Item 04 – Draft GRI 102 Governance disclosures

For GSSB discussion

Date 24 January 2020

Meeting 6 February 2020

Project Review of GRI’s universal Standards

Description This document contains:

1. comments received from the International Corporate Governance Network (ICGN) on the existing governance disclosures in GRI 102: General Disclosures 2016. Refer to Item 03 – ICGN letter.
2. proposed revisions to the governance disclosures to address the ICGN comments, along with other revisions intended to provide greater clarity, and align the disclosures to other proposed revisions in the universal Standards. Note that these disclosures are draft and ICGN will be invited to provide a further review.

You are kindly asked to review the comments and draft disclosures and provide any feedback during the meeting on 6 February 2020.
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Feedback received from ICGN on GRI 102 governance disclosures

Summary of feedback

Table 1. Comments received from ICGN with proposed response from GRI Standards Division (SD)

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<th>Disclosure</th>
<th>ICGN comment</th>
<th>GRI SD proposed response</th>
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<tbody>
<tr>
<td>1</td>
<td>102-18 Governance structure</td>
<td>Requirement b. If we refer to committees depending on the board: they would rather be responsible for overseeing (and not decision-making) risks for environment and social topics.</td>
<td>Changes made to emphasize oversight role. See Disclosure GOV-1-b.</td>
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<td>Maybe better to merge 102-18 and 102-22.</td>
<td>Merged – see Disclosure GOV-1.</td>
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<td>3.</td>
<td>102-22 Composition of the highest governance body and its committees</td>
<td>Requirement a. vii. “competencies relating to sustainability practices (economic, environmental and social topics) that are important to the industry in which the reporting organization operates”</td>
<td>Amended, see Disclosure GOV-1-c-vii: “competencies relating to economic, environmental, and social topics for the organization and the sector(s) in which it operates.”</td>
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| 4.  | 102-19 Delegating authority            | Why would the “highest governance body” need to delegate authority for economic environmental and social topics to executives and other employees? Responsibility for economic social and environmental topics falls “naturally” into executives’ core responsibilities. The board is responsible for overseeing sustainability practices and ensuring that “risk management includes material ESG issues”. Wording should be revised to be clear if it is the execution that is being delegated. | Amended to “delegate the management of…”.
See Disclosure GOV-2-b |
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| 5. | 102-20     | Consider including the following from the ICGN document: important to communicate whether “the company has internal capabilities to deal with environment and social risks” and who is holding this role:  
   a. 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?  
   b. Does the company have in-house environment and social sustainability/corporate social responsibility person? What is this person’s role?  
   c. Does the reporting organization have internal capabilities to deal with environment and social risks? Does the company outsource to a PR agency? | Inserted new requirement – see Disclosure GOV-2-c. Used term ‘resources’ rather than capabilities to reflect time, people and knowledge.  
   a. No changes made to disclosure as ‘responsibility’ by senior executives includes day to day management.  
   b. Now addressed by Disclosure GOV-2-c  
   c. Addressed by amending Disclosure GOV-2-c. Making reference to PR agencies not considered appropriate. |
| 6. | 102-20     | In requirement “b”: they ask to report whether post holders report directly to the highest governance body. Is it sufficient if the post holders report to the CEO/senior executive team who then reports to the highest governance body? In addition, more details should be included around the process and frequency of the reporting (in particular, to the highest governing body). | Amended requirement to describe process of reporting and frequency. In the case that reporting is to senior executive and then to highest governance body, this would now be described.  
   See Disclosure GOV-2-d                                                                                                                                  |
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| 7. | 102-21 Consulting stakeholders on economic, environmental, and social topics | Requirement a. “processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics”: Boards in many jurisdictions typically don’t engage with stakeholders directly (other than shareholders). Question here should be more general as stated in ICGN document:  
• “Stakeholders- Who are the company’s most important stakeholders? How have they been identified? How does the company interact with them?  
• Has the company undertaken a materiality analysis or stakeholder mapping exercise? How did the company come to understand and communicate its most material E&S risks? What is the process? Who is involved?” | The organization’s stakeholders and engagement activities will be identified separately in Disclosure SE-1 which was shared with the GSSB in December 2019.  
Disclosure GOV-3-b already asks about delegation of the consultation process.  
Requirements for disclosing the organization’s materiality process are and will continue to be covered by GRI 102 disclosures.  
No amendments proposed. |
| 8. | 102-29 Identifying and managing economic, environmental, and social impacts | • The word “managing” economic, environmental and social topics should be replaced with “overseeing” as this is better fitted to board responsibility.  
• “oversight” instead of management.  
• More detail on the frequency of reporting to the highest governance body should be included. | Amended to reflect oversight role – see Disclosure GOV-10-a.  
The frequency is now incorporated into Disclosure GOV-10-c. |
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<td>9</td>
<td>102-30 Effectiveness of risk management processes</td>
<td>The role of the highest governance body should include overseeing, reviewing and approve the approach to risk management rather than being limited to just “reviewing the effectiveness of the organization’s risk management processes for economic, environmental and social topics”. Not sure if “economic, environmental and social topics” would cover all relevant risks. ICGN mentions “material aspects of risk”, including financial, strategic, operational, environmental, and social risks (see ICGN Global Governance Principles – Principle 5) The reporting organization should also disclose if a risk committee exists (be it a standalone risk committee, a combined risk committee with nomination and governance, strategy, audit or other).</td>
<td>Amended requirement – see Disclosure GOV-10-a. Scope remains ‘economic, environmental and social topics’ as this is the scope of the topics in the GRI Standards. Incorporated term ‘material’ – see Disclosure GOV-10-a Incorporated into Disclosure GOV-10-a.</td>
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<td>10</td>
<td>102-36 Process for determining remuneration</td>
<td>Provide clarity on what is meant by “remuneration consultants” and their independence of management. Clarify whether referring to remuneration policy which has to be overseen by independent board members or independent remuneration committee and “tied to sustainability performance”? Several further disclosure requirements specifically related to remuneration policy and an independent remuneration committee, as specified by ICGN Governance Principles: Principles 6 – Remuneration, could be considered. • A clear, understandable and comprehensive remuneration policy should be disclosed, which is aligned with the company’s long-term strategic objectives. The remuneration report should also describe how awards granted to individual directors and the CEO were determined and deemed appropriate in the context of the company’s underlying performance in any given year. This extends to noncash items such as director and officer insurance, fringe benefits and terms of severance packages if any. • A remuneration committee should be established and comprised of nonexecutive directors, the majority of whom are independent. The main role and responsibilities of the remuneration committee should be described in the committee terms of reference. The TOR should include the remuneration policy and its implementation, management of conflicts of interest, appointment of any independent remuneration consultant (and fees) and shareholder communication on remuneration.</td>
<td>Will consider adding guidance on what remuneration consultants are. Amended requirements. See Disclosure GOV-14-a and b. To be considered further. Could either incorporate guidance or a reference to the Global Governance Principles.</td>
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<tr>
<td>11</td>
<td>102-37 Stakeholders’ involvement in remuneration</td>
<td>It’s more accurate to refer to “shareholders” (instead of stakeholders) who can have a say on remuneration through exercising voting rights at annual general meetings whether binding or not depending on jurisdictions).</td>
<td>Amended to incorporate ‘(including shareholders)’. See Disclosure GOV-14-c</td>
</tr>
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</table>
Proposed revisions to governance disclosures in GRI 102

