



# DEFINITIONS

## WHAT DO WE MEAN BY SUSTAINABILITY AND SUSTAINABILITY RISKS?

For the sake of clarity in this publication, we outline here what we mean by some key terms, since sustainability and ESG tend to be used inter-changeably. Ideally, the definition will be principles-based and not try to cover every eventuality.

**Sustainability:** encouraging businesses to frame decisions in terms of financial, environmental (including climate, biodiversity), social and human effects ensuring resilience and long-term value creation. – FERMA Sustainability Committee<sup>1</sup>

**Sustainability risk:** Uncertain social or environmental event or condition that, if it occurs, can cause significant negative impact on the company. It also includes the opportunity that may be available to an organisation because of changing social or environmental factors (wbcsd and COSO).

**ESG-related risks:** Environmental, social and governance risks and/or opportunities that may impact an entity are commonly referred to as sustainability, non-financial or extra-financial risks. (wbcsd and COSO) .

As a broad term, sustainability has different implications for different companies. The risks associated with it will relate to the ESG practices of the business, its strategy and the sector and territories in which it operates. By saying that, we consider that ‘ESG’ belongs to sustainability—i.e., that sustainability is the broader concept. To illustrate what we consider as ESG, we provide the following classification agreed by the FERMA Sustainability Committee:

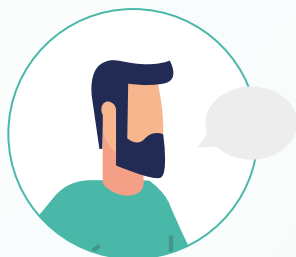
### FERMA classification of ESG<sup>2</sup>:



<sup>1</sup> Inspired by the European Commission's definition of sustainability in the consultation on *Sustainable Corporate Governance*: Sustainability encompasses encouraging businesses to frame decisions in terms of environmental (including climate, biodiversity), social, and human impact for the long-term, rather than on short-term gains

<sup>2</sup> Diagram adapted from MSCI what is ESG? <https://www.msci.com/what-is-esg>

## Risk managers on sustainability



For me, it is actually the umbrella for most things you do as a business...it is not limited to environment.

– Risk manager, Sweden

We have three elements when we talk about it. There is the financial sustainability element of it, of course. It is a huge part. Then there is the environmental one, which we have captured for many years in that we always ask in risk management for the non-financial impact and risks. We ask everyone in the company, independent from the financial threshold for this calculation. Then it is also in the social part and there we talk about health and safety, human rights, supply chain topics.

– Risk manager, Sweden

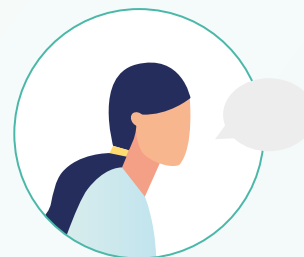


Perhaps sustainability has always existed in companies as financial sustainability in order to avoid bankruptcy? Nowadays the meaning is around ESG, but the aim remains to survive, thus adapt and transform the company to a rapidly changing context. Whatever the domain is, the role of ERM is to anticipate and avoid negative impacts, and set up a risk culture that is key to enable all stakeholders' contribution to the aim of collective goals.

– Risk manager, France

It's part of responsibility in our company. It is better to understand that it is part of being a responsible person in a responsible company. This includes the compliance-based requirements and then it goes into 'how' you operate.

– Risk manager, Finland



As a risk manager, sustainability is really an important issue. The first point I want to mention is that when you are a risk manager, you need to mitigate risk, and you need to make your best effort to avoid a claim and business interruption... the second point is that today there is a green wave, which is coming in our companies.

And, we want our businesses to be low-carbon impact, so we want to reduce the impact of our activities. Here the risk manager can help the company to find and evaluate the risk associated with that.

– Risk manager, France

Sustainability is a target to be considered. These are strategic targets, like business targets. I consider it as something that could be impacted by a risk. So we have to manage ESG like other topics that are important to the continuity of business.

– Risk manager, Italy

Sustainability is everything that allows us to create value, not just taking into consideration actual needs, but also taking into our needs into the future. It is not just economic and financial, but we also take into account additional aspects, such as environmental, social, and all the possible ways of improving wellbeing.

– Risk manager, Italy