

## **[Draft] European Sustainability Reporting Standard G1 Governance, risk management and internal control**

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This working paper should therefore not be interpreted in any way whatsoever as representing the views of the PTF-ESRS as a whole at this stage, nor the position of relevant co-construction partners. Also, the content of this working paper is the sole responsibility of the PTF-ESRS and can under no circumstances be regarded as reflecting the position of the European Union or European Commission DG Financial Stability, Financial Services and Capital Markets Union (DG FISMA).

The structure in this document differs from those of other ESRSs released and is still under debate. The consultation draft may follow the same structure as the other standards.

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## Objective

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- 1 The objective of this [draft] standard is to specify disclosure requirements which will enable users of the undertaking's sustainability report to understand the governance structure of the undertaking, and its internal control and risk management systems.
- 2 This standard derives from the [European Commission proposal for a Corporate Sustainability Reporting Directive<sup>1</sup> (Article 1, paragraphs 4 and 5(a), proposing the insertion of Article 19b and an amendment to Article 20(1)(g) of the Accounting Directive<sup>2</sup>)], calling for the sustainability reporting standards to specify, and sustainability reporting by undertakings to disclose, information about governance factors, including: (i) the role of the undertaking's administrative, management and supervisory bodies, including with regard to sustainability matters, and their composition, as well as a description of the diversity policy applied and its implementation; (ii) the undertaking's internal control and risk management systems, including in relation to the undertaking's reporting process.
- 3 ESRS 3 prescribes disclosure requirements for the description of the undertaking's governance and organisation in relation to sustainability matters. Topical standards prescribe disclosure requirements that cover (i) policies, targets, action plans and resources and (ii) performance measurement in relation to specific topics. Accordingly, this [draft] standard focuses on the undertaking's overall governance, risk management and internal control.
- 4 The requirements in this [draft] standard are intended to provide information that reinforces users' understanding of the risks of, and opportunities afforded by, sustainability matters for the undertaking, as well as the impacts of the undertaking on society and the environment.
- 5 **In order to promote effective communication and avoid duplication, where the disclosures required by this [draft] standard are provided in full or in part in another section of the undertaking's management report, in its (consolidated) financial statements, or in other public documents, the undertaking shall include in its sustainability report a cross-reference to that information, including any appropriate explanations.**

## Interaction with other ESRS

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- 6 The contents of this [draft] standard shall be applied in conjunction with [draft] standards ESRS 1 to ESRS 4. The disclosure requirements in ESRS 1 to ESRS 4 may complement those prescribed by this [draft] standard in addressing the objective stated in paragraph 1 above.

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<sup>1</sup> Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting (2021/0104 (COD))

<sup>2</sup> DIRECTIVE 2013/34/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC

- 7 This [draft] standard shall also be applied in conjunction with the [draft] standards on environmental and social topics ([draft] ESRS E1 to [draft] ESRS E4, and [draft] ESRS S1 to [draft] ESRS S7) where they prescribe disclosures on the governance structure of the undertaking and its internal control and risk management systems, with respect to specific environmental or social features. Those disclosures shall be considered as complementary to the disclosures provided under this [draft] standard, which focuses on the general aspects of governance.
- 8 This [draft] standard covers sector-agnostic disclosure requirements. Sector-specific disclosure requirements are [prescribed] separately and in accordance with the classification specified by [draft] ESRS SEC1.

## **Disclosure requirements**

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### *Governance*

#### *Disclosure requirement 1 – Governance structure and composition*

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- 9 The undertaking shall provide information on its governance structure and composition, including the committees of its governance body.**
- 10 *The principle to be followed under this disclosure requirement is to provide an understanding of the composition of the governance body and the distribution of roles and responsibilities throughout the undertaking's organisation, from its highest governance body to its executive and operational levels.*
- 11 The disclosure required by paragraph 9 shall include:
- (a) a description of the structure of its governance body and the roles and key responsibilities of each of its committees;
  - (b) identity of members of the governance body;
  - (c) classification of members between executive and non-executive;
  - (d) if the chair of the governance body is also a senior executive in the undertaking, explanation of their function within the undertaking's management, the reasons for this arrangement and how conflicts of interest are prevented and mitigated;
  - (e) independence of members;
  - (f) tenure of members on the governance body;
  - (g) for each member the number and nature of other significant positions held and commitments;
  - (h) representation of stakeholder groups;
  - (i) competencies relevant to the sector, products and geographic locations of the undertaking and associated regulation;
  - (j) percentage of independent shareholder-elected members;
  - (k) percentage of each of the following diversity classifications:
    - (i) gender;
    - (ii) age group;
    - (iii) any other relevant diversity indicators.
- 12 The disclosure shall also include information on changes to the composition of the governance body of the undertaking from the previous reporting period, including with respect to diversity, with the associated reasons.

Disclosure requirement 2 – Corporate governance code or policy

**13 The undertaking shall disclose the corporate governance code or policy that determines the function of its administrative, management or supervisory body.**

14 *The principle to be followed under this disclosure requirement is to provide information about any legal or regulatory requirements that mandate and influence the design of the governance structure of the undertaking, together with information on aspects implemented that are over and above any relevant legal or regulatory requirements.*

15 The disclosure required by paragraph 13 shall include the following information:

- (a) the corporate governance code to which the undertaking is subject or which the undertaking may have voluntarily decided to apply, with an indication of where the relevant texts are publicly available;
- (b) all relevant information about the corporate governance practices applied over and above the requirements of national law, including details of where the undertaking's corporate governance practices are publicly available.

