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Framework for implementing environmental, social and governance (ESG) principles

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Foreword

ISO (the International Organization for Standardization) is a worldwide federation of national standards bodies (ISO member bodies). The work of preparing International Standards is normally carried out through ISO technical committees. Each member body interested in a subject for which a technical committee has been established has the right to be represented on that committee. International organizations, governmental and non-governmental, in liaison with ISO, also take part in the work. ISO collaborates closely with the International Electrotechnical Commission (IEC) on all matters of electrotechnical standardization.

The procedures used to develop this document and those intended for its further maintenance are described in the ISO/IEC Directives, Part 1. In particular, the different approval criteria needed for the different types of ISO documents should be noted. This document was drafted in accordance with the editorial rules of the ISO/IEC Directives, Part 2 (see www.iso.org/directives).

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For an explanation of the voluntary nature of standards, the meaning of ISO specific terms and expressions related to conformity assessment, as well as information about ISO's adherence to the World Trade Organization (WTO) principles in the Technical Barriers to Trade (TBT), see www.iso.org/iso/foreword.html.

International Workshop Agreement IWA 48 was approved at virtual workshops hosted jointly by the Brazilian Technical Standards Association (ABNT), the British Standards Institution (BSI) and the Standards Council of Canada (SCC), in July and October 2024.

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Introduction

0.1 What is ESG?

Environmental, Social and Governance (ESG) is a strategic and operational framework that aims to assist organizations, of any size and type, to implement and report on their activities, products, services and commitment to support the achievement of sustainable development, social justice and good governance. Adopting ESG brings a clearer focus on an organization's impacts on the environment and society, including contribution to the delivery of the United Nations (UN) Sustainable Development Goals (SDGs)[1], as well as evaluating the impacts of the environment and society on the organization.

ESG is distinctive for organizations partly because it focuses the attention of decision-makers on the impacts and accountability of organizations with respect to communities, the environment and everyday lives. Regulatory bodies, policy makers and investors are particularly interested in ESG for this precise reason, and because everyone has the potential to be an interested party in the outcomes of ESG activities.

Being open, honest and factual about all aspects of the organization is a positive ESG trait which underpins good governance (the "G" of ESG) that takes full account of the direct and indirect, individual and collective end-outcomes of organizations' activities, products and services and has regard for external influences, regardless of their source, type, size or jurisdiction, including their supply chains and customers.

ESG involves accurate and regular reporting of financial and non-financial material impacts, but ESG is not just about reporting. The focus of this document is deliberately on the implementing and embedding of ESG practices and values throughout an organization's culture and activities.

EXAMPLE 1 ESG can include:

— Environmental (E): climate change mitigation and adaptation, sustainable resource use and energy efficiencies, circular economy, prevention of pollution and waste management, protection of the environment, biodiversity and restoration of natural habitats.

— Social (S): internal and external social factors and impacts, including human rights, labour practice, decent work, consumer issues, community relations and engagement (including involvement in, influencing and embedding the organization's ESG activities), privacy and data protection, health, well-being and safety, supply chain management, other human capital and social justice issues.

— Governance (G) of the organization, including the governing of the environmental (E) and social (S) categories: corporate board composition and structure, strategic sustainability oversight and compliance, executive compensation, anti-corruption, responsible political involvement, fair competition, promoting social responsibility in the value chain, respect for property rights and interrelationship with communities and society.

ESG draws on and supports the UN SDGs[1] to help define positive social and environmental outcomes. Furthermore, ESG can be considered as connected to and convergent with sustainable development.

EXAMPLE 2 SDG 6 is to ensure the availability and sustainable management of water and sanitation for all. Access to safe water, sanitation and hygiene can be a material consideration for the organization and the communities it is engaged with. ISO 46001[2] can help organizations or communities who heavily rely on water activities with demonstrating their ESG credentials.

This document is intended as a contribution for organizations considering the impacts of the 17 SDGs and how they can optimize the links between ESG activities in the context of selected SDGs.

NOTE ISO in collaboration with UNDP have developed guidelines for contributing to the UN SDGs (ISO/UNDP PAS 53002)[3].

0.2 ESG landscape

ESG's broad perspective necessitates a wider set of reporting standards, both financial and increasingly non-financial, that allow organizations to demonstrate their current state of ESG achievement, progress or maturity and to ensure certain levels of regulatory compliance or conformity with national or internationally agreed ESG standards. Many interested parties need to be able to rely on and understand the ESG reports. Therefore, more than ever, the measurement and reporting of environmental and social outcomes need to be undertaken and performed in a standardized, credible and verifiable way.

