Sustainability reporting guidance for the oil and gas industry

March 2020

Module 2
Governance and Business Ethics

Advancing environmental and social performance across oil and gas

www.ipieca.org
Legal note

This voluntary guidance document (Guidance) is designed to serve as a resource for interested companies; the indicators and information referenced in this work do not establish an industry standard as to the nature of a company’s public reporting practice. The recommendations in this Guidance on how to report on a particular issue are addressed to those companies who choose to voluntarily include that issue in their sustainability reporting and terms such as ‘the reporting company should ... ’ are to be understood in this sense.

The terms and definitions used in this document are not necessarily the same as terms and definitions used in various statutes, rules, codes or other legal documents. Users and readers of this document should refer to relevant legal sources or consult their own legal counsel for explanations as to how the terms and definitions used in this document may differ from the legal terms and definitions (e.g., spills and hazardous wastes) used in their particular areas of operation. Anything in this document regarding voluntary reporting of indicators is not intended to imply that any of the indicators are required to be reported under any national, local or other law. Furthermore, it is not intended to serve as a substitute for applicable public reporting requirements and regulations. Any company reporter that has a question as to whether or not reports that follow the information contained herein will meet any specific reporting requirements applicable to their particular operations should consult with the reporter’s own legal counsel.

A cautionary statement regarding performance indicators

Aggregated, company-level, non-financial performance data, developed using the indicators in this Guidance, can be informative for comparing relative performance among different companies, such as benchmarking safety incident statistics across the oil and gas industry. A company can use such comparisons to evaluate its own performance relative to peers, and identify areas for potential improvement. However, limitations to comparability exist due to various factors including the different methods companies may use to measure, normalize and report specific indicators. Although efforts have been made throughout the Guidance to improve comparability, report users are advised to exercise caution when using data from sustainability reports to compare performance. For example, comparing two companies that report greenhouse gas emissions on a different basis (e.g. equity share vs. operated) could be misleading regarding actual performance. Specific indicators from similar operations can sometimes be usefully compared to help performance management. However, the company-level, aggregate data typically reported in sustainability reports may not provide adequate comparability for some metrics. Where this Guidance mentions comparability, it is not intended to imply that data in sustainability reports, and therefore companies’ performance, are always directly comparable.

Furthermore and separate from company sustainability reporting, industry associations and others may choose to implement specific performance benchmarking studies, which may build upon the indicators in this Guidance.
Structure of the guidance

The Guidance in its entirety is made up of the following inter-connected modules. All modules, except for ‘Reporting process’ are accompanied by performance indicators.

- **Reporting process (REP)**
- **Governance and business ethics (GOV)**
- **Climate change and energy (CCE)**
- **Environment (ENV)**
- **Safety, health and security (SHS)**
- **Social (SOC)**

The REP module provides good practice guidance on how and what to report. The guidance covers important processes such as stakeholder engagement, determining materiality, developing narrative and reporting indicators.

Each of the other five modules introduces a set of related sustainability issues and provide guidance on developing your narrative supported by relevant industry specific indicators on these issues. In general terms, depending on materiality, your report’s narrative should provide an overview of:

- how you manage each issue;
- your overall approach to the issue and any policies you have in place;
- your management of risk and opportunity;
- key initiatives and actions;
- how you measure and monitor the issue; and
- how you review and learn in pursuit of continuous improvement.

**INTRODUCTION**

Brings all issues together within the scope of the module. Provides useful context for all reporters, but especially first-time reporters. Includes useful facts and figures for mature reporters.

**KEY POINTS TO ADDRESS**

Provides recommendations on content you may choose to include in your narrative that conveys your company’s values and stance on these issues, and how you address impacts and contribute to sustainability.

**INDICATORS**

Supports your narrative by providing quantitative and qualitative information, including your approach and performance. Sets out why each indicator matters, its scope, and reporting elements — and aims to drive consistent reporting across the industry.

**REFERENCES AND LINKS**

Provides information on useful references and online sources.
KEY POINTS TO ADDRESS

The key points listed in this section have been developed through input from external stakeholders and industry subject matter experts. The overarching points are intended to inform your narrative, supported by the data and facts provided by the indicators that follow. Unlike indicators that primarily aim to establish consistency of reporting, these points provide an opportunity for your narrative to convey your company’s individual characteristics and unique culture that underpins how you address impacts and contribute to sustainability.

