Item 03 – GRI Universal Standards Project – Revised GRI 102: Section 4. Governance

For GSSB discussion

Date 17 March 2021
Meeting 25 March 2021
Project GRI Universal Standards Project
Description This document presents the revised draft of Section 4. Governance in GRI 102: About the Organization following the public comment feedback. Key changes are highlighted in comment boxes within the document. Minor editorial changes have not been highlighted, but a draft tracking all changes to the text has been included in the Annex.

Please note that several changes are pending subject to feedback from ICGN and ongoing internal review. These will be presented to the GSSB for review ahead of its meeting in April 2021. In addition, the GSSB is requested to review the Standards Division’s research and proposals on annual total compensation ratio on pages 24-27.

The public comments to this draft can be found here: https://www.globalreporting.org/media/z0tbizc2/item-05-public-comments-to-revisions-gri-102-in-the-universal-standards-exposure-draft.pdf
Contents

Explanatory note .................................................................................................................. 3
Revised GRI 102: About the Organization ....................................................................... 4
Annex 1. Revisions with track changes ............................................................................ 13
Annex 2. Research on annual total compensation ratio .................................................. 24
Explanatory note

The following significant revisions below have been made in response to public comment feedback.
Additional revisions made in response to public comment feedback are explained in comment boxes.
Editorial revisions have been made to the text to improve clarity and consistency with the GRI Style Guide and are flagged in comment boxes.

Section 4. Governance

- Consolidated disclosures GOV-7 ‘Role of the highest governance body in setting purpose, values, and strategy’ and GOV-10 ‘Identification and management of impacts’ with GOV-4 ‘Responsibilities for sustainable development’, see lines 92-109, 336-360, 397-408 and 469-489.
- Moved requirements on delegation and internal resources into a separate disclosure to distinguish between responsibilities of the highest governance body for sustainable development and those existing in the rest of the organization, see lines 113-127 and 365-389.
- Replaced the term ‘sustainable development topics’ with ‘impacts on the economy, environment, and people, including on their human rights’ for consistency with the terminology used in the GRI Standards. A shorthand ‘impacts on the economy, environment, and people’ has been used in the formulations of disclosures, for conciseness and feasibility of translations.
- Revised sequence of disclosures to improve flow. Section starts with general disclosures on structure and composition, followed by provisions in relation to governance of sustainability, and ends with provisions on evaluation and performance.

In addition, Disclosure GOV-14 ‘Annual total compensation ratio’ remains under development. The Standards Division has included a summary of research conducted in response to public comment feedback and proposals on how to address the feedback on pages 24-27.
Revised GRI 102: About the Organization

Table of contents

Disclosure GOV-1 Governance structure and composition ........................................ 5
Disclosure GOV-2 Nomination and selection of the highest governance body ............... 6
Disclosure GOV-3 Chair of the highest governance body ........................................... 6
Disclosure GOV-4 Responsibilities for sustainable development .................................. 6
Disclosure GOV-5 Delegation and internal resources for sustainable development ........ 7
Disclosure GOV-6 Role of the highest governance body in sustainability reporting ....... 7
Disclosure GOV-7 Stakeholder consultation with the highest governance body .......... 8
Disclosure GOV-8 Conflicts of interest ......................................................................... 8
Disclosure GOV-9 Communication of critical concerns ................................................ 8
Disclosure GOV-10 Collective knowledge of the highest governance body ................ 9
Disclosure GOV-11 Evaluation of the performance of the highest governance body ..... 9
Disclosure GOV-12 Remuneration policies .................................................................. 9
Disclosure GOV-13 Process for determining remuneration ........................................ 10
Disclosure GOV-14 Annual total compensation ratio .................................................. 11

Commented [SD1]: Type of change: editorial revision.
Revised sequence of disclosures to improve flow. Section starts with general disclosures on structure and composition, followed by provisions in relation to governance of sustainability, and ends with provisions on evaluation and performance.
Section 4. Governance

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

The International Corporate Governance Network (ICGN) Global Governance Principles set out expectations for organizations in relation to governance.