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The ESG landscape is currently complex. There are many overlapping and competing ESG standards and frameworks, some mandatory requirements, some voluntary and some commercial. Different methodologies and forms of measurement, varied definitions and competing approaches result in confusion and this has undermined the trust in ESG claims which, in turn, has tended to discourage investment and further engagement in ESG by organizations.

0.3 The evolving ESG landscape

As regulation and legislation on ESG develops around the world, there is an increasing awareness that mandatory disclosure and market transparency around ESG outcomes, impacts, risks and opportunities will continue to expand. The continued expansion of ESG and sustainability reporting and disclosure requirements over the next few years are likely to focus organizations' attention on how to manage the increasing demands. For example, senior finance and sustainability executives in large corporations are increasingly recognizing the need to be well prepared in ESG reporting as new requirements unfold.

The overall ESG landscape is evolving and extending:

— Senior executives understand that meeting ESG requirements requires engagement with a broad range of interested parties. While ESG demands typically come from investors, board members, shareholders and customers, it is critical to consider the interests of all interested parties including personnel, customers, supply and value chain partners, regulatory bodies and the communities in which they are located and serve. Increasingly, shareholders (including the more vocal activist shareholders) are demanding more emphasis on sustainability and ESG impacts.

— The number of organizations that ESG covers is expanding, including smaller interested parties (e.g. small and medium enterprises [SMEs]) who are seeking or developing ESG goals similar to those of large corporations, on a voluntary basis. They require as much support, guidance and attention as those who are mandated to report and disclose.

— The tendency has been to focus mainly on climate-related risks, resource use and circularity, such as achieving net zero and other environmental reporting requirements. Environmental focus has dominated ESG in corporate settings. Increasingly social and governance factors need to strengthen given the recognition that the environmental and social factors have to coexist and be incorporated into the governance of an organization.

— There is recognition of how ESG information and frameworks are implemented and practised. Organizations of all types and sizes are determining how to build ESG information.

— The important directions for organizations include:

  — how to maximize the potential of ESG data and information for building organizational ESG profiles, managing impacts, improving sustainability and providing evidence for functional accountability;

  — monitor and evaluate the quality of their ESG performance;

  — improve their decision-making;

  — identify trends and employ analytics to monitor their policies and direction for ESG improvements.

Implementing the ESG framework can improve and accelerate organizational strategies and actions on sustainability by shaping policies and practices related to the environment, social values and conditions. The increased value resulting from adopting the ESG framework is demonstrated through ESG strategies, actions and how ESG reporting is conducted. Therefore, ESG strengthens both the organization and the community.

There is a growing recognition that ESG can and should be viewed as a core lever in an organization's success, by expanding its economic, environmental and social development pathways, building competitive advantage and accelerating sustainability and prosperity.

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0.4 ESG framework

This document, as an ESG framework, provides overarching principles, a coherent structure and guidance for ESG, so that all interested parties can be reassured that they are working within the same set of principles. This ESG framework is intended to be flexible so it can be applicable to organizations of all sizes, sectors and jurisdictions, while reflecting changes in emphasis that can emerge within ESG more widely. This document allows for regional and economic differences, including flexibility for organizations in developing regions and those with limited resources. For example, the framework is designed to be accessible to SMEs and organizations in developed and developing countries, whether they are required to report on ESG or are engaging in ESG on a voluntary basis.

The document offers incremental pathways for organizations with limited regulatory oversight or technical capacity, enabling all organizations to engage in ESG practices.

An ESG strategy and implementation are intended to propel sustainability. Pursuing this document's ESG principles can add significant value to an organization in terms of:

— **raising capital**: ESG can be a requirement/rating criterion;

— **regulatory relationships**: "green" labelling and marketing are already or in the process of being regulated and climate-related disclosure requirements for many organizations are likely to increase;

— **customers**: increasingly customers can buy or be retained on the basis of ESG "values";

— **personnel**: drawn to organizations with a pro-ESG culture;

— **shareholders**: potential improved returns, future proofing, reducing reputational risk;

— **resource utilization**: improving the circularity of finite resources;

— **climate mitigation and adaptation actions**: promoting climate transition and enhancing resilience.

