CMIA Climate Markets & Investment Association in collaboration with

GOVERNANCE

January 2022 Issue 329

Evaluating the shift to virtual board meetings

‘It is well-established that greater diversity improves board performance and one clear benefit of the move to virtual is the ability to access a greater pool of non-exec candidates and create more diverse boards and generate more rounded discussions. In situations where it simply would not have been practical to bring someone over eight times a year for an in-person board meeting, it may be possible using a hybrid model.’

Andy Davies

ESG disruption: what’s next for risk, performance and reward?

‘However, it is difficult to look at the value creation opportunities created by ESG as a disruptive force unless the organisation has developed a deep understanding of the risks arising from ESG and have considered the actions and behaviours necessary to drive change.’

Hans-Kristian Bryn and Carl Sjostrom

Content

News 3 **Creating positive culture**
By aligning culture with purpose, values and strategy, a company can strengthen its business model and better manage resources and future challenges, according to a new report issued by the UK FRC

International 4 **Board evaluation and related disclosures**
For a fourth consecutive year a Review by the US EY Center for Board Matters has looked at proxy statements filed by Fortune 100 companies to identify trends in board evaluation practices and disclosures

Global News 5 **Universal proxy cards**
Climate governance

Features 6 **Evaluating the shift to virtual board meetings**
Andy Davies looks at the lessons learnt about running virtual board meetings during the pandemic, when there was no option, and argues for a hybrid model going forward

8 **What’s next for risk, performance and reward?**
Hans-Kristian Bryn and **Carl Sjostrom consider** the barriers that are preventing organisations from maximising the value from their ESG intentions

10 **COP26: Four developments every board must know**
Margaret-Ann Splawn looks at what came out of COP26 and what board members really need to know

Feature

COP26: Four developments every board must know

Margaret-Ann Splawn looks at what came out of COP26 and what board members really need to know.

For two weeks in November CEOs and Heads of State rubbed shoulders at COP26 in Glasgow unveiling promises of ground-breaking agreements to tackle climate change.

But as the dust settles on the deals, navigating the landscape of net zero targets, carbon neutrality and ESG can be tricky for board directors.

Only around 1% of nearly 1,200 Fortune 100 directors have any climate credentials[1] yet they are setting company strategy on sustainability. What do board directors and the C-suite need to know about climate change to fulfil their duties in 2022? Against the backdrop of COP26, this article will share what came out of the conference.

COP26 serves as a benchmark for corporate governance due to four key developments. These are:

1. Glasgow Climate Pact
2. Climate finance flows bolstered
3. Carbon market rules finalised
4. Glasgow Financial Alliance for Net Zero (GFANZ) and climate action plans.

Let's take each in turn.

Glasgow Climate Pact

COP26 marks the first time fossil fuels are mentioned in a UN climate agreement. Despite the final wording being watered down at the last moment to the 'phasedown' rather than 'phase out' of unabated coal use, it's extraordinary that fossil fuels made it into the Glasgow Climate Pact at all.

All parties now recognise that fossil fuels are the main driver of climate change whose usage needs to be seriously addressed. While reduction will be harder for some industries and business models, the low-carbon direction of travel is clear.

Making the case for future investment into coal or fossil fuels will be extremely difficult for companies without a clear transition plan.

Company directors need to know their company's exposure to fossil fuels, the climate risk profile of their portfolio, how the company is managing these, and the transition plan to reducing their greenhouse gas exposure.

Climate finance flows bolstered

The Glasgow Climate Pact bolsters climate finance further and 'emphasises the need to mobilise climate finance from all sources to achieve the goals of the Paris Agreement'. This carries on from making finance flows consistent with climate goals and is significant for business because one of the largest untapped pools of capital is the private sector.

Governments know this and some are already getting finance and companies to align with climate goals and sustainability through new regulations. Europe leads the pack and wants to become the first climate-neutral continent. In March 2021, the EU Sustainable Finance Disclosure Regulation (SFDR) came into effect. This places more emphasis on disclosure and includes new rules that must identify any harmful impact made by the investee companies. The new regulation, part of the EU's wider Sustainable Finance Framework, is driving sustainable fund assets, which have almost doubled in six months to reach US$3.9trn at the end of Q3 2021.[2] It sits alongside the EU Sustainable Finance Action Plan, which promotes sustainable investment across the EU, and the EU Taxonomy, a classification system designed to clarify which investments are environmentally sustainable and help prevent greenwashing.