Disclosure GOV-1 Governance structure and composition

Requirements

The organization shall:

a. describe its governance structure, including committees of the highest governance body;

b. list the committees of the highest governance body that are responsible for decision-making on and overseeing the management of impacts on the economy, environment, and people;

c. describe the composition of the highest governance body and its committees by:

   i. executive and non-executive members;
   ii. independence;
   iii. tenure of members on the governance body;
   iv. number of other significant positions and commitments held by each member, and the nature of the commitments;
   v. gender;
   vi. representation of under-represented social groups;
   vii. competencies relating to sustainable development that are relevant to the organization and the sector in which it operates;
   viii. stakeholder representation.

Guidance

Placeholder text: See reference X in the Bibliography section for more information on independence criteria for governance bodies.
Disclosure GOV-2 Nomination and selection of the highest governance body

Requirements

The organization shall:

a. describe the nomination and selection processes for the highest governance body and its committees;

b. describe the criteria used for nominating and selecting highest governance body members, including whether and how the following are taken into consideration:
   i. views of stakeholders (including shareholders);
   ii. diversity;
   iii. independence;
   iv. expertise and experience relating to sustainable development.

Disclosure GOV-3 Chair of the highest governance body

Requirements

The organization shall:

a. report whether the chair of the highest governance body is also a senior executive in the organization;

b. if the chair is also a senior executive, explain their function within the organization’s management, the reasons for this arrangement, and how conflicts of interest are managed.

Disclosure GOV-4 Responsibilities for sustainable development

Requirements

The organization shall:

a. describe the role of the highest governance body and of senior executives in developing, approving, and updating the organization’s purpose, values or mission statements, strategies, policies, and goals related to sustainable development;

b. describe the role of the highest governance body in overseeing the organization’s due diligence processes to identify and manage impacts on the economy, environment, and people, including:

Commented [SD6]: Type of change: editorial revision.
Moved requirements on delegation and internal resources into a separate disclosure to distinguish between responsibilities of the highest governance body and those existing in the rest of the organization. See lines 114-128.

Commented [SD7]: Type of change: revision following public comment feedback.
Deleted exposure draft requirement GOV-3-a ‘describe the role and responsibilities of the highest governance body with regard to decision-making for sustainable development topics’ based on duplication with the following disclosures:
- Disclosure GOV-10-a requires information on the role of the HGB to oversee processes to identify and manage impacts;
- Disclosure GOV-1-b in the exposure draft requires to report committees responsible for decision-making for sustainable development.

Commented [SD8]: Type of change: revision following public comment feedback.
Consolidated Disclosure GOV-7 ‘Role of the highest governance body in setting purpose, values, and strategy’ under this disclosure in response to public feedback about duplication.

Commented [SD9]: Type of change: editorial revision.
Consolidated sub-clause to report on the role of the highest governance body to report on its role in due diligence processes directly with the formulation of requirement GOV-4-b. See lines 348-351.

Commented [SD10]: Type of change: revision following public comment feedback and editorial revisions.
Consolidated Disclosure GOV-10 ‘Identification and management of impacts’ under this disclosure in response to public comment feedback about duplication.
i. the role of any committees of the highest governance body that have specific responsibilities in relation to these processes;

ii. how the highest governance body considers the outcomes of these processes;

c. describe the role of the highest governance body in reviewing the effectiveness of the organization’s processes as described in GOV-4-b, and specify the frequency of this review.

Guidance

See references 13, 15, 17, and 18 in the Bibliography section.

Disclosure GOV-5 Delegation of responsibility for managing impacts

Requirements

The organization shall:

a. describe how the highest governance body delegates responsibility for the management of impacts on the economy, environment, and people, including:

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

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

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

c. describe the internal resources that the organization has allocated for managing impacts on the economy, environment, and people.

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

Requirements

The organization shall:

a. **report the committee of the highest governance body or the senior executive position** that reviews and approves the organization’s sustainability reporting and ensures that the organization reports on its **material topics**.
Disclosure GOV-7 Stakeholder consultation with the highest governance body

Requirements

The organization shall:

a. describe the processes and frequency for consultation between stakeholders and the highest governance body in relation to the organization’s impacts on the economy, environment, and people;

b. if responsibility for stakeholder consultation is delegated, report to whom it is delegated, and how the feedback received is provided to the highest governance body.

Disclosure GOV-8 Conflicts of interest

Requirements

The organization shall:

a. describe the processes for the highest governance body to ensure that conflicts of interest are avoided and managed;

b. report whether conflicts of interest are disclosed to stakeholders, including, at a minimum, the following conflicts of interest:

   i. Cross-board membership;
   ii. Cross-shareholding with suppliers and other stakeholders;
   iii. Existence of controlling shareholder;
   iv. Related parties, their relationships, transactions, and outstanding balances.