The aim of this document is to assist as wide a group of interested parties as possible and to help organizations of all types and sizes to start, deepen or mature their ESG journey in a clear, accessible and straightforward manner. The ESG framework is intended to be complementary to and interoperable with existing voluntary and regulatory reporting frameworks to facilitate global harmonization and alignment on ESG principles and approaches. The ESG framework (see Figure 1) draws on relevant existing International Standards, without rewriting them, to bring together trusted materials in an overarching structure of principles and cross-cutting themes supported by key performance indicators (KPIs).

This document responds directly to the identified needs of interested parties, including businesses, investors, communities, governments and consumers, who in turn need to respond to regulatory requirements. This document is outcome-focused and performance-based, enabling a holistic and measurable approach, facilitating sustainable change.

The principles framework in this document focuses on the non-financial aspects of claims, reporting and disclosure and not solely on accounting practices. Tangibles and intangibles should be integrated within the evaluation of risks and opportunities.

The main components of this document are presented in Figure 1.

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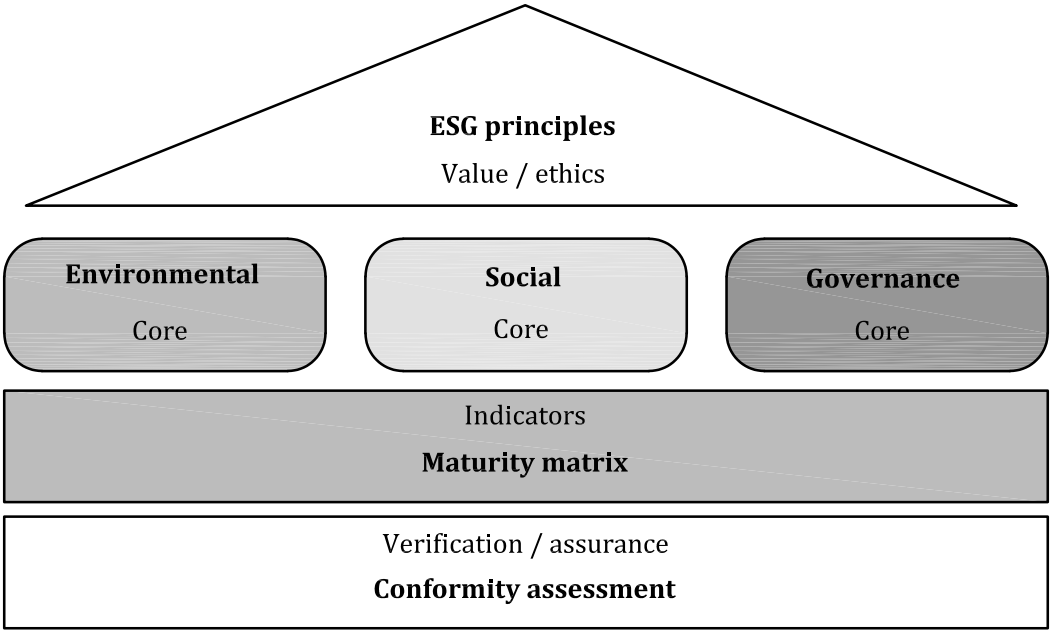

Figure 1 — Main components of the ESG framework

0.5 Maturity

The ESG framework goes beyond reporting, recognizing that positive outcomes will be more effective, productive and sustainable if a supportive ESG culture is embedded throughout the organization. Good governance (G) enables the development of a coherent ESG culture. ESG is not a fixed position with a pass/fail result, but a journey of growth and deepening ESG maturity, integrating continual improvement.

A maturity matrix is included in 7.6, showing the differential outcomes for communities (social) and the environment at four levels of maturity. This document is designed to accommodate organizations just starting their ESG journey, those underway but not sure where to go next and those with some experience but who wish to keep going or push boundaries, becoming leaders in the field.

Maturity should also be considered in terms of how ESG credibility and trust are embedded. ESG claims and reports should be true, fair and not misleading (see 9.2.3). ESG implementation should always follow the intent (i.e. spirit) behind the words and not just the literal reading of any statement, requirement, rule, law or specification.

Greater maturity in ESG should bring increased value and added innovation in tackling environmental and social impacts, both at an organizational level and, externally, to the wider communities and the environment.

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Framework for implementing environmental, social and governance (ESG) principles

1 Scope

This document provides a high-level framework and set of principles to give guidance on how to implement and embed environmental, social and governance (ESG) within the culture of an organization to support management of ESG performance, measurement and reporting, enabling consistency, comparability and reliability of ESG reporting and practices globally.

