Sustainability in risk management - A CMFI Project led by the WBCSD: Terms of Reference for the Working Group

Version 1.0, February 2017
Purpose, objectives and benefits

Purpose: To transform and revolutionize the understanding of sustainability risk for WBCSD members and other large companies.

Objectives:

(a) To provide diverse support for the robust development of a sustainability risk interpretive guidance document to the COSO enterprise risk management (ERM) framework.
(b) To enrich members of the working group through dissemination of emerging tools, techniques and information, and through internal discussions.

Benefits for working group companies:

(a) Hear from other leading companies about their sustainability risk practices.
(b) Include your voice in the interpretive guidance.
(c) Participate in targeted pilots of sustainability risk tools, including new methods to quantify sustainability risks.

Background

This working group is being convened under one of the deliverables within the innovative Conservation and Financial Markets Initiative on Risk Management and Decision Making. The Project is funded by The Gordon and Betty Moore Foundation and seeks to answer the call to action and to support the development of supplemental guidance for the management of sustainability risks. This action is based on the results of the 2017 study: “Sustainability and enterprise risk management: the first step towards integration.1”

Risk management experts across academic, governmental and corporate institutions alike perceive that the impact of economic and legal risks on a business and society are steadily giving way to a raft of existing and emerging social and environmental risks. And yet there is evidence that the effectiveness with which organizations are identifying, managing and disclosing these risks is limited:

I. Comparing WBCSD member company sustainability and risk disclosures reveals that, on average, only 29% of the areas deemed to be “material” in a sustainability report were disclosed in a company’s legal disclosure of risks. Notably, 35% of member companies did not disclose any of the sustainability risks identified in their sustainability reports in their legal filings.

II. Discussions and surveys with risk management and sustainability practitioners show that most practitioners (89%) agree that sustainability risks could lead to a significant impact on business, while more than 70% find that “risk management practices are not adequately addressing sustainability risks”.

III. The number of real-world incidences of companies failing to adapt to, respond to or mitigate social and environmental risks is increasing, from environmental disasters and oil spills to natural disasters, conflict minerals, human trafficking and cyber security.

The study then explored some of the potential causes of this disconnect, which can be found across the risk management process from company procedures, to allocation of roles and responsibilities, to systemic issues in the ability to manage and disclose sustainability risks. Eight of the main reasons for include:

- Limited knowledge of sustainability risks
- Omission of opportunities or strategic risks
- Difficulty quantifying sustainability risks
- Limited cross-functional collaboration
- Longer time horizons for sustainability risks
- Differing language used for ERM versus disclosure
- Differing purposes for sustainability versus risk disclosures
- Limited guidance for implementation risk management framework.

This study clearly showed a disconnect between enterprise risk management and sustainability practices in most of the businesses studied. It provides a critical starting point for WBCSD and COSO to work together over the coming years to help businesses navigate and prioritize sustainability risks.

**Role**

The WBCSD Sustainability in Risk Management project will be advised by a Working Group comprising WBCSD members, WBCSD Global Network partners and other key corporate reporting stakeholders. This working group will help guide all aspects of the project and actively contribute to the delivery of the sustainability risk interpretive guidance to support the COSO Risk Management framework. The Working Group will also act as independent strategic advisor and reviewer, ensuring that the Sustainability in Risk Management project maintains transparency and delivers the appropriate outcomes as set out in the attached working plan and timeline.

The role of the working group is to:

- Provide guidance and advice on how to deliver the requirements of CFMI outcomes per appendix 1;
- Assist in the evaluation of project risks and advise on key decision points;
- Provide expert knowledge and practical experience of sustainability risk management and relevant and applicable reporting frameworks, requirements, legislation and methodologies;
- Contribute to the technical aspects of the development and design of the guidance, including potential examples, guidance, tools and case studies;
- Consult with relevant stakeholders within their companies to obtain an understanding of the challenging and potential solutions for integrating sustainability in enterprise risk management;
- Provide feedback on technical aspects of risk management; and
- Act as an advocate for the project and encourage and promote the use of the interpretive guidance to peers and colleagues.