INDICATORS

To support your narrative, informed by the key points above, you should report on any or all of the suggested indicators, based on your material issues. Each indicator is defined by its Scope and its core and additional Elements, supported by any specific definitions of terms. A set of general Guidance definitions are provided in the Glossary.

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Website and Supporting Materials (including the Glossary)

All modules of the Guidance can be downloaded from our website: www.sustainability-reporting.org. In addition to module downloads, the website also contains supporting materials. This includes the Glossary for the Guidance, which helps define many of the common terms used throughout all of the modules. In addition a useful list of Measurement Units and Conversion Factors is also available as a download.
Introduction

GOVERNANCE AND MANAGEMENT

Interest from stakeholders on the impact that business has on society and the environment continues to intensify. This is partly due to the breakdown in corporate governance on certain occasions, with consequences that can threaten a company’s resilience or its license to operate. This breakdown, caused by legal violations, operational negligence, corruption, or the failure to follow acceptable standards of corporate behaviour, can have swift, dramatic consequences for a company’s reputation or financial stability. These consequences do not just affect employees and shareholders, but communities, families, suppliers and customers.

As a result, some stakeholders, particularly Non-governmental Organizations (NGOs), are pressing the oil and gas industry to disclose more detailed information about how they handle sustainability issues. They are looking for assurance that the industry is systematically managing challenges that relate to safety, security, the environment, climate change, ethical behaviour and human rights.

Equally, investors, on account of their fiduciary responsibilities, pay close attention to the way in which businesses conduct their activities to ensure that financial and non-financial risks and opportunities are properly managed. This can include a wide range of traditional and emerging non-financial topics, from health and safety, to cyber security. As a result, investors are increasingly asking companies to provide governance information to help them make their financial decisions and generate sustainable, long-term returns. And the industry is responding with a growing number of companies now reporting in more detail on environmental, social and governance (ESG) issues and the policies and procedures they use to manage them. In particular, investors are looking for more forward-looking disclosures that demonstrate board members and senior management are taking a long-term strategic view of their business resilience, risks and opportunities and addressing changing societal expectations.

This Guidance encourages you to describe your governance systems, with which your board and executives address critical ESG issues and enterprise-level risks, such as climate change, safety and human rights. Your report can also set out how all levels within your company, from management to frontline staff, follow your principles, codes of conduct and systems to manage risks and opportunities. You may also follow specific codes set out by host governments that follow, for example, the 2015 G2O / OECD Principles on corporate governance [1].

Strong governance is supported by enterprise-wide management systems that document how you assess and control risks, impacts and threats while constantly seeking opportunities to be more sustainable, effective and successful. The system sets out consistent expectations for its operations when addressing environment, security, safety, health or social risks and opportunities. Examples of issues addressed could include major safety incidents, impacts on local communities,
or conservation of freshwater and biodiversity resources in developing countries. Separate management systems may address specific topics such as the environment, or topics may be integrated under a common operating management system (OMS, see example).

BUSINESS ETHICS

This module also addresses business ethical conduct processes, which are generally included in a company’s high-level governance approach, principles and values, including any mission or vision statements or a company’s constitution. The reporting guidance and indicators in this module will help you describe your approach to business ethics, including your anti-corruption and business practices that provide the principles, codes and rules to be followed by management, employees and suppliers at every level.

In addition to being illegal in most countries, the bribery of private or public persons to obtain business advantage can distort international competition and negatively affect economic and political progress. UN, OECD, EU and other international conventions against corruption have been widely endorsed. At the national level, many countries have anti-corruption measures, which include provisions often derived from the international conventions. However, although similar in intent, the conventions and national legislation can vary considerably in terms of scope and obligations.