This document provides guidance that identifies high-level principles and thinking that cover all elements of ESG, thus providing integrated solutions, with measurable key performance indicators (KPIs) to support the evaluation of maturity levels within the organization.

This document is applicable to a wide range of organizations of all types and sizes across the globe including SMEs and organizations in low- and middle-income countries. It is complementary and interoperable with existing voluntary and regulatory reporting frameworks to facilitate global harmonization and alignment on ESG principles and approaches and is not in itself a reporting framework.

2 Normative references

There are no normative references in this document.

3 Terms and definitions

For the purposes of this document, the following terms and definitions apply.

ISO and IEC maintain terminology databases for use in standardization at the following addresses:

— ISO Online browsing platform: available at https://www.iso.org/obp

— IEC Electropedia: available at https://www.electropedia.org/

3.1
sustainability
state of the global system, including environmental, social and economic aspects, in which the needs of the present are met without compromising the ability of future generations to meet their own needs

[SOURCE: ISO Guide 82:2019,[4] 3.1, modified — Note 1 to entry and Note 2 to entry have been deleted.]

3.2
sustainable development
development that meets the needs of the present without compromising the ability of future generations to meet their own needs

[SOURCE: ISO 26000:2010,[5] 2.23, modified — Note 1 to entry has been deleted.]

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3.3
interested party
stakeholder
intended user
person or organization that can affect, be affected by, or perceive itself to be affected by a decision or activity

EXAMPLE Customers, owners, people in an organization, providers, bankers, regulators, unions, partners or society that can include competitors or opposing pressure groups.

[SOURCE: ISO 9000:2015,[6] 3.2.3, modified — "intended user" has been added and Note 1 to entry has been deleted.]

3.4
personnel
individuals in a relationship recognized as a work relationship in national law or practice, or in any contractual relationship that depends on its activity from the organization

[SOURCE: ISO 37301:2021,[7] 3.22]

4 Principles and practices in ESG

4.1 Overarching principles

The following principles are central to its development and should be applied throughout its application, reporting and assessment:

a) **Integrity**: applying commonly shared ethics, utilizing elements of independence, objectivity, openness and transparency in all ESG decision-making and reporting; with effective accountability mechanisms based on sound leadership, systems and controls, including feedback from interested parties.

b) **Outcomes-focused**: identifying, evaluating and managing the direct and indirect, strategic and operational outcomes, as well as the outcomes of environmental and social impacts based on decisions and activities, including intended and unintended consequences on and from the organization.

c) **Equity**: ensuring shared values and a balance of interested parties' interests in as objective, fair and impartial way as possible, bearing in mind long- and short-term risks and opportunities, practicalities such as resource availability, materiality dimensions and the interests of all relevant interested parties, including future generations.

d) **Risks and opportunities**: integrating the identification, understanding and management of risks and opportunities into ESG strategies and operations, including across the value chain and broader impacts on and from the environment and society.

e) **Evidence-based:** identifying and evaluating outcomes as scientifically or analytically as possible, using reliable, verifiable evidence, prioritizing external and internal risks and opportunities and their materiality.

f) **Maturity:** continuous improvement, embedding and updating of good practice to integrate ESG as a core value within the organization with effective risks and opportunities management, measurement and reporting, ensuring that ESG becomes integrated and owned as part of the DNA, core values, drivers and learning, rather than an external one-off, tick-box requirement.

4.2 Risks and opportunities

4.2.1 General

Identifying and understanding risks and opportunities within ESG is fundamental when considering ESG impacts on the organization or by the organization and should be captured by senior management who set the tone for their organization. Once identified and understood, the organization should manage risks and

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opportunities or have processes and procedures in place to handle risks and opportunities that have been determined as significant.

Many risk management experts consider risks as being both positive and negative and therefore base risks and opportunities under the term "risk" (see ISO 31000[8]).

For the purposes of this document and to aid the understanding of risks and opportunities, risks are negative and opportunities are positive (e.g. the risk of losing lives or property in a flood is negative). An opportunity (positive) created by flooding could be to develop new flood defence mechanisms, sell more flood sacks or create more natural flood defences, effectively nurturing habitat recovery.

Risks and opportunities relate to an uncertain event or condition that, if it occurs, can change the effects on one or more factors or impacts of ESG. Opportunities as a type of risk can represent the potential for positive outcomes or benefits.

