. The organization can also report
439 whether the highest governance body has set up and maintains internal controls to

440 strengthen the integrity and credibility of the organization's sustainability reporting. See
441 [Section 5 of GRI 101: About the Organization](#) for more information.

442 **Disclosure GOV-7 Conflicts of interest**

443 **Requirements**

444 **The organization shall:**

- 445 **a. describe the processes for the highest governance body to ensure that conflicts**
446 **of interest are prevented and mitigated;**
- 447 **b. report whether conflicts of interest are disclosed to stakeholders, including, at a**
448 **minimum, conflicts of interest relating to:**
- 449 **i. cross-board membership;**
 - 450 **ii. cross-shareholding with suppliers and other stakeholders;**
 - 451 **iii. existence of controlling shareholders;**
 - 452 **iv. related parties, their relationships, transactions, and outstanding balances.**

453 **Guidance**

454 See reference X in the [Bibliography section](#).

455 ***Guidance to GOV-7-b-iii***

456 The organization should use the definition of controlling shareholder applied in the
457 organization's consolidated financial statements or equivalent documents.

458 **Disclosure GOV-8 Communication of critical** 459 **concerns**

460 **Requirements**

461 **The organization shall:**

- 462 **a. describe whether and how critical concerns are communicated to the highest**
463 **governance body;**
- 464 **b. report the total number and the nature of critical concerns that were**
465 **communicated to the highest governance body during the reporting period.**

466 **Guidance**

467 Critical concerns include concerns about the organization's potential and actual negative
468 impacts on stakeholders raised through grievance mechanisms. They also include concerns
469 about responsible business conduct in the operations of the organization and its business

470 relationships, identified through other mechanisms and processes. See [Guidance to](#)
471 [Disclosures SPP-4 and SPP-5](#) of this Standard for more information.

472 **Disclosure GOV-9 Collective knowledge of the** 473 **highest governance body**

474 **Requirements**

475 The organization shall:

- 476 a. report measures taken to advance the collective knowledge, skills, and
477 experience of the highest governance body on sustainable development.

478 **Disclosure GOV-10 Evaluation of the performance of** 479 **the highest governance body**

480 **Requirements**

481 The organization shall:

- 482 a. describe the processes for evaluating the performance of the highest governance
483 body in relation to overseeing the management of impacts on the economy,
484 environment, and people;
- 485 b. report whether the evaluations are independent or not, and the frequency of the
486 evaluations;
- 487 c. describe actions taken in response to the evaluation, including, at a minimum,
488 changes to the composition of the highest governance body and organizational
489 practices.

490 **Disclosure GOV-11 Remuneration policies**

491 **Requirements**

492 The organization shall:

- 493 a. describe the remuneration policies for members of the highest governance body
494 and senior executives, including:
- 495 i. fixed pay and variable pay;
 - 496 ii. sign-on bonuses or recruitment incentive payments;
 - 497 iii. termination payments;
 - 498 iv. clawbacks;
 - 499 v. retirement benefits;

500 **b. describe how the remuneration policies for members of the highest governance**
501 **body and senior executives relate to their objectives and performance in relation**
502 **to overseeing the management of impacts on the economy, environment, and**
503 **people.**

504 **Guidance**

505 ***Guidance to GOV-11-a-i***

506 Fixed pay and variable pay can include performance-based pay, equity-based pay, bonuses,
507 and deferred and vested shares.

508 If the organization uses performance-based pay, it should describe how remuneration for
509 senior executives is designed to reward long-term performance.

510 ***Guidance to GOV-11-a-iii***

511 Termination payments are all payments and benefits given to a departing member of the
512 highest governance body or senior executive whose appointment is terminated. Termination
513 payments extend beyond monetary payments, from transferring property to automatic or
514 accelerated vesting of incentives.

515 If the organization provides termination payments, it should explain whether:

- 516 • notice periods for highest governance body members and senior executives are
517 different from those for other employees;
- 518 • termination payments for highest governance body members and senior executives
519 are different from those for other employees;
- 520 • departing highest governance body members and senior executives receive
521 payments other than those related to the notice period;
- 522 • any mitigation clauses that are included in the termination arrangements.