While legislation tackles corruption, there are practices that it does not always address clearly, including facilitation payments, donations and gifts. Companies therefore commonly establish their own business ethics policies supported by codes of conduct or integrity programmes which you can highlight in your sustainability reporting.
Transparency is an important part of demonstrating ethical practice, particularly for revenue payments to host governments, advocacy or lobbying. Oil and gas companies contribute large sums of money to the economies of host governments. However, a lack of transparency can mask how that wealth is distributed, making it hard to see how revenues benefit a country and its communities — an effect that contributes to what is known as the ‘resource curse’. Revenue transparency gives your company a way to disclose information about revenue from your activities in resource-rich countries. The best-known effort to promote and standardize revenue transparency is the Extractive Industries Transparency Initiative (EITI) [3], under which:

- companies within a country report on their significant payments to the host government;
- the host government reports what it receives; and
- the host government issues a public report on company payments and government revenues.

Business can have an influence through their participation in public policy debates and legislative developments. Engagement of this sort, either directly or through trade associations, is both legitimate and necessary. Transparency regarding a company’s political engagement and financial contributions (when permitted) is an important part of maintaining trust with many stakeholders. It is good practice to discuss your position on advocacy and lobbying in your report, including your position on particular issues.
Key points to address

A. The composition of your board, how you nominate and appoint directors, how your board functions, how you address diversity and inclusion, how often it meets and whether specific members are associated with sustainability issues or are members of a related sub-committee, which may include independent advisers.

B. The processes used to inform your board on sustainability issues and how it oversees the associated risks and opportunities in relation to resilience, strategy, major expenditures, portfolio changes and significant commitments. You should include whether your board has set specific sustainability targets and whether remuneration is linked to sustainability performance.

C. Reference any corporate governance codes that you follow.

D. Governance and management of sustainability issues when engaged in business partnerships including joint ventures, whether operated by the company or operated by others (see guidance on Joint venture reporting in Module 1 Reporting process).

E. Your organizational structure and the roles of your most senior executives in assessing and managing sustainability issues, including engagement with stakeholders and how you integrate sustainability considerations into your decision making. This should also include information on your principles and values, including how you develop and communicate any documented codes of conduct throughout your organization, including contractors and suppliers.

F. The status, implementation and effectiveness of your management systems. In addition to established financial systems of internal control, management systems typically apply to all non-financial aspects. These systems apply an integrated approach to managing operational activities that have the potential to affect people or the environment.

G. Alignment or adoption of established industry and / or national / international management system frameworks, such as the International Organization for Standardization (ISO) [4] management system standards on risk, health and safety, environment, quality, energy and social responsibility.

H. For business ethics and transparency:
   i. How you address ethics and transparency through governance, policies and systems of internal control to promote robust standards of business conduct throughout the organisation.
   ii. Your stance on corruption in relation to your operations, including suppliers, contractors and any other business relationships. Provide supporting information on your anti-corruption policies and how you make sure they are implemented and monitored.
   iii. The importance of promoting revenue transparency in the countries / regions where you operate and provide EITI information if applicable.
   iv. Your approach to advocacy and lobbying on sustainability issues, including your views on public policy. Your participation in trade associations and lobbying groups.

To support your narrative, informed by these key points, you should report on any or all of the following indicators, based on your material issues.
GOV-1
Governance approach

WHY THIS MATTERS
Corporate governance defines the relationship between stakeholders, management and the board of directors of a company. Good governance provides direction on how the company will achieve its goals, control risk and benefit its stakeholders, including workers, suppliers, local communities and the natural environment. This indicator provides information on your organization’s structures, policies and codes that provide governance over all sustainability-related aspects of your company’s activities.

SCOPE
You should describe key elements of your governance approach, including:

- the selection and appointment of the senior individuals, such as board members and senior executives who are accountable for decisions on sustainability-related issues;
- a transparent description of the roles of senior bodies with responsibility for sustainability issues. This should include a description of how they operate and engage your shareholders, the workforce and external stakeholders;
- a description of how your workforce carries out activities in accordance with your policies and procedures, in an ethical and safe manner; and
- how your leadership has oversight of the day-to-day and long-term actions and operations, with sufficient due diligence and monitoring systems in place to provide assurance that your governance is effective.

This indicator is intended to describe your generic approach to high-level governance of sustainability-related matters. In other parts of your report, you can include relevant details on governance where appropriate to specific sustainability issues. The Climate change and energy module recommends, the Guidance recommends inclusion of additional details about climate-related governance and management approach.