Guidance

See reference 13 in the Bibliography section.

Guidance to GOV-8-b-iii

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

Disclosure GOV-9 Communication of critical concerns

Requirements

The organization shall:

Commented [SD12]: Revision pending feedback from ICGN: whether disclosure of conflicts of interest themselves is necessary or only of the process how they are disclosed to stakeholders.

Commented [SD13]: Revision pending feedback from ICGN: clarification of ‘related parties’.

Commented [SD14]: Revision pending feedback from ICGN: inclusion of this disclosure given duplication with other disclosures in the GRI Standards that cover communication and resolution processes of concerns related to:

- 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).
a. describe the processes for communicating critical concerns to the highest governance body;

b. report the total number and the nature of critical concerns that were communicated to the highest governance body during the reporting period;

c. describe the mechanisms used to address and resolve critical concerns.

Guidance

Critical concerns include concerns about the organization’s impacts that are raised by stakeholders through grievance mechanisms. They also include concerns about responsible business conduct in the operations of the organization and its business relationships, which are identified through other mechanisms that the organization has set up for individuals to seek advice and raise concerns. See the Guidance sections in RBC-4 and RBC-5 for more information.

Disclosure GOV-10 Collective knowledge of the highest governance body

Requirements

The organization shall:

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

Disclosure GOV-11 Evaluation of the performance of the highest governance body

Requirements

The organization shall:

a. describe the processes for evaluating the performance of the highest governance body in relation to the governance of impacts on the economy, environment, and people;

b. report whether the evaluation is independent or not, and the frequency of the evaluations;

c. describe actions taken in response to the evaluation, such as changes to the composition of the highest governance body and organizational practices.

Disclosure GOV-12 Remuneration policies

Requirements

The organization shall:
a. describe the remuneration policies for members of the highest governance body and senior executives, including:
   i. fixed pay and variable pay;
   ii. sign-on bonuses or recruitment incentive payments;
   iii. termination payments;
   iv. clawbacks;
   v. retirement benefits;

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

Guidance

Guidance to GOV-12-a

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

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

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

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

If the organization uses termination payments, it should explain whether:
   • notice periods for highest governance body members and senior executives are different from those for other employees;
   • termination payments for highest governance body members and senior executives are different from those for other employees;
   • whether departing highest governance body members and senior executives receive payments other than those related to the notice period;
   • whether any mitigation clauses are included in the termination arrangements.

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

Disclosure GOV-13 Process for determining remuneration

Requirements
The organization shall:

a. describe the process for designing its remuneration policies and for determining remuneration;

b. report whether independent highest governance body members or an independent remuneration committee oversees the process for determining remuneration;

c. describe how the views of stakeholders (including shareholders) regarding remuneration are sought and taken into consideration;

d. report the results of votes on remuneration policies and proposals, if applicable;

e. report whether remuneration consultants are involved in determining remuneration and, if so, report any relationships between the remuneration consultants and the organization, its highest governance body, or senior executives.

Disclosure GOV-14 Annual total compensation ratio

Requirements

The organization shall:

a. report the ratio of the annual total compensation for the organization’s highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country;

b. report the ratio of the percentage increase in annual total compensation for the organization’s highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country.

Guidance

Guidance to GOV-14

Annual total compensation includes salary, bonus, stock awards, option awards, non-equity incentive plan compensation, change in pension value, and nonqualified deferred compensation earnings provided over the course of a year.

When calculating the ratios, the organization should:

- for each country of significant operations:
  - list types of compensation included;
  - specify whether full-time and part-time employees are included;
  - specify whether full-time equivalent pay rates are used for each part-time employee;
- depending on the organization’s remuneration policies and availability of data, consider all of the following:

Commented [SD15]: Revision pending feedback from ICGN: clarification of ‘relationships with remuneration consultants’.