523 ***Guidance to GOV-11-a-iv***

524 Clawbacks are repayments of previously received compensation that a highest governance
525 body member or senior executive is required to make to their employer in the event that
526 certain conditions of employment or goals are not met.

527 ***Guidance to GOV-11-a-v***

528 The organization should report the differences between the retirement benefit schemes and
529 the contribution rates for the highest governance body members and senior executives, as
530 compared to other employees. **Disclosure GOV-12 Process for**

531 **determining remuneration**

532 **Requirements**

533 **The organization shall:**

534 **a. describe the process for designing its remuneration policies and for determining**
535 **remuneration, including:**

- 536 i. whether independent highest governance body members or an independent
537 remuneration committee oversees the process for determining remuneration;
- 538 ii. how the views of stakeholders (including shareholders) regarding
539 remuneration are sought and taken into consideration;
- 540 iii. whether remuneration consultants are involved in determining remuneration
541 and, if so, whether they are independent from the organization, its highest
542 governance body and senior executives;
- 543 b. report the results of votes on remuneration policies and proposals, if applicable.

544 **Guidance**

545 ***Background***

546 Remuneration policies are established to ensure that the remuneration arrangements help
547 recruit, motivate, and retain highest governance body members, senior executives, and
548 other employees, while supporting the organization's strategy and its contribution to
549 sustainable development, and aligning with the interests of stakeholders.

550 **Disclosure GOV-13 Annual total compensation ratio**

551 **Requirements**

552 **The organization shall:**

- 553 a. report the ratio of the annual total compensation for the organization's highest-
554 paid individual to the median annual total compensation for all employees
555 (excluding the highest-paid individual);
- 556 b. report the ratio of the percentage increase in annual total compensation for the
557 organization's highest-paid individual to the median percentage increase in
558 annual total compensation for all employees (excluding the highest-paid
559 individual);
- 560 c. report contextual information necessary to understand the data and how the data
561 has been compiled.

562 **Guidance**

563 ***Guidance to GOV-13-a and GOV-13-b***

564 Annual total compensation includes salary, bonus, stock awards, option awards, non-equity
565 incentive plan compensation, change in pension value, and nonqualified deferred
566 compensation earnings provided during the reporting period. When calculating the ratio, the
567 organization should, depending on the organization's remuneration policies and availability
568 of data, consider all of the following:

- 569 • base salary, which is the sum of guaranteed, short-term, and non-variable cash
570 compensation;

- 571 • total cash compensation, which is the sum of the base salary and cash allowances,
572 bonuses, commissions, cash profit-sharing, and other forms of variable cash
573 payments;
- 574 • direct compensation, which is the sum of total cash compensation and total fair value
575 of all annual long-term incentives, such as stock option awards, restricted stock
576 shares or units, performance stock shares or units, phantom stock shares, stock
577 appreciation rights, and long-term cash awards.

578 This disclosure covers all employees as reported under Disclosure ACT-2 in this Standard.
579 The organization is required to report contextual information necessary to understand how
580 the data has been compiled under requirement GOV-13-c, including:

- 581 • whether any employees have been excluded from the calculation, e.g., part-time
582 employees are excluded;
- 583 • whether full-time equivalent pay rates are used for each part-time employee.

584 The organization should also:

- 585 • report the title of the highest-paid individual;
- 586 • list types of compensation included;

587 **Guidance to GOV-13-c**

588 Quantitative information about the annual total compensation ratio may not be sufficient on
589 its own to understand pay disparity and its drivers. For example, pay ratios can be influenced
590 by the size of the organization (e.g., revenue and number of employees), its sector, labor
591 sourcing strategy (e.g., reliance on outsourced workers or part-time workers, or a high
592 degree of automation), or currency volatility.

593 The difference in pay disparity reported over the years may be the result of the change in the
594 organization's compensation policy or the level of compensation for its highest paid
595 individual or employees, the change in calculation methodology (e.g., selection of the
596 median employee, inclusions or exclusions) or improvement in data collection processes.

597 For this reason, the organization is required to report contextual information to help
598 information users interpret the quantitative information and understand how it has been
599 compiled.