In addition, the UK's Financial Conduct Authority's (FCA) new rules on climate-related disclosures came into effect from 1 January 2022. FCA regulated asset managers and asset owners, including life insurers and pension providers, will have to disclose how they take climate-related risks and opportunities into account in managing investments, as well as disclose climate-related attributes of their products.

These new regulations are forcing companies to look more closely at their procurement practices in their supply chains and influencing suppliers for more sustainable ESG practices and products.

Carbon market rules finalised

Clarity to how carbon markets involving governments should function, as first outlined in Article 6 of the previous Paris Agreement Rulebook, was finally adopted at COP26.

The rules and procedures for a new mechanism crediting emission reducing activities were agreed. Rather than creating a trading system itself, it provides a framework for international co-operation. These so-called 'co-operative approaches' are where bilateral agreements can be made to transfer emission reductions between countries and pave the way for emissions trading schemes in countries to be able to link together. These credits can help countries meet their climate goals.

A framework for a new trading mechanism, along with carry-over from the previous one, was also agreed. This signals a potential investment opportunity as business can invest in

Feature

these mitigation activities across the world in a range of sectors and technologies, from energy efficiency to transportation.

In this new UN mechanism, there is a centralised authorisation system to certify carbon projects that can generate credits for governments to use to help reach their material climate pledges. Companies could also purchase these credits as well as continue to buy voluntary offsets.

Carbon credits and carbon offsets are not the same instrument, despite both being used interchangeably in print or in conversation by some. Understanding the difference can be confusing, thus it is important for the board to know: (1) if they have exposure to compliance regimes that require regulated carbon credits; and (2) how their company plans to get to net zero. If the company plans to use carbon offsets to help achieve their climate targets, which type of offset they plan to use matters as they are not all equal.

Voluntary carbon markets have existed for years now with independent certifiers issuing carbon offsets. Growth has been spurred by companies setting net zero targets and purchasing carbon offsets to help them achieve their emission target reductions. The voluntary carbon market topped a record US$1bn value in 2021, according to information and analysis group Ecosystem Marketplace.

Make no mistake: carbon offsetting is not a Monopoly 'Get Out of Jail Free' card for companies to buy their way out of their environmental responsibilities. Companies should measure their carbon footprint, look to avoid carbon in their decision-making process, reduce their emissions where they can by utilising efficiencies and switching to renewables, and then look to offset residual emissions.

These yet to be newly created UN credits are in the pipeline and will influence voluntary carbon market developments. For example, it is important for company directors to be aware of the accounting component or 'corresponding adjustment' agreement of Article 6 because it will have a significant impact on the voluntary carbon market as it evolves. Since one in five companies in the Forbes Global 2,000 list have set net zero targets, company directors need to be aware of what this means and how their company is achieving this. Otherwise, they are vulnerable to accusations of greenwashing along with potential liability litigation.

GFANZ and climate action plans

Finance took centre stage at COP26 as actors in the global financial system committed their US$130trn of financial assets to 1.5°C alignment through the GFANZ[3]. Members of GFANZ currently include over 450 financial firms across 45 countries and members are required to set robust, science-based near-term targets within 12–18 months of joining. More than 90 of the founding institutions have already done so.

Climate-related data and regulatory reporting is also on the rise. New UK legislation, expected to become law in April 2022, will require the country's largest publicly listed companies and financial institutions to provide reporting in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). This was created by the UK Financial Stability Board (FSB) in 2015 to improve and increase reporting of climate-related financial information.

Rishi Sunak, UK Chancellor of the Exchequer, announced at COP26 that the country intends to become the world's first net zero aligned financial centre and the next phase is for transition climate action plans. The proposal envisages new requirements for UK financial institutions and listed companies to publish net zero transition plans that detail how they will adapt and decarbonise[4].