Commented [SD16]: Revision pending feedback from ICGN: methodology for reporting annual total compensation ratio.
(i) base salary, which is the sum of guaranteed, short-term, and non-variable cash compensation;

(ii) total cash compensation, which is the sum of the base salary and cash allowances, bonuses, commissions, cash profit-sharing, and other forms of variable cash payments;

(iii) direct compensation, which is the sum of total cash compensation and total fair value of all annual long-term incentives, such as stock option awards, restricted stock shares or units, performance stock shares or units, phantom stock shares, stock appreciation rights, and long-term cash awards.
Annex 1. Revisions with track changes

Section 4. Governance

The disclosures in this section provide transparency on the governance structure, composition, roles, and remuneration. The information reported under these disclosures is important to ensure the accountability of the relevant governance bodies and individuals.

Senior executives with respect to the organization’s contribution to sustainable development and the organization’s impacts on the economy, environment, and people, including impacts on their human rights.

The International Corporate Governance Network (ICGN) Global Governance Principles set out expectations for organizations in relation to governance.

In the disclosures in this section the term ‘sustainable development topics’ refers to topics that reflect the organization’s impacts on the economy, environment, and people, including impacts on human rights.

Disclosure GOV-1 Governance structure and composition

Requirements

The organization shall:

a. describe its governance structure, including committees of the highest governance body;

b. report list the committees of the highest governance body that are responsible for decision-making on and overseeing the management of sustainable development topics impacts on the economy, environment, and people, including on human rights;

c. describe the composition of the highest governance body and its committees by:

   i. executive and non-executive members;

   ii. independence;

   iii. tenure of members on the governance body;

   iv. number of each member's other significant positions and commitments held by each member, and the nature of the commitments;

   v. gender;

   vi. membership representation of under-represented social groups;
vii. competencies relating to sustainable development topics that are relevant to the organization and the sector in which it operates;

viii. stakeholder representation.

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

Requirements

The organization shall:

a. describe the nomination and selection processes for the highest governance body and its committees;

b. describe the criteria used for nominating and selecting highest governance body members, including whether and how the following are taken into consideration:
   i. views of stakeholders (including shareholders) are involved;
   ii. diversity is considered;
   iii. independence is considered;
   iv. expertise and experience relating to sustainable development topics are considered.

Disclosure GOV-53 Chair of the highest governance body

Requirements

The organization shall:

a. report whether the chair of the highest governance body is also a senior executive in the organization;

b. if the chair is also a senior executive, explain their function within the organization’s management, the reasons for this arrangement, and how any conflicts of interest are managed.

Disclosure GOV-43 Responsibilities for sustainable development topics and delegation

Requirements

The organization shall:
a. Describe the role of the highest governance body and of senior executives in the development, approving, and updating of the organization’s purpose, values, or mission statements, strategies, policies, and goals related to sustainable development.

b. Describe the role of the highest governance body in overseeing the organization’s due diligence processes to identify and manage impacts on the economy, environment, and people, including on human rights, including:

i. the role of the highest governance body in due diligence processes;

ii. the role of any committees of the highest governance body with specific responsibilities in relation to these processes;

iii. how the highest governance body considers and reviews the outcomes of these processes;

c. Report whether stakeholder consultation is used to support the role of the highest governance body as described in GOV-4-b-a;

d. Specify the frequency of reporting to the highest governance body on the organization’s processes as described in GOV-4-b;

e. Describe the role of the highest governance body in reviewing the effectiveness of the organization’s processes as described in GOV-4-b, and specify the frequency of this review.

Guidance

Background

See references 13, 15, 17, and 18 in the Bibliography section.

Disclosure GOV-5 Delegation of responsibility and internal resources for managing impacts for sustainable development

Requirements

The organization shall:

a. Describe how the highest governance body delegates reporting to the organization if it has appointed any senior executives with responsibility for sustainable development topics, the management of impacts on the economy, environment, and people, including on human rights, including:

i. Whether it has appointed any senior executives with responsibility for the management of impacts;

b. Specify whether it has appointed any senior executives with responsibility for sustainable development topics, the management of impacts on the economy, environment, and people, including on human rights, including:

i. The role of the highest governance body in reviewing the effectiveness of the organization’s processes.

Commented [SD22]: Type of change: revision following public comment feedback.

Consolidated Disclosure GOV-7 ‘Role of the highest governance body in setting purpose, values, and strategy’ under this disclosure in response to public feedback about duplication.

Commented [SD23]: Type of change: revision following public comment feedback.

Deleted based on duplication with the following disclosures:

- Disclosure GOV-10-a requires information on the role of the HGB to oversee processes to identify and manage impacts;
- Disclosure GOV-1-b in the exposure draft requires to report committees responsible for decision-making for sustainable development.