Section 3. Governance and remuneration

Transparency on the governance structure, composition, and roles with regard to sustainable development, is important to ensure the accountability of the relevant bodies and individuals. The disclosures in this section describe the highest governance body’s:

- structure and composition in support of the organization’s purpose, and in relation to sustainable development;
- role in setting values, purpose, and strategy related to sustainable development;
- willingness and capability to understand, discuss, and effectively respond to impacts on the economy, environment, and people, including impacts on human rights;
- processes to ensure the highest governance body’s continuing effectiveness;
- role in risk management processes related to sustainable development and its overall effectiveness;
- involvement in developing and approving the organization’s sustainability reporting disclosures;
- involvement in monitoring and reacting to critical concerns related to sustainable development;

These disclosures also focus on the remuneration policies established to ensure that remuneration arrangements support the strategic aims of the organization, align with the interests of stakeholders, and enable the recruitment, motivation, and retention of members of the highest governance body, senior executives, and employees.

Disclosure GOV-1 Governance structure and composition

Reporting requirements

The reporting organization shall report the following information:

a. Governance structure of the organization, including committees of the highest governance body.

b. Committees responsible for overseeing decision-making on economic, environmental, and social topics.

c. Describe the composition of the highest governance body and its committees by:
   i. executive or non-executive members;
   ii. independence;
   iii. tenure of members on the governance body;
iv. number of each member’s other significant positions and commitments, and the nature of the commitments;

v. gender;

vi. membership of under-represented social groups;

vii. competencies relating to economic, environmental, and social topics for the organization and the sector(s) in which it operates;

viii. stakeholder representation.