Where appropriate, you should provide information regarding your governance of entities such as non-operated joint ventures.

It should be noted that you may choose to use your statutory financial filings as your primary vehicle to report on this indicator and the reporting elements below. However, it is good practice to provide an overview of this information in your sustainability report, together with clear references or links to those disclosures.
REPORTING ELEMENTS

**CORE**

**C1** Describe your governance architecture, including the role of the board, board committees, board diversity, executives, managers, the workforce and stakeholders.

**C2** Describe your code of conduct, values and principles and how they relate to sustainability.

**C3** Describe the way in which your board reviews sustainability issues, including risks and opportunities, supported by examples of their work in action.

**C4** Provide an overview of, or list, your corporate policies that address sustainability issues.

**C5** Set out how your board and executives monitor strategic performance and goals.

**ADDITIONAL**

**A1** Describe the composition of your board and executive team, including selection processes, areas of expertise, diversity and length of terms.

**A2** Set out how you manage relationships with partners, including operated and non-operated joint ventures, contractors and suppliers.

**A3** Describe how you utilise internal audits and self-assessment processes that are designed to assure the implementation of systems of internal control.

**A4** Outline your assurance processes, including by third parties, and subsequent review by your management and board as they relate to sustainability reporting and other disclosures that cover sustainability issues.

**A5** Provide details of how you take non-financial performance and targets into account within executive and / or employee remuneration.

**A6** Outline your training and cultural awareness programmes for board and executive management related to sustainability issues.

**A7** Describe training and other processes that inform your workforce about your code of conduct requirements or equivalent rules related to business ethics and behaviour.
GOV-2
Management systems

WHY THIS MATTERS
Management systems document a consistent set of requirements, processes and practices required by a company’s assets and workforce to operate its business activities. The system continuously improves to reflect the accumulated knowledge, learning and experience of a company’s human capital. This indicator provides information on the systems your company has in place, including standards, procedures and expectations that demonstrate that you effectively manage your activities with regard to sustainability issues, impacts, risks and opportunities.

SCOPE
You should describe your management system approach, covering a broad range of risks, impacts or threats, including those associated with:

• ethics and compliance;
• human rights;
• occupational health and safety;
• human capital / resources;
• environmental and social responsibility;
• climate change;
• process safety;
• quality, including product stewardship; and
• security, including cyber security.

Reported details may include:

• key elements of your system;
• accountability and resources for its delivery;
• areas of operation, activities and issues the system covers;
• risk assessment, mitigation and management processes;
• processes for achieving continuous improvement, including planning, execution, measurement, benchmarking, training and performance review; and
• approaches to meeting compliance with applicable external requirements, standards or guidelines.

Where appropriate, you should provide information on how your management system applies to entities such as non-operated joint ventures and contracted operations.

Where appropriate, you can refer to and discuss specific aspects of your management system in other sections of your report, for example, when discussing management of safety risks or environmental impacts.
You can include specific examples or case studies to demonstrate how your management system is used. For example, you might explain how your management system holds managers accountable for assessing environmental and social impacts and then communicating any mitigation plans with local communities and stakeholders before starting major projects in new locations.

If relevant, you should explain how you have aligned your management systems with international standards, frameworks or guidance, such as the ISO standards [4], the International Finance Corporation (IFC) Performance Standards [5], or management system recommended practices from IPIECA, IOGP [2] or API [6].

**REPORTING ELEMENTS**

**CORE**

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>C1</strong></td>
<td>Describe the structure and scope of your management systems related to sustainability issues, including ethics and compliance (including the arrangements for non-operated joint ventures).</td>
</tr>
<tr>
<td><strong>C2</strong></td>
<td>Discuss how your system helps you assess and address impacts, risks and opportunities and develop actions to mitigate negative and foster positive consequences.</td>
</tr>
<tr>
<td><strong>C3</strong></td>
<td>Describe your company-wide standards that set performance requirements for assets, including internal standards or external international / national standards that you follow.</td>
</tr>
<tr>
<td><strong>C4</strong></td>
<td>Describe how your leadership team supports your system at all levels, including how they demonstrate their commitment and how you foster a strong, positive culture throughout the organization.</td>
</tr>
</tbody>
</table>