Commented [SD24]: Type of change: revision following public comment feedback and editorial revisions.

Consolidated Disclosure GOV-10 ‘Identification and management of impacts’ under this disclosure in response to public comment feedback about duplication.

Commented [SD25]: Type of change: editorial revision.

Consolidated under requirement GOV-4-b, see lines 102-108.

Commented [SD26]: Type of change: editorial revision.

Deleted as repetitive of Disclosure GOV-7, see lines 399-410.

Commented [SD27]: Type of change: editorial revision.

Deleted as repetitive of Disclosure GOV-5-d, see lines 388-390.

Commented [SD28]: Type of change: editorial revision.

Moved requirements on delegation and internal resources into a separate disclosure to distinguish between responsibilities of the highest governance body and those existing in the rest of the organization.

Revised formulations for clarity.
l.i. whether it has delegated responsibility for the management of impacts to other employees;

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

b.c. describe the internal resources that the organization has allocated for managing sustainable development topics impacts on the economy, environment, and people, including on human rights;

d. describe the process and specify the frequency for reporting to the highest governance body on sustainable development topics impacts on the economy, environment, and people, including on human rights.

Disclosure GOV-56 Role of the highest governance body in sustainability reporting

Requirements

The organization shall:

a. report the committee of the highest governance body or the senior executive position that formally reviews and approves the organization’s sustainability reporting and ensures that the organization reports on all identified its material topics.

Disclosure GOV-76 Stakeholder consultation on sustainable development topics with the highest governance body

Requirements

The organization shall:

a. describe the processes and frequency for consultation between stakeholders and the highest governance body on sustainable development topics with regard to the organization’s impacts on the economy, environment, and people, including on human rights;

b. if responsibility for stakeholder consultation is delegated, report to whom it is delegated, and how the feedback received is provided to the highest governance body.
Disclosure GOV-68 Conflicts of interest

Requirements

The organization shall:

a. describe the processes for the highest governance body to ensure that conflicts of interest are avoided and managed;

b. report whether conflicts of interest are disclosed to stakeholders, including, at a minimum, the following conflicts of interest:
   i. Cross-board membership;
   ii. Cross-shareholding with suppliers and other stakeholders;
   iii. Existence of controlling shareholder;
   iv. Related parties, their relationships, transactions, and outstanding balances.

Guidance

Background

See reference 13 in the RBibliography section.

Guidance to GOV-68-b-iii

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

Disclosure GOV-942 Communication of critical concerns

Requirements

The organization shall:

a. describe the processes for communicating critical concerns with regard to sustainable development topics to the highest governance body;

b. report the total number and the nature of critical concerns that were communicated to the highest governance body during the reporting period;

c. describe the mechanisms used to address and resolve critical concerns.

Guidance

Critical concerns include concerns about the organization’s impacts that are raised by stakeholders through grievance mechanisms. They also include concerns about responsible business conduct in the operations of the organization and its business relationships, which are identified through other mechanisms that the organization has set up for individuals to seek advice and raise concerns. See the Guidance sections in RBC-4 and RBC-5 for more information.

Commented [SD30]: Revision pending feedback from ICGN: whether disclosure of conflicts of interest themselves is necessary or only of the process how they are disclosed to stakeholders.

Commented [SD31]: Revision pending feedback from ICGN: clarification of ‘related parties’.

Commented [SD32]: Revision pending feedback from ICGN: inclusion of this disclosure given duplication with other disclosures in the GRI Standards that cover communication and resolution processes of concerns related to:
- 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).
Disclosure GOV-7 Role of the highest governance body in setting purpose, values, and strategy

Requirements
The organization shall:

a. describe the role of the highest governance body and of senior executives in the development, approval, and updating of the organization’s purpose, value or mission statements, strategies, policies, and goals related to sustainable development topics.