16 Where an undertaking, in accordance with national law, departs from a corporate governance code referred to in point (a), it shall provide an explanation as to which parts of the corporate governance code it departs from and the reasons for doing so.

17 Where the undertaking has decided not to refer to any provisions of a corporate governance code referred to in points (a), it shall explain its reasons for not doing so.

Disclosure requirement 3 – Governance body nomination process

**18 The undertaking shall provide information about the nomination and selection processes for its highest governance body, including its committees.**

19 *The principle to be followed under this disclosure requirement is to provide information about the criteria used for selecting and nominating the members of the undertaking's highest governance body and its committees.*

20 The disclosure required by paragraph 18 shall include the following information:

- (a) a description of the nomination and selection processes for the highest governance body and its committees;
- (b) a description of the criteria used for nominating and selecting highest governance body members, including whether and how:
  - (i) stakeholders (including shareholders) are involved in the nomination process;
  - (ii) diversity is considered in the selection process;
  - (iii) independence is considered in the selection process;
  - (iv) competencies relevant to the sector of the undertaking are considered in the selection process.

Disclosure requirement 4 – Governance body diversity policy

**21 The undertaking shall provide information on the diversity policy applied in relation to its governance body.**

- 22 *The principle to be followed under this disclosure requirement is to provide information about the undertaking's diversity policy to promote a diversified composition of its governance body, the diversity criteria adopted with the associated rationale on their prioritisation, and the mechanism adopted to foster diversity representation.*
- 23 The disclosure required by paragraph 21 shall include the following information:
- (a) A description of the diversity policy applied in relation to the undertaking's governance body with regard to each of the following:
    - (i) gender,
    - (ii) age,
    - (iii) minority or vulnerable groups,
    - (iv) educational and professional backgrounds, and
    - (v) other aspects where relevant.
  - (b) The objectives of that diversity policy.
  - (c) How the diversity policy has been implemented.
- 24 If no such policy is applied, the undertaking shall provide an explanation as to why this is the case and, where applicable, the timing and plans to apply a diversity policy.
- 25 The disclosure shall also specify the following:
- (a) whether there are legal and regulatory requirements that mandate diversity representation in the composition of the undertaking's governance body, and if so, a reference to those requirements;
  - (b) whether the diversity representation implemented in the composition of the undertaking's governance body is over and above any relevant legal and regulatory requirements;
  - (c) any targets set, mandated or voluntary, for each diversity classification in the composition of the undertaking's governance body and progress made against those targets;

Disclosure requirement 5 – Governance body meetings and attendance rate

- 26 The undertaking shall provide information about the number of meetings and the attendance rate for its governance bodies and committees.**
- 27 *The principle to be followed under this disclosure requirement is to provide information about the rate of participation of the members of the highest governance body and committees in meetings.*
- 28 The disclosure required by paragraph 26 shall include the following information:
- (a) the number of meetings of the undertaking's governance body and committees during the reporting period; and
  - (b) the number of members who participated at each meeting during the reporting period;
  - (c) the highest and lowest attendance rate of members.

*Disclosure requirement 6 – Governance body evaluation process*

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**29 The undertaking shall describe the process followed for evaluating the performance of its governance body in overseeing the management of the undertaking.**

30 *The principle to be followed under this disclosure requirement is to provide transparency on the process implemented by the undertaking for the evaluation of the performance of its highest governance body in supervising the management of the undertaking.*

31 The disclosure required by paragraph 29 shall include a description of:

- (a) the process followed for evaluating the performance of its governance body;
- (b) whether the evaluation is independent or not, and its frequency; and
- (c) the actions taken in response to the evaluation of the performance of the governance body.

*Disclosure requirement 7 – Remuneration policy*

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**32 The undertaking shall describe the policy used for the remuneration of its governance body and senior executives.**

33 *The principle to be followed under this disclosure requirement is to provide information about the undertaking's policy for the remuneration of the highest governance body and senior executives.*

34 The disclosure required by paragraph 32 shall include information regarding the process followed in determining the policy and proposals for the remuneration of the undertaking's governance body, in particular:

- (a) the assigned roles and responsibilities for the process, including whether the process is overseen by independent members of the undertaking's governance body or an independent remuneration committee;
- (b) whether external consultants are involved;
- (c) whether stakeholders' views (including shareholders) are sought and taken into account, together with any corresponding voting results.

35 The disclosure required by paragraph 32 shall address specifically the following types of remuneration:

- (a) fixed pay and variable pay, including performance-based pay, equity-based pay, bonuses, and deferred or vested shares;
- (b) sign-on bonuses or recruitment incentive payments;
- (c) termination payments;
- (d) clawbacks;
- (e) retirement benefits.

*Risk management*

*Disclosure requirement 8 – Risk management*

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**36 The undertaking shall provide information on its risk management processes.**

- 37 *The principle to be followed under this disclosure requirement is to inform about the undertaking's risk management processes and to provide an understanding of the supervision and monitoring of risk management by the undertaking's governance body.*
- 38 This disclosure requirement refers to the risks to which the undertaking is exposed due to its business model.
- 39 The disclosure required by paragraph 36 shall include information on:
- (a) The undertaking's risk assessment approach.
  - (b) The prioritisation of risks.
  - (c) The scope, main features and components of its risk management processes, including a description of how the undertaking integrates the findings of its risk assessment for the key risks into relevant internal functions and processes;
  - (d) A description of the periodic reporting on risk management to the administrative, management and supervisory body, including:
    - (i) a description of whether and how critical concerns are communicated to the highest governance body;
    - (ii) a report of the total number and the nature of critical concerns that were communicated to the highest governance body during the reporting period.