Disclosure GOV-2 Executive-level responsibility and delegation

Reporting requirements

The reporting organization shall report the following information:

a. Whether the organization has appointed any senior executives with responsibility for economic, environmental, and social topics.

b. Process for the highest governance body to delegate management of economic, environmental, and social topics to senior executives and other employees.

c. Whether the organization has internal resources to manage economic, environmental, and social topics.

d. The process for reporting directly to the highest governance body on economic, environmental, and social topics, and its frequency.

Disclosure GOV-3 Stakeholder consultation on economic, environmental, and social topics

Reporting requirements

The reporting organization shall report the following information:

a. Processes for consultation between stakeholders and the highest governance body on economic, environmental, and social topics.

b. If the responsibility for stakeholder consultation is delegated, describe to whom it is delegated and how the resulting feedback is provided to the highest governance body.

Disclosure GOV-4 Chair of the highest governance body

Reporting requirements

The reporting organization shall report the following information:
a. 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, describe their function within the organization's management and the reasons for this arrangement.

Disclosure GOV-5 Nomination and selection of the highest governance body

Reporting requirements

The reporting organization shall report the following information:

a. Nomination and selection processes for the highest governance body and its committees.

b. Criteria used for nominating and selecting highest governance body members, including whether and how:
   i. stakeholders (including shareholders) are involved;
   ii. diversity is considered;
   iii. independence is considered;
   iv. expertise and experience relating to economic, environmental, and social topics are considered.

Disclosure GOV-6 Conflicts of interest

Reporting requirements

The reporting organization shall report the following information:

a. Processes for the highest governance body to ensure conflicts of interest are avoided and managed.

b. Whether conflicts of interest are disclosed to stakeholders, including, as 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

When compiling the information specified in Disclosure GOV-6, the organization should use the definition of controlling shareholder as applied in the organization's consolidated financial statements or equivalent documents.
Disclosure GOV-7 Role of highest governance body in setting purpose, values, and strategy

Reporting requirements

The reporting organization shall report the following information:

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

Disclosure GOV-8 Collective knowledge and skills of highest governing body

Reporting requirements

The reporting organization shall report the following information:

a. Measures taken to develop the highest governance body’s collective knowledge and skills of economic, environmental, and social topics.

Disclosure GOV-9 Evaluation of the highest governance body’s performance

Reporting requirements

The reporting organization shall report the following information:

a. Processes for evaluating the highest governance body’s performance with respect to governance of economic, environmental, and social topics.

b. Whether such evaluation is independent or not, and the frequency of the evaluation.

c. Whether such evaluation is a self-assessment.

d. Actions taken in response to the evaluation including, as a minimum, changes in membership and organizational practice.

Disclosure GOV-10 Identification and management of impacts, risks, and opportunities

Reporting requirements

The reporting organization shall report the following information:
a. Role of the highest governance body in overseeing and approving the organization’s process to identify and manage material economic, environmental, and social topics and their related impacts, risks, and opportunities – including the implementation of due diligence processes and existence of any risk committees.

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

c. Frequency of reporting on the organization’s risk management process to the highest governance body.

d. Role of the highest governance body in reviewing the effectiveness of the organization’s risk management processes for economic, environmental, and social topics, and the frequency of this review.

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

Reporting requirements
The reporting organization shall report the following information:

a. The highest committee or position that formally reviews and approves the organization’s sustainability report and ensures that all material topics are covered.

Disclosure GOV-12 Communication of critical concerns

Reporting requirements
The reporting organization shall report the following information:

a. Process for communicating critical concerns in relation to economic, environmental, and social topics to the highest governance body.

b. Total number and nature of critical concerns that were communicated to the highest governance body.

c. Mechanism(s) used to address and resolve critical concerns.

Guidance

Guidance for Disclosure GOV-12-b

If the organization is unable to report some of the information required in this disclosure due to confidentiality constraints or legal prohibitions, the organization may use reasons for omission. For more information on reasons for omission, see GRI 101:Foundation.
Disclosure GOV-13 Remuneration policies

Reporting requirements
The reporting organization shall report the following information:

a. Remuneration policies for the highest governance body and senior executives, including:
   i. Fixed pay and variable pay, including 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, including the difference between benefit schemes and contribution rates for the highest governance body, senior executives, and all other employees.

b. How performance criteria in the remuneration policies relate to the objectives of the highest governance body and senior executives for economic, environmental, and social topics for the reporting period and the period ahead.