Disclosure GOV-108 Collective knowledge of the highest governance body

Requirements
The organization shall:

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

Disclosure GOV-911 Evaluation of the performance of the highest governance body

Requirements
The organization shall:

a. describe the processes for evaluating the performance of the highest governance body with respect in relation to the governance of sustainable development topics impacts on the economy, environment, and people, including on human rights;

b. report whether the evaluation is independent or not, and the frequency of the evaluations;

c. describe actions taken in response to the evaluation, such as any including, as a minimum, changes to join membership the composition of the highest governance body and organizational practices.
Disclosure GOV-10 Identification and management of impacts

Requirements

The organization shall:

a. describe the role of the highest governance body in overseeing the organization’s processes to identify and manage sustainable development topics and their related impacts, including:
   i. the role of the highest governance body in due diligence processes;
   ii. the role of any committees of the highest governance body with specific responsibilities for these processes;
   iii. how the highest governance body considers and reviews the outcomes of these processes;

b. report whether stakeholder consultation is used to support the role of the highest governance body as described in GOV-10-a;

c. specify the frequency of reporting to the highest governance body on the organization’s processes as described in GOV-10-a;

d. describe the role of the highest governance body in reviewing the effectiveness of the organization’s processes as described in GOV-10-a, and specify the frequency of this review.

Guidance

Background

See references 13, 15, 17, and 18 in the References section.

Disclosure GOV-11 Role of the highest governance body in sustainability reporting

Requirements

The organization shall:

a. report the committee of the highest governance body or senior executive position that formally reviews and approves the organization’s sustainability reporting and ensures that the organization reports all identified material topics.

Guidance

Guidance to GOV-11

The organization is also required to include in its sustainability reporting a statement by the highest governance body or most senior executive position acknowledging their...
responsibility that the reported information has been prepared in accordance with the GRI Standards or with reference to the GRI Standards, depending on the case. See Sections 3.1 and 3.2 of GRI 101: Using the GRI Standards.

Disclosure GOV-12 Communication of critical concerns

Requirements

The organization shall:

a. describe the processes for communicating critical concerns with regard to sustainable development topics to the highest governance body;

b. report the total number and nature of critical concerns that were communicated to the highest governance body during the reporting period;

c. describe the mechanisms used to address and resolve critical concerns.

Disclosure GOV-132 Remuneration policies

Requirements

The organization shall:

a. describe the remuneration policies for members of the highest governance body members and senior executives, including:

i. fixed pay and variable pay, such as performance-based pay, equity-based pay, bonuses, and deferred and vested shares;

ii. sign-on bonuses or recruitment incentive payments;

iii. termination payments;

iv. clawbacks;

v. retirement benefits, such as the difference between benefit schemes and contribution rates for the highest governance body members, senior executives, and all other employees;

b. describe how performance criteria in the remuneration policies for members of the highest governance body members and senior executives relate to their objectives and performance in relation to governance and management of overseeing impacts on the economy, environment, and people, including on human rights sustainable development topics.
If the organization uses performance-related pay, it should describe how remuneration for senior executives is designed to reward long-term performance.

If the organization uses termination payments, it should explain whether:

- notice periods for highest governance body members and senior executives are different from those for other employees;
- termination payments for highest governance body members and senior executives are different from those for other employees;
- any payments other than those related to the notice period are paid to departing highest governance body members and senior executives;
- any mitigation clauses are included in the termination arrangements.

**Guidance to GOV-12-a**

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

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

Retirement benefits can include the difference between benefit schemes and contribution rates for the highest governance body members, senior executives, and all other employees.

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

Clawbacks are a repayment of previously received compensation that required to be made by a senior executive or member of the highest governance body member is required to make to their employer in the event that certain conditions of employment or goals are not met.

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

If the organization uses termination payments, it should explain whether:

- notice periods for highest governance body members and senior executives are different from those for other employees;
- termination payments for highest governance body members and senior executives are different from those for other employees;
- whether departing highest governance body members and senior executives receive payments other than those related to the notice period;
- whether any mitigation clauses are included in the termination arrangements.

Clawbacks are a repayment of previously received compensation required to be made by a senior executive or member of the highest governance body to their employer in the event certain conditions of employment or goals are not met. The organization should report the differences. Retirement benefits can include the difference between the retirement benefit schemes and the contribution rates for the highest governance body members, senior executives, as compared to all other employees.
Disclosure GOV-143 Process for determining remuneration

Requirements

The organization shall:

a. describe the process for designing its remuneration policies and for determining remuneration, including its remuneration policies;

b. report whether independent members of the highest governance body members or an independent remuneration committee oversees the process for determining remuneration process;

c. describe how the views of stakeholders (including shareholders) regarding remuneration are sought and taken into account;

d. report the results of votes on remuneration policies and proposals, if applicable;

e. report whether remuneration consultants are involved in determining remuneration and, if so, report any relationships between the remuneration consultants and the organization, its highest governance body, or senior executives.