*Disclosure requirement 9 – Risk awareness culture*

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- 40 The undertaking shall provide information about the approach followed to cultivate and promote risk awareness within the organisation.**
- 41 *The principle to be followed under this disclosure requirement is to provide information about how risk awareness culture is cultivated throughout the undertaking's organisation, from the highest governance body to the executive and operational levels of the undertaking, aimed at improving its risk management practices.*
- 42 This disclosure required by paragraph 40 shall include information on the processes in place and the relevant training and other initiatives that promote risk culture throughout the undertaking's organisation, from its highest governance body to its executive and operational levels, to encourage better understanding, communication and practices related to risk management.

*Internal control*

*Disclosure requirement 10 – Internal control*

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- 43 The undertaking shall provide information on its internal control processes, including in relation to the sustainability reporting process.**
- 44 *The principle to be followed under this disclosure requirement is to inform about the aspects related to the governance factors that affect the undertaking's internal control processes, including in relation to sustainability reporting, and to provide an understanding of the supervision and monitoring of those processes by the undertaking's governance body.*
- 45 The disclosure required by paragraph 43 shall include information on:
- (a) the scope, main features and components of the undertaking's internal controls;



- (b) a description of the periodic reporting on internal control processes to the administrative, management and supervisory body;
- (c) the main features of the undertaking's internal control systems over the sustainability reporting process, including:
  - (i) whether the governance body is responsible for reviewing and approving the information reported by the undertaking, and if so, describe the process for reviewing and approving the information;
  - (ii) if the governance body is not responsible for reviewing and approving the reported information, explain the reason for this.

*Disclosure requirement 11 – Audit*

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**46 The undertaking shall provide information about the nature, number, type and outcome of audits performed during the reporting period.**

47 *The principle to be followed under this disclosure requirement is to provide information about the internal or external audits performed by an undertaking during a reporting period, and the actions implemented to overcome critical points resulting from these audits, to consider the quality and integrity of its internal control, including over the reporting systems.*

48 This disclosure required by paragraph 46 shall include:

- (a) the nature, type and frequency of audits and the areas covered; and
- (b) a description of the main findings of the audits and the corrective actions implemented.

## Appendix A: Defined terms

This appendix is integral part of the [draft] ESRS G1 *Governance, risk management and internal control*.

<b>Administrative body</b>	The body responsible for the management of an undertaking, operations of the undertaking. In a one-tier system it would be the board of directors, with potential participation of employees. In a two-tier system it would be the management body and the supervisory body.
<b>Clawback</b>	Repayment of previously received compensation required to be made by an executive to his or her employer in the event certain conditions of employment or goals are not met.
<b>Diversity indicators</b>	Quantitative measures that reflect how many different types there are in specific diversity classifications such as age, ancestry and ethnic origin, citizenship, creed, disability, and gender.
<b>Governance</b>	The system by which the undertaking is directed and controlled in the interests of shareholders and other stakeholders. Governance involves a set of relationships between the undertaking's management, its board of directors, its shareholders and other stakeholders. Governance provides the structure and processes through which the objectives of the undertaking are set, the risks, opportunities and impacts are managed, the undertaking's internal control framework is operated, the progress against objectives is monitored, and results are evaluated.
<b>Governance body</b>	See <b>Highest governance body</b> .
<b>Highest governance body</b>	Body with the highest decision-making authority in the undertaking. In some jurisdictions, governance systems consist of two tiers, where supervision and management are separated or where local law provides for a supervisory body drawn from non-executives to oversee an executive management body. In such cases, both tiers are included under the definition of highest governance body.
<b>Management body</b>	The governance body of the undertaking, comprising the supervisory and the managerial functions, which has the ultimate decision-making authority and is empowered to set the undertaking's strategy, business model, objectives and overall direction.
<b>Remuneration</b>	Basic salary plus additional amounts paid to a worker. Examples of additional amounts paid to a worker can include those based on years of service, bonuses including cash and equity such as stocks and shares, benefit payments, overtime, time owed, and any additional allowances, such as transportation, living and childcare allowances.

<b>Stakeholder</b>	Individual or group that can reasonably be expected to be significantly affected by an undertaking's business activities, outputs or outcomes, or whose actions can reasonably be expected to significantly affect the ability of the undertaking to create value over time. May include providers of financial capital, employees, customers, suppliers, business partners, local communities, NGOs, environmental groups, legislators, regulators and policy-makers.
<b>Supervisory body</b>	A committee established by the management body, comprising of non-executive members, with delegated authority to supervise and monitor the discharge of the management body's responsibilities. In a two-tier governance system it can be a separate body to the management body.
<b>Sustainability factors</b>	Environmental, social and employee matters, respect for human rights, anticorruption, anti-bribery matters and governance matters.
<b>Vulnerable group</b>	<p>Set or subset of individuals with some specific physical, social, political, or economic condition or characteristic that places them at a higher risk of suffering a burden, or at a risk of suffering a disproportionate burden, of the social, economic or environmental impacts of the undertaking's operations.</p> <p>Vulnerable groups can include children and youth, the elderly, people with disabilities, ex-combatants, the internally displaced, refugees or returning refugees, HIV/AIDS-affected households, indigenous peoples, and ethnic minorities.</p> <p>Vulnerabilities and impacts can differ by gender.</p>

## Appendix B: Application guidance

This appendix is an integral part of the proposed [draft] ESRS G1 *Governance, risk management and internal control*. It describes how to apply the disclosure requirements set forth in paragraphs 8-53 and has the same authority as the other parts of the [draft] standard. More specifically, it provides further background information on what should be disclosed and describes how it should be disclosed.