Guidance

Guidance for Disclosure GOV-13
When compiling the information specified in Disclosure GOV-13, the organization should:

- if performance-related pay is used, describe how remuneration and incentive-related pay for senior executives are designed to reward long-term performance.
- if termination payments are used, explain whether:
  - notice periods for governance body members and senior executives are different from those for other employees;
  - termination payments for 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 governance body members and senior executives;
  - any mitigation clauses are included in the termination arrangements.

Disclosure GOV-14 Process for determining remuneration

Reporting requirements
The reporting organization shall report the following information:
a. Process for determining remuneration, including remuneration policy.

b. Whether independent members of the highest governance body or an independent remuneration committee oversee the remuneration process.

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

d. If applicable, the results of votes on remuneration policies and proposals.

e. Whether remuneration consultants are involved in determining remuneration and, if so, any other relationships they have with the organization, its highest governance body or senior executives.

Disclosure GOV-15 Annual total compensation ratio

Reporting requirements

The reporting organization shall report the following information:

a. 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. 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 for Disclosure GOV-15

When calculating the ratio specified in Disclosure GOV-15, the reporting organization shall:

- 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;
  - specify which operations or countries are included, if the organization chooses to not consolidate the ratio for the entire organization.

- depending on the organization’s remuneration policies and availability of data, consider the following components:
  - base salary, which is the sum of guaranteed, short-term, and non-variable cash compensation
  - cash compensation, which is the sum of base salary, cash allowances, bonuses, commissions, cash profit-sharing, and other forms of variable cash payments
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
Glossary

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

**clawback**
repayment of previously received compensation required to be made by an executive to their employer in the event certain conditions of employment or goals are not met

**conflict of interest**
situation where an individual is confronted with choosing between the requirements of their function and their private interests

**due diligence**
process to identify, prevent, mitigate, and account for how an organization addresses its actual and potential negative impacts

*Note*: This definition is based on the United Nations (UN), Guiding Principles on Business and Human Rights, Implementing the United Nations “Protect, Respect and Remedy” Framework, 2011, which is also used in the Organisation for Economic Co-operation and Development (OECD), OECD Guidelines for Multinational Enterprises, 2011

**employee**
individual who is in an employment relationship with the organization, according to national law or its application

**highest governance body**
formalized group of persons charged with the highest authority in an organization

*Note*: In some jurisdictions, governance systems could consist of two tiers, where supervision and management are separated or where local law provides for a supervisory board drawn from non-executives to oversee an executive management board. In instances where the highest governance body consists of two tiers, both tiers are to be included.

**impact [revised]**
In the GRI Standards, unless otherwise stated, ‘impact’ refers to the effect an organization has on the economy, environment, and/or people, including impacts on their human rights, which in turn can indicate the organization’s contribution (positive or negative) to sustainable development.

*Note*: In the GRI Standards, the term ‘impact’ can refer to:
- actual impacts (those that have already occurred) or potential impacts (those that could occur but have not yet occurred);
- negative impacts (that the organization either causes or contributes to through its own activities, or that are directly linked to the organization’s operations, products, or services by its business relationships) or positive impacts;
- short-term impacts or long-term impacts;
- intended impacts or unintended impacts.
material topic [revised]

A topic that reflects a reporting organization’s significant impacts on the economy, environment, and people, including impacts on human rights.

senior executive

A high-ranking member of the management of an organization, such as the Chief Executive Officer (CEO) or individuals reporting directly to the CEO or the highest governance body.

stakeholder [revised]

An individual or group that has an interest that is, or could be, affected by the reporting organization’s decisions and activities.

supplier

An organization or person that provides a product or service used in the supply chain of the reporting organization.

termination payment

All payments and benefits given to a departing executive or member of the highest governance body whose appointment is terminated. 

Note: Termination payments extend beyond monetary payments to the giving of property and the automatic or accelerated vesting of incentives given in connection with a person’s departure from office.

under-represented social group

A population that, relative to its numbers in a given society, has less opportunity to express its economic, social, or political needs and views.

Note: Specific groups included under this definition are not uniform for every organization. An organization identifies relevant groups based on its operating context.