**Membership**
Composition

The Working Group will consist of up to 15 member companies. Members include individuals that represent both risk management and sustainability. We will seek membership to involve a broad range of sectors and geographies to oversee the project’s objectivity and scope.

Members should be actively involved in enterprise risk management. They should have a clear understanding of the challenges of integrating sustainability in enterprise risk management and be prepared to have detailed discussions and provide in-depth feedback on all project elements. A knowledge of COSO ERM or ISO 35000 would be helpful but not essential. Knowledge of risk disclosure would also be desirable.

New members may be added based on project requirements.

Terms of Service

Starting with appointment, members of the Working Group will serve until the end of the project, in December 2017, unless they resign beforehand or are removed in accordance with the removal paragraph of this terms of reference.

In the event of any member being unable to compete his / her membership term, the members of the group and WBCSD secretariat staff may recommend a new member.

Conflicts of Interest

Working Group members can serve as individuals and also as representatives of institutions or their company. The Working Group members will notify the WBCSD Redefining Value Managing Director in writing of any potential or actual conflict of interest between WBCSD activities and their own activities or interests.

The WBCSD Redefining Value Managing Director shall bring this information to the whole Working Group the WBCSD SMT who will then decide whether withdraw from the Working Group is necessary.

Conflict of interest is a situation where personal goals may affect the person’s ability to do their job independently and fairly.

Removal

A Working Group member may be removed for persistent failure to contribute to or support the Sustainability in Risk Management project. Any decision will be taken collectively by working group members.

Governance

The Sustainability in Risk Management Working Group operates within the existing governance structure of the Redefining Value (RV) Program. The RV program is governed by the RV Board chaired by the WBCSD CEO with up to 10 members (C-Suite or Board Level representatives). The RV Board is supported by an RV Leadership Group, which is chaired by the WBCSD COO and consists of the Liaison Delegates of the Board Members. The Redefining Value Managing Director oversees the management of
the RV Program including the Sustainability in Risk Management project. The Working Group will advise the Sustainability in Risk Management project team (currently the RV Managing Director, EY Partner).

Operating Conditions

Decision-making principles and procedures

The Working Group will aim to reach a conclusion on the basis of consensus. When an issue must be resolved and consensus cannot be achieved, a vote may be taken and decided by simple majority of those present.

Open communications

The Working Group shall be transparent. Approved minutes of the meetings will be made available to the RV Board and the RV Leadership Group and Redefining Value members. Members of the Working Group may convey the substance of discussions and highlight areas of disagreement without attributing remarks to particular individuals.

Language

All Working Group meetings / telephone conferences will be conducted in English. Documentation, including meeting minutes, will only be made available in English.

Meetings

The Working Group meets at the request of the RV Managing Director. It is anticipated that the Working Group shall meet two to four times in person in the year. We will convene at WBCSD conferences (LD Meeting, Council Meeting) as well as Risk Management conferences. The Working Group will meet via telephone conference on a monthly basis and Working Group members will be expected to actively contribute to the calls and have read minutes and relevant documentation prior to the call.

Time commitment

It is anticipated that the time commitment for members of the Working Group will be 12 working days per year, an average 1 day per month. This time commitment may not be evenly distributed throughout the year. This time commitment includes participation in meetings / conference calls.

Contribution

It is expected that each member of the Working Group will contribute to the group. The following non-exhaustive list provides a selection of potential contributions which representatives may elect to contribute:

- Provide company examples of best practices or case studies
- Provide company interpretation for challenging ERM questions
- Share company policies, protocols or practices to support development of guidance
- Share company tools or templates
Compensation

In general working group members will not be compensated for participation in the Working Group. Travel expenses will be borne by the working group member if a WBCSD member company. Non-WBCSD members from other Non-profit organizations may have reasonable expenses reimbursed in compliance with the CFMI Grant Agreement and with prior approval of the MD Redefining Value and Education.