### Disclosure requirement 1 – Governance structure and composition

- AG1 The undertaking is expected to provide a concise description of its highest decision-making authority, including the body(ies) that exercise the highest administrative, management and supervisory functions.
- AG2 In some jurisdictions, governance systems consist of two tiers, where supervision and management are separated or where local law provides for a supervisory body drawn from non-executives to oversee an executive management body. In such cases, both tiers are to be covered in the disclosure of the undertaking's governance structure.
- AG3 Disclosure requirement 1 in [Draft] ESRS 3 *Sustainability governance and organisation* requires the undertaking to describe the roles and responsibility of its governance body with regard to sustainability matters. When the undertaking includes a description of its governance body in general under Disclosure requirement 1 of [Draft] ESRS 3, the undertaking shall consider providing the disclosure required by paragraph 9 in conjunction with the one requested by Disclosure requirement 1 of [Draft] ESRS 3.
- AG4 The disclosure shall also include a concise description of the committees of the governance body, including the roles and responsibilities of each committee and their working procedures, such as the frequency of their meetings and the main communication lines between the management body, the supervisory body and their respective committees.
- AG5 The disclosure shall address all elements specified in paragraph 9 taking into consideration the following:
- (a) 'Independence' refers to conditions that enable the members of the governance body to exercise independent judgment free from any external influence or conflicts of interest.
  - (b) A position or commitment held by a governance body member is significant when the time and attention it demands compromises the member's ability to perform its duties for the undertaking.
  - (c) 'Competencies' includes those with respect to corporate reporting and audit.
  - (d) The undertaking shall consider describing the composition of the highest governance body and its committees by additional indicators of diversity, such as ancestry and ethnic origin, citizenship, creed, disability, or any other indicators of diversity that are relevant for reporting.
- AG6 The elements of the disclosure on diversity shall allow identifying under-represented social and other groups.
- AG7 The information on changes to the composition of the governance body of the undertaking from the previous reporting period should extend to the date of the sustainability report.

Disclosure requirement 3 – Governance body nomination process

- AG8 Disclosure requirement 1 in [Draft] ESRS 3 *Sustainability governance and organisation* requires the undertaking to describe the criteria concerning sustainability applied by the undertaking for nominating and selecting the members of its highest governance body. The undertaking shall consider providing the disclosure required in paragraph 18 in conjunction with the one requested by Disclosure requirement 1 of [Draft] ESRS 3.
- AG9 The description of the criteria used for the nomination and selection of members shall be made with reference to the undertaking's diversity policy (see Disclosure requirement 4) and the relevant targets set to implement and align with that policy.

Disclosure requirement 7 – Governance body remuneration policy

- AG10 The disclosure shall address all elements specified in paragraph 32 taking into consideration the following:
- (a) *Fixed pay and variable pay*
- (i) It can include performance-based pay, equity-based pay, bonuses, and deferred and vested shares.
- (ii) If the undertaking uses performance-based pay, it should describe how remuneration for senior executives is designed to reward long-term performance.
- (b) *Termination payments*
- (i) They are all payments and benefits given to a departing member of the highest governance body or senior executive whose appointment is terminated.
- (ii) They extend beyond monetary payments, from transferring property to automatic or accelerated vesting of incentives.
- (iii) If the undertaking provides termination payments, it should explain whether:
- notice periods and termination payments for highest governance body members and senior executives are different from those for other employees;
  - departing highest governance body members and senior executives receive payments other than those related to the notice period;
  - any mitigation clauses are included in the termination arrangements.
- (c) *Clawbacks*
- They are repayments of previously received compensation that a highest governance body member or senior executive is required to make to their employer if certain conditions of employment or goals are not met.
- (d) *Retirement benefits*
- The undertaking should report the differences between the retirement benefit schemes and the contribution rates for the highest governance body members, senior executives, and all other employees.

Disclosure requirement 8 – Risk management

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- AG11 Under this disclosure requirement the undertaking shall provide a summarised description of:
- (a) The main risks to which the undertaking is exposed due to its business model.
  - (b) The strategies and processes to manage and mitigate risks that arise from the undertaking's business model.
  - (c) How the governance body and senior management assess and manage risks.
  - (d) Risk management responsibilities attributed through the undertaking's organisation and its departments, distinguishing oversight and delegation of authority, breakdown of responsibilities by type of risk, and business units involved.
  - (e) Relationships between the structures involved in risk management, such as governance body, executive management, separate risk committee and risk management structure;
  - (f) Process of risk information reporting provided to the board and senior management, in particular the scope and main content of reporting on risk measures.
- AG12 Undertakings shall consider disclosing the key risk indicators used to monitor its exposure to risks.

Disclosure requirement 9 – Risk awareness culture

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- AG13 Risk awareness is the capability of the undertaking to recognise risks before they become threats, to mitigate them when they arise, and to recover from the damages they may cause.
- AG14 Risk awareness culture is a foundation of values, knowledge, beliefs, understanding and communication of the risks associated to the undertaking's objectives and assets necessary to achieving those objectives. It pertains to ideas, customs, and social behaviour.
- AG15 The undertaking is expected to provide a concise description of how it cultivates and promotes such culture throughout the organisation, for weaving it into its normal processes and aiming at improving its risk management practices.
- AG16 The disclosure shall include a description of the policies and procedures followed in this respect, the associated roles and responsibilities, the relevant training activities and other initiatives, and the commitment of the leadership to this effect. This shall include the channels to communicate, decline and enforce the risk culture within the undertaking (for example code of conduct, operational manuals containing limits or procedures to treat violations or breaches of risk thresholds, etc.).