Disclosure GOV-154 Annual total compensation ratio

Requirements

The organization shall:

a. report the ratio of the annual total compensation for the organization’s highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country;

b. report the ratio of the percentage increase in annual total compensation for the organization’s highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country.

Guidance

Annual total compensation includes salary, bonus, stock awards, option awards, non-equity incentive plan compensation, change in pension value, and nonqualified deferred compensation earnings provided over the course of a year.

When calculating the ratios, the organization should:

- for each country of significant operations:
- list types of compensation included;
- specify whether full-time and part-time employees are included;
- specify whether full-time equivalent pay rates are used for each part-time employee;

- depending on the organization’s remuneration policies and availability of data, consider all of the following components:
  (iv) the base salary, which is the sum of guaranteed, short-term, and non-variable cash compensation;
  (v) total cash compensation, which is the sum of (iv) the base salary and, together with cash allowances, bonuses, commissions, cash profit-sharing, and other forms of variable cash payments;
  (vi) direct compensation, which is the sum of (v) total cash compensation and, together with total fair value of all annual long-term incentives, such as stock option awards, restricted stock shares or units, performance stock shares or units, phantom stock shares, stock appreciation rights, and long-term cash awards.
Annex 2. Research on annual total compensation ratio

19 respondents made comments on Disclosure GOV-15 ‘Annual total compensation ratio’. Respondents have raised concerns around feasibility of reporting the information, its meaningfulness and relevance to sustainable development, clarity, and made alternative proposals.

Eight respondents commented on feasibility; they argued that reporting this information is:

- Subject to confidentiality or security concerns;
- Not feasible for every country of significant operation, especially for MNEs;
- Not feasible for SMEs;
- Not feasible due to absence of properly integrated HR systems.

Eight respondents commented on the meaningfulness; they argued that this information:

- Is subject to limitations and does not provide an indication of unfair or inequitable compensation. Consider situations, when:
  - A CEO oversees operations of multiple countries but is based in one country;
  - Companies due to the nature of work in their sector are set up to employ senior manager staff with a number of low skilled staff leading to large salary differentiations (e.g., airport ‘outposts’ or banks);
- Limits cross-sectoral comparability due to variability in the employer base;
- Disclosure GOV-15-b (ratio of the percentage of increase) is not relevant if ratio of total annual compensation is disclosed.

Two respondents commented on the clarity; they submitted that:

- The term ‘significant operations’ is unclear;
- It is unclear whether to report a ‘lump sum’ amount when reporting compensation.

Seven respondents made alternative proposals; they suggested to require to report:

- Gender pay parity for various levels of management roles;
- Comparison of CEO’s compensation to average employee’s compensation;
- Comparison of CEO’s compensation to the average median income of the country in which the CEO is resident;
- Changes in the ratio compared to the previous year, the rationale for changes, and any observations on how this ratio compares with peer organizations in the same industry;
- Require disclosure of actual salary with USD conversion applied to highlight regional compensation disparities within the same organization;
- Equal pay for equal work.

Standards Division’s assessment:

1) Feasibility concerns related to confidentiality are now addressed with the decision to permit reasons for omission for GRI 102;
2) Please review the research on remuneration practice and its conclusions below.
Table 1 presents an overview of requirements to report on remuneration in other instruments.

<table>
<thead>
<tr>
<th>Source</th>
<th>Requirement</th>
<th>Highest paid individual</th>
<th>Median or mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>US SEC¹</td>
<td>One ratio, covering all global operations</td>
<td>PEO (Principal Executive Officer)</td>
<td>Median</td>
</tr>
<tr>
<td>UK Gov²</td>
<td>One ratio, covering UK operations</td>
<td>Chief Executive Officer</td>
<td>Median</td>
</tr>
<tr>
<td>DJSI³,⁴</td>
<td>One ratio, covering all global operations</td>
<td>Chief Executive Officer</td>
<td>Median (preferred) or mean</td>
</tr>
<tr>
<td>Workforce Disclosure Initiative⁵</td>
<td>One ratio for HQ, global and/or individual country level</td>
<td>Chief Executive Officer</td>
<td>Median</td>
</tr>
<tr>
<td>CWC Guidelines⁶</td>
<td>Unclear</td>
<td>Chief Executive Officer</td>
<td>Median</td>
</tr>
</tbody>
</table>

Table 2 presents an overview of current remuneration reporting practice from a sample of eight companies with global operations.

