Dear COSO and WBCSD,

After studying with interest your preliminary draft on applying enterprise risk management to environmental, social and governance (ESG) issues, we would like to provide with this letter a summary of our comments and observations, complementing the answers we provided to your survey.

First, we are very pleased to see more organizations contributing to help establish and clarify the link between ESG issues and risk factors - we welcome this development path as the correct way to transition from integrated thinking to integrated doing. Already in 2014, as it can be read from this blog by our CEO and co-founder Marjella Alma, we emphasized the importance of using data-driven methodologies to identify risks and opportunities associated to extra-financial issues. At the time, Datamaran had just been founded by a former Global Reporting Initiative (GRI) director, a Wall Street quant specialist and a technology and analytics consultant, with the aim of bringing a high quality, fast, and affordable approach to tracking ESG issues critical to business. Today, Datamaran's Artificial Intelligence (AI) technology uses natural language processing (NLP) to scan, sift and analyze a vast sea of data across news, social media, mandatory and voluntary regulations, and corporate filings, supporting clients globally in their benchmarking and materiality processes, providing data-driven evidence of the risk and opportunities related to ESG issues.

Our unique data oversight and experience in the field with Datamaran users gives us the opportunity to look at the integration between risk management and ESG from a vantage point. In particular, we noticed an increasing trend of companies working to connect extra-financial issues to risk factors. The assessment of extra-financial issues materiality is a pivotal element in this process. Robust, data-driven evidence of extra-financial issues materiality is essential to ensure that risk factors associated with ESG issues can be identified and characterized in terms of likelihood, impact, velocity. From an organizational perspective, it enables sustainability teams and risk teams to align and *speak the same language*. Feedback from our users show that traditional extra-financial issues materiality analysis falls short of providing enough data-driven evidence that can be used by risk professionals - hence the disconnection between the two domains.

In particular, the limitations of the traditional materiality analysis are:

- A narrow scope, predominantly based on engagement with representatives of stakeholder communities, overlooking or excluding additional sources (e.g. regulations) that are crucial to providing information that is broad, interconnected, and forward-looking;
- Assessment based on anecdotal evidence and managerial judgement, instead of sound quantitative and qualitative data-driven analysis;
- A static and project-based perspective, instead of a process one, enacted through continuous monitoring of the ESG issues;
- Purpose short-sightedness, confined to the identification of the reporting boundaries, whereas materiality carries an internal informational value for ERM processes, as well as

an external one, as investors are engaging companies to disclose in detail their materiality analysis process, as indicated by the new revision of the ESG Guidance & Metrics published by the World Federation of Exchanges.

In light of the above observations, we recommend to emphasize the role that materiality has in this process, as the limitations presented above might generate blind spots in the identification of risk factors. In particular, we suggest to reinforce:

- The role of the Board on materiality - Eccles and Youmans provided substantial arguments and evidence on the board's duty in defining and communicating materiality;
- Materiality analysis methodologies beyond stakeholder engagement, particularly in the perspective of understanding and representing in a robust and data-driven way the complete business context in which a business operates, i.e. the different stakeholder voices and the channels and sources they use to express their priorities;
- The role that materiality analysis plays in the identification of risks and compiling the risk inventory, in particular clarifying the criteria to determine whether a material issue should be included in the inventory;

We welcome your publication as a clear, practical, and comprehensive guidance on applying risk management to ESG issues, rich with references to existing frameworks, conceptual clarifications, business case examples. We hope our observations and recommendations will be helpful in the finalization of the guidelines and we are more than happy to provide additional documentation, data, and literature concerning the points discussed above.

Looking forward to reading the final version of the guidelines.

Best regards,
Donato Calace, Director of Innovation
Maeva Charles, Director of Customer Success
Marjella Alma, CEO and co-founder