Disclosure requirement 10 – Internal control

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- AG17 Under this disclosure requirement the undertaking shall provide a summarised description of:
- (a) Internal control responsibilities attributed through the undertaking's organisation and its departments, distinguishing oversight and delegation of authority, breakdown of responsibilities by type of control, and business units involved.
  - (b) Relationships between the structures involved in internal control processes, such as governance body, executive management, compliance function, and internal audit function.
- AG18 Undertakings shall consider disclosing whether the governance body reviews the adequacy of the undertaking's internal controls to strengthen the integrity and credibility of the undertaking's sustainability reporting.
- AG19 The undertaking's practice for seeking internal and external assurance during each reporting period is covered by Disclosure requirement 10.

Disclosure requirement 11 – Audit

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- AG20 In order to demonstrate how it considers the quality and integrity of its processes, internal controls and reporting systems, the undertaking is expected to provide information on both internal and external audits performed during the reporting period, and the actions implemented to overcome critical points resulting from these audits.
- AG21 The undertaking shall disclose the information required by paragraph 46 for each audit performed during the reporting period.
- AG22 The disclosure shall specify the nature of the audit, such as whether an audit was a compliance audit, a performance audit, an operational audit, or a financial audit.
- AG23 The reference to type is for the undertaking to indicate whether an audit was internal or external.

## **[Draft] Basis for conclusions on ESRS G1 Governance, risk management and internal control – Accompanying material**

### **Introduction**

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- BC1 This Basis for Conclusions (BC) accompanies but is not part of [draft] ESRS G1 *Governance, risk management and internal control*. It summarises the considerations and references of the [EFRAG Sustainability Standards Board (the 'Board')] in developing the contents of the [draft] standard. [Individual Board members may be giving greater weight to some factors than to others.]
- BC2 While the disclosure proposals have been subject to review by selected experts already, to reach a wider consensus, they will be subject to review by a review panel of EFRAG PTF ESRS members, one or more expert working groups and all EFRAG PTF ESRS members as part of the consensus-building process, before being subject to public consultation with stakeholders at a later stage.
- BC3 In further developing [draft] ESRS G1 *Governance, risk management and internal control*, [the Board] will consider the feedback it receives with regard to the disclosure proposals brought forward herein.

### **Objective**

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- BC4 In line with the relevant provisions in the CSRD proposal and the [final report](#) from the EFRAG PTF-NFRS *Proposals for a relevant and dynamic EU sustainability reporting standard setting*, [the Board] considers it important that stakeholders receive information about the undertaking's approach to governance, risk management and internal control.
- BC5 As reported in the recital 44 of CSRD proposal users need information about governance factors, including information on the role of an undertaking's administrative, management and supervisory bodies, including with regard to sustainability matters, the composition of such bodies, and an undertaking's internal control and risk management systems, including in relation to the reporting process.
- BC6 This standard is prepared on the basis that governance information should include sustainability governance, but should not be limited to it, as per the CSRD proposal.
- BC7 As mentioned in the [final report](#) from the EFRAG PTF-NFRS (*Proposals for a relevant and dynamic EU sustainability reporting standard setting*) *as of today, key aspects of governance, despite being references in most if not all leading EU and global sustainability policies and initiatives, are not addressed in a coherent and systematic manner when it comes to sustainability reporting. They tend to be addressed separately and independently from each other, failing to evidence the obvious interrelatedness of sound and efficient organisation and governance structure as a warrant of sustainable business. Combining these key aspects and articulating them in a coherent and consistent way ... would foster transparency and further encourage sustainable business practices.*



- BC8 The [draft] ESRS G1 *Governance, risk management and internal control* is based on the assumption that the integration of sustainability matters into governance structure, risk management and internal control are addressed in the ESRS 3 and ESRS 4. The broader information about general corporate governance of the undertaking (governance structure of the undertaking, and the undertaking's internal control and risk management systems), other than sustainability matters, is covered in this [draft] standard.
- BC9 The internal control and risk management system consists of the set of rules, procedures and organizational structures aimed at an effective and efficient identification, assessment, management and monitoring of principal risks, in order to contribute to the sustainable success of the undertaking.
- BC10 In accordance with Recital 37 of the CSRD, [the Board] took due account of existing standards and frameworks for sustainability reporting and accounting where appropriate in order to minimize disruption for undertakings that already report sustainability information (please refer to the gap analysis in Annex 1). [The Board] especially assessed the degree to which and how main frameworks and standards cover the topics currently subject to this Standard, for example: GRI, IIRC, TCFD, SASB, CoSo Framework. To also get an understanding of market information demands, the requirements/criteria of leading sustainability rating agencies were reviewed as well.
- BC11 [The Board] assessed overlaps and interlinkages with other EU legislations to avoid duplication and inconsistency. In this context, [the Board] also assessed the need to include requirements in the first version of ESRS G1 to specifically serve the EU financial sector as required under recital 47 of the CSRD for the first set of ESRS (*“That set of reporting standards should specify the information (...) that financial market participants need to comply with the disclosure obligations laid down in Regulation (EU) 2019/2088.”*).
- BC12 In particular, [the Board] performed a gap analysis with the 2021 and 2016 GRI Standards (please refer to the gap analysis in Annex 2). Moreover, [the Board] performed an alignment analysis with the Prospectus Regulation 2017/1129 and the Article 20 *“Corporate governance statement”* of the Accounting Directive (please refer to the gap analysis in Annex 1). [The Board] also took into consideration the Directive 2007/36/EC with reference to the remuneration policy.
- BC13 Given that these standards in many cases extend reporting obligations to undertakings who do not currently have obligations to this extent or on unfamiliar topics, the focus of the standard is those issues and information that is most important to all stakeholders across all standards. This means that not all the proposals are equally important to all reporting undertakings, and undertakings should provide essential disclosures while not diluting the impact of such disclosures by including other unimportant information.
- BC14 However, for undertakings in some sectors and/or operating in certain geographic areas, more in-depth information about a broader range of topics may be needed. Where the undertaking's risk assessment reveals significant risks in the area of governance, the [proposed] disclosures should be regarded as a starting point rather than the destination. Sector-specific disclosures will be developed via dedicated standards.
- BC15 [The Board] have regarded certain disclosures as pertaining to a smaller set of sectors and/or undertakings and have included some proposals for these even if these may form part of future standards including those for specific sectors. However, nothing in this standard should be regarded as discouraging those in the relevant sectors from providing additional disclosures on these topics.