The uncertainty of risks and opportunities should be identified and/or determined and assessed if they are to contribute as material impacts. The significance and magnitude of the risks and opportunities determines whether further action should be taken. Risk and opportunity assessment in an ESG context can lead to mitigation, adaptation or acceptance of the consequences or potential consequences with no action. Risk and opportunity thresholds vary individually and organizationally, therefore the identification and assessment of risks and opportunities, including the likelihood of something happening, within a given time horizon, can be subjective.

The response to the assessment can be determined by:

— evaluating the assessment;

— dependency on the risks and opportunities appetite of the organization or individuals making the decisions;

— considering and respecting all relevant interested parties' knowledge and understanding of the risks and opportunities through engagement (see 4.4.3);

— considering the inherent characteristics of the system (e.g. organization, process, environment, social systems): systemic attributes;

— adopting a systems-thinking approach to the consequences of the actions taken (or not), i.e. understanding the knock-on effects (e.g. mitigating or adapting to the flood risks in one area creating upstream or downstream catchment effects).

ESG risks and opportunities are determined in the context of:

— ESG factors and their associated impacts;

— materiality (financial materiality and/or impact materiality, inside out/outside in impacts);

— significance and magnitude of each impact;

— whether they are direct or indirect impacts;

— interested parties' views of actual and/or perceived risks and opportunities;

— opportunities and their associated benefits.

Embedding a strategic, risks- and opportunities-based approach to ESG, often alongside sustainable development, within the organization's activities, supports effective and coherent planning in managing negative and positive outcomes in the short, medium and long term.

Risks and opportunities should be considered across the whole organization, throughout the product, service life cycle and value chain, both internally and externally.

Both risks and opportunities and their consequences can be identified from performing either a risk and opportunity or materiality assessment. When risks are identified, decision-makers should treat the direct

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cause, root cause or indirect cause(s). When opportunities are identified, decision-makers should be proactive and look for emerging opportunities. In both cases, this ESG framework is an aid for producing solutions.

4.2.2 Principles and framework

4.2.2.1 Principles

Risk and opportunity principles are based on the creation and protection of value. The characteristics of effective and efficient risk and opportunity management have been identified as having an approach which is:

— **Integrated**: a holistic approach considering the organization's activities in relationship to society and the environment.

— **Structured and comprehensive**: contributes to consistent and comparable results.

— **Customized**: customizable and proportionate to the context of the organization's ESG-related objectives.

— **Inclusive**: appropriate and timely involvement of interested parties, ensuring their views are heard and taken into consideration when developing and implementing ESG-related strategies and actions.

— **Dynamic**: anticipating, detecting, acknowledging and responding to changes in real time and as circumstances dictate, remembering to report significant changes that change the magnitude of material impacts in a timely manner.

And considers:

— **Best available information**: using scientific and credible information where possible, while identifying and communicating assumptions, limitations and uncertainties.

— **Human and cultural factors**: considering behaviour and culture as having a significant influence on risk and opportunity assessment, impacting all levels (e.g. individual, team or group, organizational, societal, cultural) and stages (e.g. identification, assessment, mitigation or response, communication), including those outside the organization and geographical regions.

— **Continual improvement**: using the learning and experience to hone the risk and opportunity evaluation, strategies and implementation of actions.

NOTE See ISO 31000.[8]

4.2.2.2 Framework

4.2.2.2.1 General

ESG adds an additional dimension to risks and opportunities and their management: the organization should identify, assess or evaluate, manage (and report) risks and opportunities posed by the organization to the environment and society, notably to the organization's immediate and potentially widespread communities that can be affected or supported by its activities.

A key aspect of a risk and opportunity management framework is to facilitate engagement and analysis with interested parties, integrating their views and expectations into significant activities, functions and systems thinking, to inform decision-making and drive strategic outcomes.

The effectiveness of managing risks and developing opportunities will depend on the effectiveness of engagement with interested parties. Risk and opportunity management should draw on the differing perspectives of all relevant interested parties. Where the organization is carrying out ESG-related activities and reporting, this should reflect the risks and opportunities, not only to the organization but also to other interested parties that can be affected.

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Adequate resources should be committed by senior management, enabling safe management of harm and the ability to seize suitable opportunities. A robust ESG roadmap should support the decision-maker allocating resources in accordance with the ESG needs.