Similarly, Canada recently announced that it will require federally regulated institutions, which includes financial institutions, to issue mandatory climate-related financial disclosures based on the TCFD and net zero plans[5].

What net zero transition plans will look like remains to be seen, but companies will not be able to set long-term targets without showing how they are transitioning to low carbon. Boardrooms will need to address these climate topics now.

Net zero strategy

Net zero is not a bolt-on that sits in the sustainability department. Getting to net zero requires a whole of company approach. Adjustments will have to be made along the way as not every goal or target will be met.

Sharing your company's journey in a transparent way supports the credibility of your climate commitments.

Here are some key takeaways for board directors and the C-Suite:

- Companies need to know their current carbon footprint and understand their future one to tie them with their business strategy and growth plans.
- Climate ambitions need to be grounded in science.
- Net zero alignment must inform every boardroom decision.
- As mandatory sustainability and climate-related disclosure and reporting is on the rise, supply chains are now a material risk.
- Be transparent. Communicate company climate and sustainability strategy, both internally and externally, to stakeholders. Share targets, milestones, transition plans and delivery.

Transitioning to becoming a low carbon company has risks but also creates enormous business opportunities and encourages

continued on page 12

GOVERNANCE
www.governance.co.uk

Subscription form

Please complete this form and send by mail to:

Subscriptions Department Governance Publishing and Information Services Ltd
The Old Stables, Market Street,
Highbridge, Somerset, TA9 3BP, UK

Tel: +44 (0) 1278 793300
Email: info@governance.co.uk
Website: www.governance.co.uk

(Please tick one)

- ☐ Yes! I would like to subscribe to Governance for one year
- ☐ Or save with a 2 year subscription

Governance international subscription costs:

	£UK	Euro	US$
1Yr	325	450	490
2Yr	585	790	855

Governance can accept cheques in other currencies but an administration fee of £15 will be charged.

☐ I enclose a cheque/bankers draft for	
Currency	Value
☐ Please invoice me	
Specify currency:	
Order reference:	
Title:	
First name:	
Surname:	
Position:	
Company/Organisation:	
Address:	
Postcode:	
Email:	
Tel:	
Fax:	

continued from page 11

both innovation and collaboration. COP26 has boosted the Paris Agreement and COP27 in Egypt will carry this forward, which means that net zero alignment must inform every board decision.

Margaret-Ann Splawn is Executive Director of the non-profit Climate Markets & Investment Association (CMIA) www.cmia.net. She can be contacted at Margaret.splawn@cmia.net. She is a Fellow of the Royal Geographical Society and graduate of the FT Non-Executive Director Diploma.

1. https://www.stern.nyu.edu/experience-stern/about/departments-centers-initiatives/centers-of-research/center-sustainable-business/research/research-initiatives/fortune-100-board-members-lacking-esg-credentials
2. https://www.morningstar.com/content/dam/marketing/shared/pdfs/Research/Global-ESG-Q3-2021-Flows.pdf
3. https://www.gfanzero.com/
4. https://www.gov.uk/government/news/chancellor-uk-will-be-the-worlds-first-net-zero-financial-centre
5. https://www.esgtoday.com/canada-moves-towards-mandatory-climate-disclosures/

What our subscribers say

'I have found *Governance* to be a good resource for identifying and elaborating on emerging corporate governance trends.'

'*Governance* is a useful means of keeping up to date on developments in a field which is assuming greater importance by the day.'

Index

Organisations
Australian Institute of Company Directors 5
CMIA 10
FCA 10
FRC 3
FSB 10
NACD 6
SEC 5

People
Hans-Kristian Bryn 8
Andy Davies 6
Carl Sjostrom 8
Margaret-Ann Splawn 10

Companies
EY 4
Kingsley Gate Partners 6

Designed and printed by WithPrint
Riverside Studio, Gills Lane, Rooksbridge, Somerset, BS26 2TY
www.with-print.co.uk

ISSN 1358-5142

© Governance Publishing 2022. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without written permission of the copyright holder.

Governance Publishing and Information Services Ltd
The Old Stables, Market Street, Highbridge, Somerset TA9 3BP, UK
Tel: +44 (0) 1278 793300
Email: info@governance.co.uk Website: www.governance.co.uk