## Disclosure requirements

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### *Disclosure requirement 1, 2 and 5 – Governance structure and composition; Corporate governance code or policy; attendance rate*

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- BC16 The [draft] standard includes the following Disclosure Requirements: “The undertaking shall provide information on its governance structure and composition, including the committees of its governance body”. “The undertaking shall disclose the corporate governance code or policy that determines the function of its administrative, management or supervisory body”. “The undertaking shall provide information about the number of meetings and the attendance rate for its governance bodies and committees”
- BC17 Governance means the assignment of tasks in order to define responsibilities in relation to the development of strategies and policies. The information reported is important for understanding how the governance bodies are set up and how well equipped they are to oversee the management of the organization’s impacts. It also facilitates an understanding of the role and the responsibilities of governance bodies with respect to these impacts.
- BC18 As a matter of transparency, the disclosure requires to provide information about Corporate Governance Code or Policy, to better understand which regulatory requirements influence the design of the governance structure and if there is any aspect implemented that are over and above any relevant legal or regulatory requirements.
- BC19 Moreover, the composition of governance body (and its committees) allows to understand if the organization has a sufficient mix of members with relevant knowledge, independence, competence, industry experience and diversity of perspectives to generate effective challenge, discussion and objective decision-making in alignment with the undertaking’s purpose, long-term strategy and relevant stakeholders. The disclosure includes also the relationship between the chair of the governance body and the senior executive in the undertaking.
- BC20 Disclosure on number of meetings and the attendance rate of the governance bodies and its committee can be a useful insight to monitor the conscientious director. It demonstrates the relevance of the issues (included sustainability matters) for the governance bodies and their effective management.
- BC21 EU legislation and global reporting framework: This disclosure relies on the CSRD and is compatible with GRI 2-9 Governance structure and composition, GRI 2-11 Chair of the highest governance body and the Accounting Directive art.20(1)(f), Chapter 5 Management report (arts. 19-29) and Article 20 Corporate governance statement (see analysis in Annex 1 and 2).

### *Disclosure requirement 3 and 6 – Governance body nomination and evaluation process*

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- BC22 The [draft] standard includes the following Disclosure Requirements: “The undertaking shall provide information about the nomination and selection processes for its highest governance body, including its committees”. “The undertaking shall describe the process followed for evaluating the performance of its governance body in overseeing the management of the undertaking.”

- BC23 The disclosure provides information on the nomination and selection process of the governance bodies, in order to evaluate if the undertaking has a formal, fair and transparent process, aligned with the undertaking's policy on diversity, succession planning and long-term strategy. The disclosure also informs on the mechanism adopted to ensure the balance of professional skills, knowledge, independence and experience of the governance bodies, needed to ensure its long term success.
- BC24 The disclosure provides also an overview on the assessment that the undertaking made of its governance bodies and the process by which the board approaches the task of continually improving itself. It provides to users the information needed to understand if the undertaking has a robust evaluation processes, that can guarantee the right new skills, perspectives and strategies needed over time. Investors increasingly regard the review process and its disclosure as key opportunities to enhance board effectiveness and shareholder value.
- BC25 EU legislation and global reporting framework: This disclosure relies on the CSRD and is compatible GRI 2-18 Evaluation of the performance of the highest governance body and GRI Standard 2-10 Nomination and selection of the highest governance body (see analysis in Annex 2).

Disclosure Requirement 4 – Governance body diversity policy

- BC26 The [draft] standard includes the following Disclosure Requirement 4: “The undertaking shall provide information on the diversity policy applied in relation to its governance body.”
- BC27 Disclosures on diversity policy is increasing relevant in different national and international legislations. The objective of the disclosure is to provide an overview on the undertaking internal policy, its implementation and the results obtained, as key information to ensure effective, equitable and inclusive decision-making in alignment with the undertaking's purpose and taking into consideration the interests of relevant stakeholders. This includes information about genders, age, ethnicities, nationalities, social and economic origins, professional skills and personal attributes.
- BC28 The disclosure requirements on target shall not be interpreted as requiring undertakings to set (specific) targets, but rather as requiring undertakings to disclose on targets related to its diversity policy, if any.
- BC29 EU legislation and global reporting framework: This disclosure relies on the CSRD and its amendment to Accounting Directive art. 20 (1)(g).