There are many International Standards to help organizations manage risks and opportunities (see 4.2.4).

The explicitly external-facing perspective in assessment of ESG risks and opportunities requires additional tools to define and evaluate the environments and communities potentially affected (e.g. environmental risk assessment and/or social impact assessment).

Given that much of ESG, especially social impact, can be new to organizations, there is an even greater necessity to work collectively with organizations in the sector. Decision-makers need to evaluate the impacts within sectors and wider interested parties. Firstly, by establishing reliable and credible evidence sources and secondly, by determining how to test and evaluate shared data and information. Innovative organizations will follow the ESG framework to prepare and refine data having new data sets related to KPIs, learning how to reject erroneous data or unsuitable results.

Horizon scanning is important, as regulatory requirements, social expectations and generally accepted norms are likely to continue to evolve and change focus.

Market scanning, trend analysis, predictive modelling and forecasting can also assist in determining the organization's exposure to emerging or foreseeable ESG risks and opportunities.

Aspects such as climate change, biodiversity, human rights, modern-day slavery, equality, diversity and inclusion, associated not only with the organization, but also its value chain and customers (i.e. upstream and downstream), should be evaluated.

Appropriate communications and engagement by organizations with relevant interested parties should empower those interested parties to become active contributors in the creation and protection of value.

4.2.2.2.2 Risk and opportunity framework development

Risk and opportunity framework development is a function of good governance and should be considered in terms of:

— **Leadership and commitment**: top management/governing and oversight bodies, where applicable, should be a dynamic force and proactive, and ensure appropriate resources are made available at every stage and level of the ESG-related risk and opportunity cycle, including communicating in a timely and appropriate manner according to the circumstances.

— **Integration**: understanding the organizational structures, risk culture and context of the organization, and using this understanding to integrate risk and opportunity evaluation and management into every aspect of the organization, including consideration of external environmental and social factors and impacts.

— **Design**: risk and opportunity evaluation, strategies and implementation programmes (including communications and engagement) need to consider all relevant ESG factors and impacts (understanding the context), allocating responsible and accountable individuals and/or teams to manage the workload.

— **Implementation**: developing appropriate plans, policies and procedures, adequately resourced and authorized, based on the decision-making process and the organization's ESG risk appetite, taking into consideration interested parties' views, to identify and implement reinforcement, mitigation, adaption, sustainable and other proactive actions in pursuing objectives.

— **Evaluation**: establishing periodic reviews of the effectiveness of the risk and opportunity framework, while ensuring intervention can be carried out when significant risks and opportunities appear.

— **Improvement**: adapting and implementing lessons learned with new understanding in the fast-evolving ESG and sustainability arena is an important aspect of risk and opportunity creation and protection of value.

NOTE 1 See ISO 31000[8] for further information on risk.

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Risk and opportunity governance involves assuming accountability for the organization's continual risk and opportunity identification, response and communication of the chosen approach to the relevant interested parties as necessary.

To ensure that the organization fulfils its purpose and achieves the intended strategic outcomes, the governing body (or leadership) should:

— build the culture for the organization with respect to how the management of risks and opportunities is to be approached;

— ensure that when the governing body (or leadership) makes decisions, it assesses, treats, monitors and communicates the nature and extent of the risks and opportunities faced;

— oversee the organization's risk and opportunity management activities.

NOTE 2 See ISO 37000[9] for further information on governance.

4.2.3 Risk- and opportunity-based approaches

To ensure optimal risk- and opportunity-based management of ESG, an organization can implement the following process:

a) **Establishing the organization's strategies and priorities**: managing the organization's internal and external ESG risks and opportunities.

b) **Identification of ESG risks and opportunities**: identifying specific ESG risks and opportunities that can affect the organization and its interested parties.

c) **Evaluation of ESG risks and opportunities**: analysing and validating the probability of risks and opportunities arising and assessing their impact on outcomes for the organization over the short, medium and long term, including any impact on all its interested parties.

d) **Treatment of ESG risks and opportunities**: within the organization's risk and opportunity appetite, selecting the appropriate risk and opportunity strategies (accept, adapt, avoid, escalate, innovate, mitigate, monitor, reduce, transfer, etc.) and deploying the necessary tools to effectively address ESG risks and opportunities (artefacts, controls, policies, procedures, etc.).

e) **Monitoring and reporting of ESG risks and opportunities**: organizations should implement systematic and ongoing monitoring of their ESG risks and opportunities; ensuring regular reviews are conducted to monitor their risks and opportunities and identify any that fall outside of the risk and opportunity appetite and tolerance and in these instances, to manage these risks and opportunities so they fall back within risk appetite/model. Regular reports should be presented to the organizations' governing body (or leadership) and, where appropriate, its regulators and other interested parties.