**ADDITIONAL**

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td><strong>A1</strong></td>
<td>Set out how you integrate continuous improvement within your management system.</td>
</tr>
<tr>
<td><strong>A2</strong></td>
<td>Describe the processes and tools you have in place to monitor, verify, validate and record the performance of your management system, including any external assurance and validation.</td>
</tr>
<tr>
<td><strong>A3</strong></td>
<td>Outline your relevant management system training programmes and activities.</td>
</tr>
<tr>
<td><strong>A4</strong></td>
<td>Discuss how the management system helps you engage with external stakeholders, including customers.</td>
</tr>
<tr>
<td><strong>A5</strong></td>
<td>Describe how the management system helps to improve asset design and integrity, including process safety and reduced environmental impact.</td>
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</tbody>
</table>
GOV-3
Preventing corruption

WHY THIS MATTERS
Prevention of bribery and corruption is an essential value for all employees and your business partners, including suppliers, contractors and other intermediaries, particularly for those representing your company when meeting government officials. This indicator provides an overview of your controls and other processes to manage employee and business partner compliance with your anti-bribery / anti-corruption policies and applicable laws.

SCOPE
The description of your approach to preventing corruption, including the giving or receiving of bribes, should extend to all level of employees in your company and to your business partners, including suppliers and contractors. You should refer to mechanisms and initiatives that promote your anti-corruption policies and programmes, including resources for raising awareness with employees and business partners.

The indicator can include descriptions of mechanisms for:

- reporting suspected violations, such as through a company hotline (see SOC-8 in Module 6 Social, referring to non-retaliation against ‘whistle-blowing’, supervisory reviews, and employee and third-party tip-offs;
- communication and action taken to encourage business partners to implement anti-corruption programmes;
- processes to monitor compliance with your anti-corruption policies and / or compliance such as codes of conduct or contractual obligations; and
- detecting, investigating and preventing bribery and corruption, for example, through internal controls, due diligence procedures and audits.

You may also report on the nature and content of anti-bribery and anti-corruption training programmes that you offer. For employees, this can include examples of the relevance and extent of training to specific types of work where management and staff are involved with government representatives or negotiating sales or purchases. The discussion can also be extended to awareness and training of contractors, suppliers and other business partners.

Your reporting can be supported by local case studies or examples to illustrate how you have implemented anti-corruption policies, communication and actions with your workforce or your business partners.
REPORTING ELEMENTS

CORE

C1 Describe your governance and management approach, policies, codes of conduct and internal controls, related to prevention of bribery and corruption.

C2 Describe your employee awareness and training programmes.

C3 Discuss how your anti-corruption policies and due diligence procedures apply to your business partners, including suppliers and contractors.

C4 Outline your processes for reporting, review and follow-up of suspected non-compliances.

ADDITIONAL

A1 Describe the scope and content of your anti-corruption awareness, training or other programmes for contractors, suppliers or other business partners.

A2 Describe your participation and level of involvement in voluntary initiatives or international conventions related to bribery and corruption.

A3 Discuss the effectiveness of your policies and controls including remedial or enforcement measures introduced in response to corruption affecting your company or others.

A4 Discuss the inclusion of anti-corruption clauses, or specific language, in contracts with business partners.
GOV-4

Transparency of payments to host governments

WHY THIS MATTERS

Revenue transparency helps stakeholders hold governments and public authorities to account for the way they use the payments received through taxes and other agreements arising from oil and gas activities.

SCOPE

You should describe the policies and programmes you use to promote and achieve transparency of payments to host governments, particularly for countries where revenue transparency issues may be of particular concern. This should include:

• your participation in transparency initiatives, such as the EITI [3];

• the scope of your compliance as it applies to national and regional reporting mandates on publication of payments, such as those being implemented in the USA and European Union; and

• your adoption of any other standards or practices on transparency of payments.

When discussing EITI, you could also list the EITI-implementing countries where you have upstream operations and are reporting payments. In addition, you may include links to any EITI or other public reports that meet legal or other requirements for disclosure of payments to governments.

