



COMMITTEE OF SPONSORING
ORGANIZATIONS OF THE TREADWAY COMMISSION

Applying Enterprise Risk Management to Environmental, Social and Governance (ESG) Risks

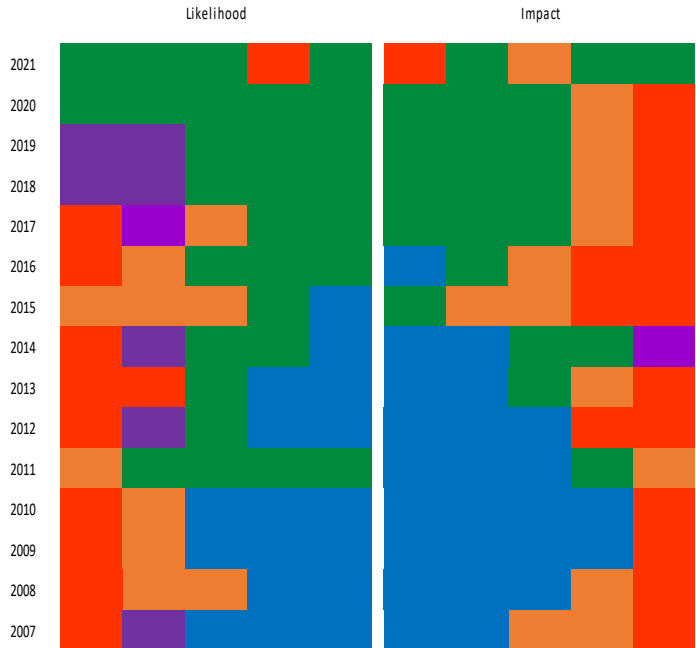
Paul Sobel
COSO Chairman



COSO's Mission & Vision

COSO's **Mission** is “To help organizations improve performance by developing thought leadership that enhances internal control, risk management, governance and fraud deterrence.”

COSO's **Vision** is “To be globally recognized as an authority on internal controls and a thought leader on risk management, governance and fraud deterrence.”



Shifting Risk Landscape

Top 10 Global Risk – 2021

Likelihood		Impact	
1	Extreme weather	1	Infectious diseases
2	Climate action failure	2	Climate action failure
3	Human-made environmental disasters	3	Weapons of mass destruction
4	Infectious diseases	4	Biodiversity Loss
5	Biodiversity Loss	5	Natural resource crises
6	Digital power concentration	6	Human environmental damage
7	Digital inequality	7	Livelihood crises
8	Interstate relations fracture	8	Extreme weather
9	Cybersecurity failure	9	Debt crises
10	Livelihood crises	10	IT infrastructure breakdown

Economic Environmental Geopolitical
Societal Technological

Source: World Economic Forum 2007-2021, *Global Risk Reports*.

**Megatrends
and
disruption**

**Disrupting the global risk
landscape and future
growth pathways**

Investors

**Wanting more data on a
company's ESG
performance**

Employees

**Wanting to work for
employers that incorporate
ESG into their purpose**

Customers

**Demanding more
sustainable products and
services**

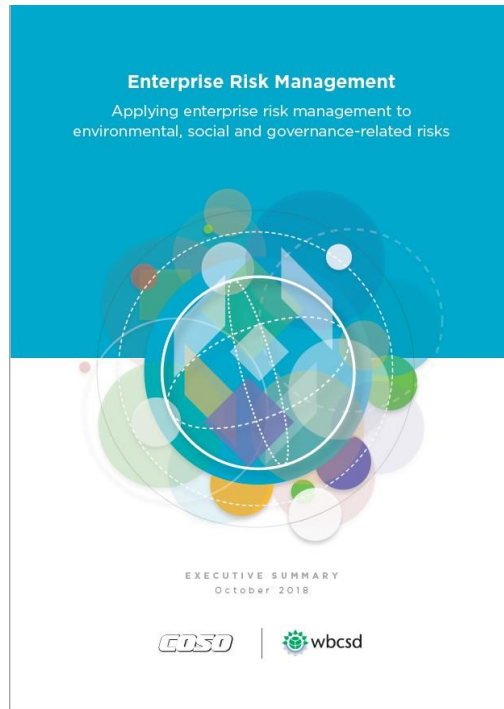
Regulators

**Increasing regulation
around ESG issues**

**NGOs and
Communities**

**Increasing pressure for
radical transparency**

COSO/WBCSD Joint Guidance on ESG Risks



Governance and Culture for ESG-related Risks



Governance establishes the manner in which decisions are made and how these decisions are executed.

Applying ERM to ESG-related risks includes raising the board and executive management's awareness of ESG-related risks – supporting a culture of collaboration among those responsible for risk management of ESG issues.