<table>
<thead>
<tr>
<th>Company</th>
<th># ratios provided</th>
<th>Global vs country ratios</th>
<th>Calculation method</th>
<th>Calculation explanation provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coca Cola European Partners⁷</td>
<td>1</td>
<td>- Europe</td>
<td>Undisclosed</td>
<td>CEO to employee pay ratio</td>
</tr>
<tr>
<td>Nestle⁸</td>
<td>1</td>
<td>- Global</td>
<td>Average (although they use the term median)</td>
<td>We have provided the ratio of the annual total compensation for the company's highest paid individual and the median annual compensation for all employees globally. Median is an estimate based on 2019 Company total worldwide salaries and welfare expenses of CHF 15 794 million and average number of 291 000 employees. [Omission provided in the content index: We have not provided a country-level breakdown as that is outside the scope of our global report.]</td>
</tr>
</tbody>
</table>

⁵ https://www.workerscapital.org/IMG/pdf/cwc_guidelines_workers_human_rights_and_labour_standards_final_may17.pdf
<table>
<thead>
<tr>
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<th>Calculation method</th>
<th>Calculation explanation provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heineken9</td>
<td>1</td>
<td>- Global</td>
<td>Average</td>
<td>These ratios are obtained by dividing the 2019 total remuneration for the CEO and CFO by the 2019 average total remuneration of all other employees worldwide.</td>
</tr>
<tr>
<td>Philips10</td>
<td>1</td>
<td>- Global</td>
<td>Average</td>
<td>The ratio between the annual total compensation for the CEO and the average annual total compensation for an employee (for all employees globally). Based on Employee benefit expenses (EUR 6.3 billion) divided by the average number of employees (72,228 FTE) as reported in the Income from operations. This results in an average annual total compensation cost of EUR 87,321 per employee.</td>
</tr>
<tr>
<td>DSM11</td>
<td>2</td>
<td>- Netherlands - Global</td>
<td>Average</td>
<td>The ratio of total remuneration, including annual base salary, Short-Term Incentive, Long-Term Incentive and other benefits such as pension (as reported in this Integrated Annual Report) versus the average of total global employee (i.e. including Dutch) remuneration is for the CEO 40:1 (2017: 32:1).</td>
</tr>
<tr>
<td>Storaenso12</td>
<td>6</td>
<td>- One for each country - No global ratio</td>
<td>Median</td>
<td>The ratio shows how many times larger the highest individual annual total compensation, including incentives, is compared to median compensation.</td>
</tr>
<tr>
<td>Hudbay13</td>
<td>4</td>
<td>- One for each country - No global ratio</td>
<td>Average</td>
<td>Ratio of annual compensation of highest paid individual to mean total compensation (includes all full-time employees and Peru contract employees).</td>
</tr>
<tr>
<td>Naturgy14</td>
<td>12</td>
<td>- One for each country - No global ratio</td>
<td>Average</td>
<td>Relationship between the total annual remuneration of the best paid person of the organization in each country where significant operations are carried out with the average annual total remuneration of the entire staff (without counting the best paid person) of the corresponding country.</td>
</tr>
</tbody>
</table>

Research conclusions:

1) Most instruments reviewed require one ratio, covering all global operations, based on the median salary.

2) Very few companies report the ratio.

3) Company practice varies, but a majority of the companies in the sample provide a global ratio.

4) Half of the companies in the sample provide additional ratios.

5) Most companies use the average rather than the median, whereas all the instruments (and GRI) require the median.

Standards Division’s proposal:

1) Clarify to report one ‘ratio’ covering all global operations and remove reference to ‘significant operations’.

2) Retain the median.

3) Clarify in guidance that the identity and remuneration of the highest paid individual does not need to be disclosed.

4) Permit the use of a different methodology, if the organization is subject to mandatory reporting of a ratio under national legislation and add a requirement for the organization to explain how the data has been calculated.

5) Clarify interaction between the definition of ‘annual total compensation’ and the recommendation provided to consider base salary, total cash compensation and direct compensation.

6) Do not introduce requirements on gender pay parity as such requirements are covered in GRI 405: Diversity and Equal Opportunity 2016.