You may report on payment disclosures in response to government policy (or EITI commitments) including disclosure of contracts. You may directly disclose the payment data in your reporting or, alternatively, reference external disclosures by organizations that maintain the payment records. You may also report your payments to countries that are not yet subject to reporting mandates. You can provide payment information at different levels of detail.

You can consider reporting payment by type, for example, taxes, royalties, dividends, bonuses, fees, production entitlements, infrastructure development or other payments, or by the amount you have paid to individual government agencies.

You may also describe any additional transparency efforts you have made to inform communities and governments about the quantified economic value your company delivers over and above direct government payment obligations.
## REPORTING ELEMENTS

### CORE

| C1 | Provide a general overview of your policies and programmes on revenue transparency. |
| C2 | Describe the scope of your legal and policy mandates for government revenue reporting with which you are obliged to comply. |
| C3 | Describe your participation in the EITI, where relevant, or any other voluntary reporting initiatives on revenue transparency. |
| C4 | Disclose, or reference sources of disclosure for, your payments to host governments, where reporting is subject to governmental legal or policy mandates, or EITI requirements. |

### ADDITIONAL

| A1 | Report, by country, significant payments that do not have any reporting requirement. |
| A2 | If applicable, include links to any EITI or other public, reports that disclose payments to governments from your company. |
| A3 | Provide information on further transparency, governance or anti-corruption efforts you have made to promote revenue transparency. |
| A4 | Provide case studies that illustrate your transparency efforts with specific governments and communities. |
GOV-5
Public advocacy and lobbying

WHY THIS MATTERS
It is important to show how you are working to maintain stakeholder trust regarding the nature of your potential influence on sustainability issues. It is also helpful to clarify how public policy supports or challenges your strategy and stated positions on sustainability topics. This indicator discloses your approach and position on public advocacy, lobbying and political contributions.

SCOPE
You should describe key elements of your advocacy and lobbying activities related to sustainability issues. These may include:

• your overall stance on transparency and reporting for such activities;
• descriptions of priority public policy issues that you are advocating;
• data and information about money you paid for public advocacy and lobbying purposes.
• an explanation of how you report on political contributions. Where permitted, you can also report on the amount of money paid to:
  › candidates, politicians and political parties; and
  › individuals, organizations and institutions whose prime function is to fund political parties or their candidates.
• discuss your involvement with trade associations, giving examples to highlight the value of these relationships and the extent to which your views align, or differ, with those of the associations.

Since lobbying and political contributions definitions and legislation vary between countries, it can be helpful to explain how such differences apply to your contributions. In some countries, for example, disclosures on certain trade association memberships and fees are mandated by local authorities.

REPORTING ELEMENTS

CORE

C1 Describe your governance approach and management processes on advocacy and lobbying.
C2 Describe your approach to reporting political contributions, where applicable for your company.

ADDITIONAL

A1 Describe the alignment, or differences, between your business strategy and advocacy positions in relation to specific public policy issues or legislative initiatives.
A2 Provide examples to illustrate the way in which you implement your advocacy and lobbying approach in specific countries.
A3 Provide an overview of your participation in trade associations in relation to public policy positions on key sustainability issues such as climate change.
References, links and other sources

References with links

1. G20/OECD, 2015: Principles of Corporate Governance [link]
2. IOGP-IPIECA, 2014: Operating Management System Framework for controlling risk and delivering high performance in the oil and gas industry [link]
4. International Organization for Standardization (ISO) Management system standards [link]; includes the 2018 handbook on The Integrated Use of Management System Standards (IUMSS) [link] and complete list of standards [link]
5. IFC, 2012: Sustainability Framework and Performance Standards [link]
6. API Standards [link]; includes API RP 75, Recommended Practice for Development of a Safety and Environmental Management Program for Offshore Operations and Facilities

Other sources and links

- EU, 1997: Anti-Corruption Convention [link] and 2003 [link]. See also [link]
- EU, 2013: Accounting Directive 2013/34/EU (and amendments) on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings [link]
- OECD Anti-corruption and Integrity Hub [link]
- OECD, 1997: Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, ratified by all OECD countries and eight non-OECD countries, [link]