Disclosure requirement 7 – Remuneration policy

- BC30 The [draft] standard includes the following Disclosure Requirement 7: “The undertaking shall describe the policy used for the remuneration of its governance body and senior executives.”
- BC31 The disclosure is focus on the Remuneration Policy defined by the undertaking, in order to explain how the policy/process is designed to establish, in the interest of different stakeholders, remuneration systems that are aligned with company's objectives and values, long term strategies, and at the same time embed sound risk management practices.

- BC32 The information reported is important for understanding how remuneration is used to ensure that directors deliver on the key performance indicators linked to the strategic objectives of the company. The disclosure should explain to the users the utilisation of base pay, bonuses, as well as short- and long-term incentives in relation to the performance of the company/directors with respect to both financial and non-financial performance indicators.
- BC33 EU legislation and global reporting framework: This disclosure relies on the CSRD and is compatible GRI 2-19 Remuneration policies (see analysis in Annex 2), the International Integrated Reporting Framework and the King III Report Principles.

*Disclosure requirement 8 and 9 – Risk management and risk awareness*

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- BC34 The [draft] standard includes the following Disclosure Requirements: “The undertaking shall provide information on its risk management processes”. “The undertaking shall provide information about the approach followed to cultivate and promote risk awareness within the organisation.”
- BC35 While more detailed disclosures on these topics may be required in sector-specific standards, this standard aims to create a starting point by requiring disclosure about the undertaking’s policy in this regard. This information is very useful to monitor robustness of contingency and resilience planning for risk threats and opportunities, and to ensure that the undertaking has implemented an effective and dynamic ongoing process to identify risks, measure their potential outcomes, and proactively manage those risks to the extent appropriate. For undertakings and stakeholders alike, risk taking is an inseparable element of strategy and a crucial driver in achieving objectives, including optimising value over time. Risk is part of every decision an undertaking makes.
- BC36 Stakeholders can use the reported information to assess an organization’s risks and opportunities and how it integrates them in its business strategy and model. They can also use disclosures on description of risks and opportunities relevant for strategy, the associated impacts, their likelihood, actions taken to prevent and mitigate the principal risks to ensure that undertakings have robust and effective risk management which should address all key risks and opportunities related to the organization’s impacts and to assess its long-term success.
- BC37 Moreover, the requirement provides disclosure on how governance bodies are responsible for overseeing the way in which the risk management process recognises, prioritises and effectively mitigates and responds to risks. It demonstrates how governance bodies maintain an active and alert attitude to emerging and unforeseen risk.
- BC38 Supervisory, management and administrative bodies should lead by example and foster an effective and demanding risk culture in the boardroom and the broader undertaking. An undertaking’s culture and organisational structures should encourage openness, dynamic dialogue on risk and strategy and constructive challenge of judgment and assumptions. Periodic assessments should be undertaken to evaluate the undertaking’s culture, with particular regard to risk and the process by which issues are escalated and de-escalated within the undertaking.
- BC39 **EU legislation and global reporting framework:** This disclosure relies on the CSRD and is compatible **GRI 1 Foundation, GRI 2-16** and with Compliance Risk Management: applying the CoSo ERM Framework.

Disclosure requirement 10 and 11 – Internal control and audit

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- BC40 The [draft] standard includes the following Disclosure Requirements: “The undertaking shall provide information on its internal control processes, including in relation to the reporting process”. “The undertaking shall provide information about the nature, number, type and outcome of audits performed during the reporting period.”
- BC41 Disclosures on the establishment of rigorous, independent, and effective internal control system is key to understand how the undertaking has designed its own processes to minimize risk and protect assets, ensuring accuracy of records, promoting operational efficiency, and encouraging adherence to policies, rules, regulations, and law. The disclosure requires organizations to report whether the internal control system considers also the reporting process and if there is any review and approval process over reporting in place under the responsibility of the Board.
- BC42 For users the disclosure can provide useful information in order to evaluate the grade of achievement of operational objectives, such as the effectiveness and efficiency of operations, accurate and reliable financial reports, and compliance with applicable laws and regulations.
- BC43 The disclosure requires also organizations to provide information on both internal and external audits performed during the reporting period, and the actions implemented to overcome critical points resulting from these audits. This allows users to better understand and evaluate the quality and integrity of the undertaking processes, internal controls and reporting systems. In this regard, organizations can disclose eventual internal controls developed to strengthen the integrity and credibility of their sustainability reporting.
- BC44 EU legislation and global reporting framework: This disclosure relies on the CSRD Recital (44), Recital (51) and Accounting Directive art.20(1)(C) and is compatible GRI 2-14 Role of the highest governance body in sustainability reporting. This disclosure relies also on the International Corporate Governance Network (Question 14) and on the main ESG Rating questionnaires.