4.2.4 Further information

For more information on risks and opportunities, see ISO 31000,[8] IEC 31010,[10] ISO 31073[11] and IWA 31.[12]

4.3 Accountability and transparency

Accountability and transparency are critical principles of ESG, emphasizing the need to understand external perspectives and shape organizational activities to account for and deliver external social and environmental outcomes, with the engagement and support of external interested parties. Organizations disclose relevant and material information about their operations, value chain, performance and impacts on ESG factors. Transparency and accountability build trust, help to manage reputational risks, and foster investor and other interested parties' confidence. Organizations are encouraged to publish an annual/periodic ESG and/or sustainability report, detailing its ESG initiatives, progress and future goals. Inadequate transparency can pose significant risks to interested parties' trust and organizational reputation. To mitigate or treat risk, organizations should implement clear communication strategies and ensure the accuracy of disclosed information (see 7.7 and 9.2.3.1).

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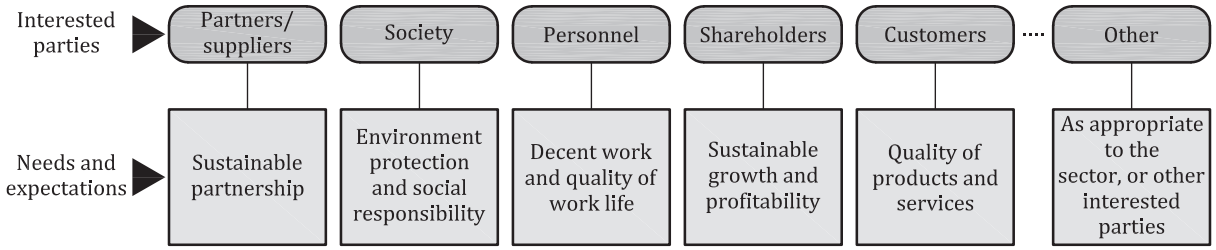
4.4 Identification and engagement of interested parties

4.4.1 General

ESG interested parties are organizations or individuals that have interests in any ESG decision or activity. Interests create relationships, even if the organizations or individuals are unaware of them.

It is therefore important to identify interested parties (see Figure 2) and engage with them in relation to the interests that could actually or potentially be the basis for a claim.

NOTE Here, claim is not the same as a conformity assessment claim, or a claim about financial or legal issues, but rather a claim about the right to be heard (see ISO 26000:2010,[5] 5.3.2).



SOURCE: Adapted from ISO 9004:2018,[13] Figure 2.

Figure 2 — Examples of interested parties and their needs and expectations

4.4.2 Identification of interested parties

The identification of interested parties should ensure that all identified as having interests are representative of the interests being pursued.

When identifying interested parties in relation to ESG-related interests, the following questions should be asked:

— Who might be affected by the decisions or activities, including those in the value chain, remembering that impacts can be direct or indirect, perceived or actual, past, present or future, and, can they be quantified and/or qualitatively assessed?

— How to identify all the relevant interests and who will likely express concerns?

— Are those expressing the concerns invoking a representative voice and are any interests being missed out or disadvantaged or excluded inappropriately?

— Who has been involved when similar concerns needed addressing?

— Who can help address specific impacts?

— Who can affect the organization's ability to act responsibly?

— What are the legal requirements and other requirements?

4.4.3 Engagement with interested parties

Engagement with relevant interested parties is a critical element of ESG-related issues. It leads to increased understanding and relationships with those interested parties who can add a perspective otherwise overlooked or missed which can result in a strengthened solution.

Relevance, in terms of interested parties, should be carefully considered, transparent and appropriate to the ESG-related impacts.

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Where interested parties are being represented indirectly (e.g. by other parties such as associations, community leaders, consultants and NGOs), every effort should be taken by the organization to ensure that those representing them should have, wherever possible, the authority, knowledge and understanding to speak or advocate on behalf of the interested parties.

NOTE The representation can provide a balance of representative views.

This engagement should follow a structured, unbiased and transparent process. The engagement process should enable common understanding and seamless communication among the interested parties (e.g. not creating undue complexities in messaging for those who do not or may not have technical expertise).