Strategy and Objective-setting for ESG-related Risks



- 1  GOVERNANCE & CULTURE FOR ESG-RELATED RISKS
- 2  STRATEGY & OBJECTIVE-SETTING FOR ESG-RELATED RISKS
- 3  PERFORMANCE FOR ESG-RELATED RISKS
 - a IDENTIFIES RISK
 - b ASSESSES & PRIORITIZES RISKS
 - c IMPLEMENTS RISK RESPONSES
- 4  REVIEW & REVISION FOR ESG-RELATED RISKS
- 5  INFORMATION, COMMUNICATION & REPORTING FOR ESG-RELATED RISKS

All entities have impacts and dependencies on nature and society. Therefore, a strong understanding of the business context, strategy and objectives anchors all ERM activities and the effective management of risks.

Applying ERM to ESG-related risks includes examining the value creation process to understand these impacts and dependencies in the short, medium and long term.

Performance for ESG-related Risks

Identifies Risk



Organizations use multiple approaches for identifying ESG-related risks: megatrend analysis, SWOT analysis, impacts and dependency mapping, stakeholder engagement and ESG materiality assessments. These tools can help identify and express ESG issues in terms of how a risk threatens achievement of an entity's strategy and business objectives.

Performance for ESG-related Risks

Assess & Prioritize Risks



Companies have limited resources, so they cannot respond equally to all risks identified across the entity.

Applying ERM to ESG-related risks includes assessing risk severity that allows management to prioritize risks. Leveraging ESG subject-matter expertise is critical to ensure emerging or longer-term ESG-related risks are not ignored or discounted, but instead assessed and prioritized appropriately.

Performance for ESG-related Risks

Implements Risk Responses



How an entity responds to identified risks will ultimately determine how effectively the entity preserves or creates value over the long term.

Adopting a range of innovative and collaborative approaches that consider the source of a risk as well as the cost and benefits of each approach supports the success of these responses.

Review & Revision for ESG-related Risks



- 1  GOVERNANCE & CULTURE FOR ESG-RELATED RISKS
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Review and revision of ERM activities are critical to evaluating their effectiveness and modifying approaches as needed.

Organizations can develop specific indicators to alert management of changes that need to be reflected in risk identification, assessment and response.

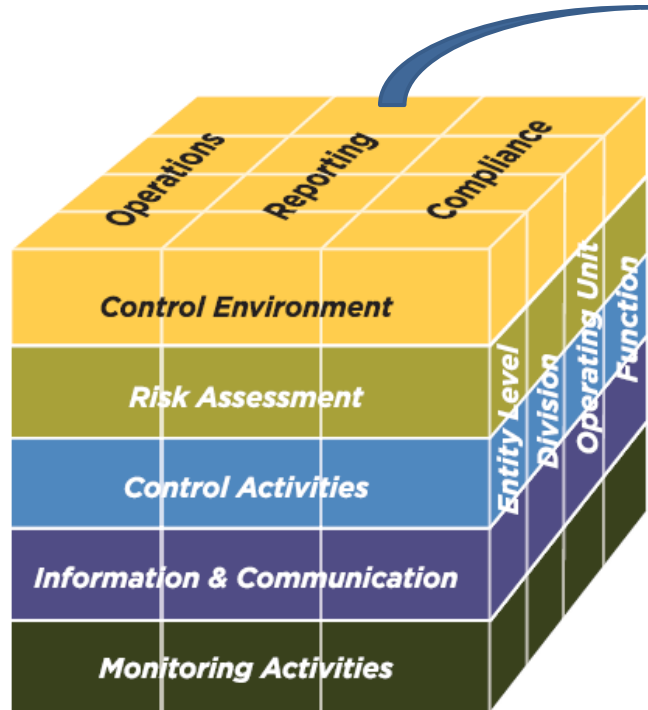
Information, Communication & Reporting for ESG-related Risks



- 1  GOVERNANCE & CULTURE FOR ESG-RELATED RISKS
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Applying ERM to ESG-related risks includes consulting with risk owners to identify the most appropriate information to be communicated and reported internally and externally to support risk-informed decision-making.

ESG and the Internal Control Framework



Reporting on Internal Control Over:

- External financial reporting
- Internal financial reporting
- External non-financial reporting
- Internal non-financial reporting



Summary

- ESG represents a key area of risk for most organizations
- COSO's ERM framework can be leveraged to manage those risks
- The joint COSO/WBCSD guidance offers an excellent resource guide on how to leverage COSO ERM to manage ESG risks
- The COSO Internal Control – Integrated Framework's components and principles apply to ESG reporting



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Thank You



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