## Annex 1: Gap analysis with Article 20 ‘Corporate governance statement’ of the Accounting Directive<sup>3</sup>

Article	Topic	Requirements	Alignment with [draft] ESRS G1
Art. 20(1)(a) Art. 20(1)(b)	Corporate governance code	<p>1. Undertakings referred to in point (1)(a) of Article 2 shall include a corporate governance statement in their management report. That statement shall be included as a specific section of the management report and shall contain at least the following information:</p> <p>(a) a reference to the following, where applicable:</p> <p>(i) the corporate governance code to which the undertaking is subject,</p> <p>(ii) the corporate governance code which the undertaking may have voluntarily decided to apply,</p> <p>(iii) all relevant information about the corporate governance practices applied over and above the requirements of national law.</p> <p>Where reference is made to a corporate governance code referred to in points (i) or (ii), the undertaking shall also indicate where the relevant texts are publicly available. Where reference is made to the information referred to in point (iii), the undertaking shall make details of its corporate governance practices publicly available;</p> <p>(b) where an undertaking, in accordance with national law, departs from a corporate governance code referred to in points (a)(i) or (ii), an explanation by the undertaking as to which parts of the corporate governance</p>	<p>Yes.</p> <p>Please see paragraphs 13-17.</p>

<sup>3</sup> DIRECTIVE 2013/34/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC

Article	Topic	Requirements	Alignment with [draft] ESRS G1
		code it departs from and the reasons for doing so; where the undertaking has decided not to refer to any provisions of a corporate governance code referred to in points (a)(i) or (ii), it shall explain its reasons for not doing so;	
Art. 20(1)(c)	Internal control and risk management systems	(c) a description of the main features of the undertaking's internal control and risk management systems in relation to the financial reporting process;	Internal control and risk management systems in ESRS G1 are not related to the financial reporting process.  Please see paragraphs 136-48.
Art. 20(1)(d)	Bids	(d) the information required by points (c), (d), (f), (h) and (i) of Article 10(1) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids, where the undertaking is subject to that Directive;	This information is out of the scope of [draft] ESRS G1.
Art. 20(1)(e)	Shareholding	(e) unless the information is already fully provided for in national law, a description of the operation of the shareholder meeting and its key powers and a description of shareholders' rights and how they can be exercised;	This information is out of the scope of [draft] ESRS G1.
Art. 20(1)(f)	Composition of governance bodies	(f) the composition and operation of the administrative, management and supervisory bodies and their committees; and	Yes.  Please see paragraphs 9-12.
Art. 20(1)(g)	Diversity policy	(g) a description of the diversity policy applied in relation to the undertaking's administrative, management and supervisory bodies with regard to aspects such as, for instance, age, gender, or educational and professional backgrounds, the objectives of that diversity policy, how it has been implemented and	Yes.  Please see paragraphs 11, and 21-25.

Article	Topic	Requirements	Alignment with [draft] ESRS G1
		<p>the results in the reporting period. If no such policy is applied, the statement shall contain an explanation as to why this is the case.</p>	
Art. 20(2)	Publication of information	<p>2. Member States may permit the information required by paragraph 1 of this Article to be set out in:</p> <p>(a) a separate report published together with the management report in the manner set out in Article 30; or</p> <p>(b) a document publicly available on the undertaking's website, to which reference is made in the management report.</p> <p>That separate report or that document referred to in points (a) and (b), respectively, may cross-refer to the management report, where the information required by point (d) of paragraph 1 of this Article is made available in that management report.</p>	<p>Not applicable.</p> <p>Disclosure related to the publication of the information.</p>
Art. 20(3)	Assurance	<p>3. The statutory auditor or audit firm shall express an opinion in accordance with the second subparagraph of Article 34(1) regarding information prepared under points (c) and (d) of paragraph 1 of this Article and shall check that the information referred to in points (a), (b), (e), (f) and (g) of paragraph 1 of this Article has been provided.</p>	<p>Not applicable.</p> <p>Disclosure related to the assurance of the information.</p>
Art. 20(4)	Member State exemption	<p>4. Member States may exempt undertakings referred to in paragraph 1 which have only issued securities other than shares admitted to trading on a regulated market within the meaning of point (14) of Article 4(1) of Directive 2004/39/EC from the application of points (a), (b), (e), (f) and (g) of paragraph 1 of this Article, unless such undertakings have issued shares</p>	<p>Not applicable.</p> <p>Disclosure related to the scope.</p>



Article	Topic	Requirements	Alignment with [draft] ESRS G1
		which are traded in a multilateral trading facility within the meaning of point (15) of Article 4(1) of Directive 2004/39/EC.	
Art. 20(5)	SMEs	5. Notwithstanding Article 40, point (g) of paragraph 1 shall not apply to small and medium-sized undertakings.	Not applicable.

WORKING PAPER

## Annex 2: References to major initiatives

ESRS G1	GRI	Comparison ESRS G1 vs GRI
DR 1 (Governance structure and composition) DR 2 (Corporate governance code or policy) DR 5 (Governance body meetings and attendance rate)	<ul style="list-style-type: none"> <li>• 2-9</li> <li>• 2-11</li> </ul>	Requirements in DR 1, 2, and 5 encompass those in the GRI standards
DR 3 (Governance body nomination process) DR 6 (Governance body evaluation process)	<ul style="list-style-type: none"> <li>• 2-18</li> <li>• 2-10</li> </ul>	Requirements in DR 3 and 6 encompass those in the GRI standards
DR 4 (Governance body diversity policy)		
DR 7 (Remuneration policy)	<ul style="list-style-type: none"> <li>• 2-19</li> </ul>	Requirements in DR 7 encompasses those in the GRI standard
DR 8 (Risk management) DR 9 (Risk awareness culture)	<ul style="list-style-type: none"> <li>• 2-16</li> </ul>	Requirements in DR 8 and 9 encompass those in the GRI standard
DR 10 (Internal control) DR 11 (Audit)	<ul style="list-style-type: none"> <li>• 2-14</li> </ul>	Requirements in DR 10 and 11 encompass those in the GRI standard