There are many reasons for an organization to engage with interested parties. The reasons for the use of ESG-related engagement can include:

— increased transparency;

— increased understanding and awareness of the impacts of its decisions and activities on specific interested parties;

— determining best approaches to increase beneficial impacts of the organization's decisions and reducing any negative impacts;

— ensuring claims are perceived to be credible;

— highlighting any conflicts of interests and reconciling conflicts with evidence-based reporting;

— fulfilling legal obligations.

Engagement with interested parties takes many forms and can include one or more of the following depending on the engagement and context of the information required:

— surveys and questionnaires;

— focus groups;

— public consultations;

— panels of interested parties or advisory committees;

— workshops and roundtables;

— partnerships and collaborations;

— interviews and one-on-one meetings;

— public reporting and disclosure.

Consideration should be given when selecting, using and interpreting the engagement methodologies as to whether bias or systematic errors can be introduced. Decision-makers should recognize and appreciate the limitations and advantages of each method used before, during and after the activities are carried out.

Engagement with interested parties is a two-way process. It is important to involve those interested parties that will be implementing changes and those influenced by it. All opinions should be considered. This ensures that impacts are thoroughly identified and assessed in terms of significance and likelihood of their impacts.

Engagement with interested parties should be representative and inclusive to enable a balanced view of ESG and especially social value, for all groups affected by an intervention or activity. The environmental conditions and social well-being for future generations should be taken into consideration. The particular interests of different groups of interested parties can vary but can follow the broad spectrum set out in Figure 2.

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4.5 Materiality

4.5.1 General

Materiality in ESG is the attribute attached to ESG factors and their impacts that enables an organization to identify and prioritize impacts (positive or negative, or both), develop strategies and action plans, and implement change, while allowing the organization and other interested parties, including intended users, to make decisions and judgements on the organization, its products and/or services.

NOTE 1 The selection and prioritization of materiality impacts can influence investors and other decisions of interested parties.

NOTE 2 Dependencies: reliance on natural resources (e.g. water, precious metals) and people (e.g. personnel, communities) can influence investors or be included in regulations and frameworks. Dependencies can also include operating in regions where there is rule of law and a stable economy, which can cause impacts through disruptions and reduced resilience.

NOTE 3 Not all interested parties can assert influence on the organization and therefore the organization itself considers how it can reduce/minimize or eliminate the impacts on others.

The materiality assessment identifies what impacts are significant to an organization, both internally and externally (e.g. within the organization and for intended users and interested parties). Most reporting and disclosure requirements expect an organization to determine what matters on a consistent and transparent basis and then act proportionally.

Materiality assessments provide a systematic approach to identifying and assessing relevant impacts and the significance of those impacts on the organization, environment and/or for communities and society (see 4.5.2).

Materiality should be based on up-to-date data and information relevant to the ESG impacts. The credibility of the materiality assessment and claim will have a correlation with the quality, accuracy, timeliness and validity of the data and information used. Therefore, it is important to obtain robust data and information and provide the traceability and transparency of that data and information considered from the outset of the materiality process and to review it to ensure that it remains current. Not only does this provide credibility and confidence in the materiality process, it also ensures that changes in materiality are identified and handled appropriately during and between reporting cycles.

Materiality impacts can occur at any time (e.g. floods, wildfires, employment disputes) and organizations should have processes and procedures for regularly reviewing and assessing ESG impacts to determine their significance to the organization, supply chain or other relevant interested parties. Once identified, actions should be considered and taken as necessary (see 4.5.3).

Materiality may be entity-, sector- or interested party-specific. The organization should identify all impacts initially and avoid inappropriate selectivity during the materiality assessment (e.g. avoiding a significant impact that interested parties are concerned about but the organization would rather ignore).

Critical and significant impacts may be perceived or actual, direct or indirect and historic, current or in the future.

4.5.2 Key concepts of materiality

There are two main concepts in determining materiality:

a) Making a distinction between the impact of the organization externally ("inside out") and the impacts on the organization from the outside ("outside in"). These include environmental, social and governance impacts in both directions. "Inside out" and "outside in" effects are typically broader than those set out in b) below as they are typically considered from a sustainability perspective, including economic factors, e.g. whether the activities of an organization are or can affect the well-being of relevant interested parties (including planet, environment and society); these include outcomes affected indirectly through the organization's impacts on the environment and society.

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