Fondazione Eni Enrico Mattei

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Forum per la Finanza Sostenibile

# Promoting Corporate Climate Governance

## *A Guiding Framework for Board of Directors*


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**Fondazione Eni Enrico Mattei**

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# Fondazione Eni Enrico Mattei: DeRisk-CO Project

This webinar is part of the DeRisk-CO project, developed at FEEM, which aims at stimulating a debate on the importance of assessing and disclosing climate-related risks and opportunities and their impact on financial performance, with a particular focus on its network of companies:

— A2A, Acea, Barilla, Cattolica Assicurazione, Edison, Erg, Assicurazioni Generali, Hera, Iren, La Doria, Leonardo, Pirelli & C., Prysmiangroup, Saipem, Sorgenia, TIM, Unipol and ANRa, Utilitalia

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# Presentation Outline

**Climate Governance**

The Global Context

**Principles and Guiding Questions**

Limitations

**Discussion**

# Why are we talking about climate governance?

- Evidence on the **links between climate change and business** is becoming increasingly clear

- Companies face growing pressure from investors to **address the risks and opportunities** related to climate change

- Nonetheless, board of directors are currently provided with **limited practical guidance** to understand their role in tackling such risks and opportunities

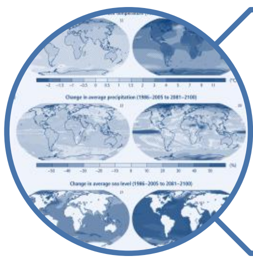
# Barriers to effective climate governance

## Climate Change

Climate change is simply another issue that drives financial risk and opportunity, which boards inherently have the duty to address with the same rigour as any other board topic


## Climate Risk Management

Good governance should intrinsically include effective climate governance



## Scenario Uncertainty

However, climate change is a new and complex issue for many boards that entails grappling with scientific, macroeconomic and policy uncertainties across broad time scales and beyond board terms

*Climate governance is integral to basic good governance*

*Climate governance is fraught with complexity*



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# Global trends

- **184 nations** have ratified the **Paris Agreement** and pledged to take action to keep global temperature rise «**well below**» **2 degrees**, however, **global temperature keep rising**

- In light of this scientific and economic evidence, many risk experts and corporate leaders now consider **climate change** and **extreme weather** as **top macroeconomic risks**

# Global trends: some figures

- **Economist Intelligence Unit** predicts that between now and 2100, potential financial **losses arising from climate change** could range **between $2 trillion and $43 trillion**, in relation to a total global stock of manageable assets worth $143 trillion

- At the same time, **New Climate Economy** estimates that climate-change adaptation and mitigation could generate **investment opportunities** worth up to **$26 trillion** between now and 2030

# Evolution of the regulatory framework

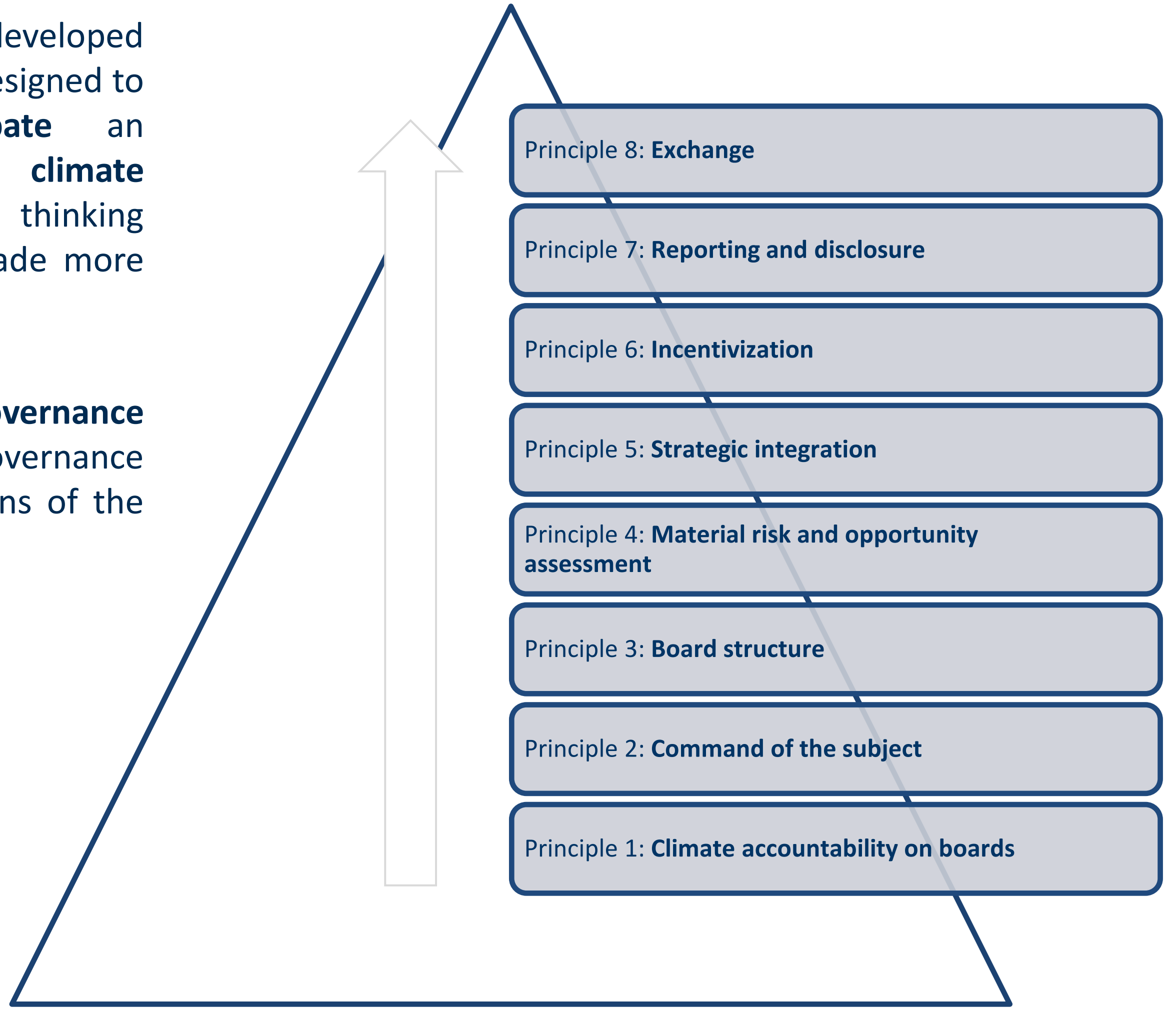
- Despite the growing recognition that climate change will cause disruption to business as usual, **reliable information** detailing how companies manage climate-related risks and opportunities has been «**hard to find**, **inconsistent** and **fragmented**» according to Mark Carney
- In response to this, the Financial Stability Board established the **Task Force on Climate-Related Financial Disclosures (TCFD)** in 2015
- In 2018, the European Union committed to lead the way in reforming the financial system (**EU Action Plan**)

  → *Lack of guidance to assist directors in their duty to understand and act on climate change*

# WEF response to promote effective climate governance

The World Economic Forum (WEF) developed a **set of principles and questions** designed to "practically **assess** and **debate** an organization's **approach to climate governance** and frame boards' thinking about how the latter could be made more robust"

They build on **existing corporate governance frameworks**, such as the Global Governance Principles and the recommendations of the TCFD



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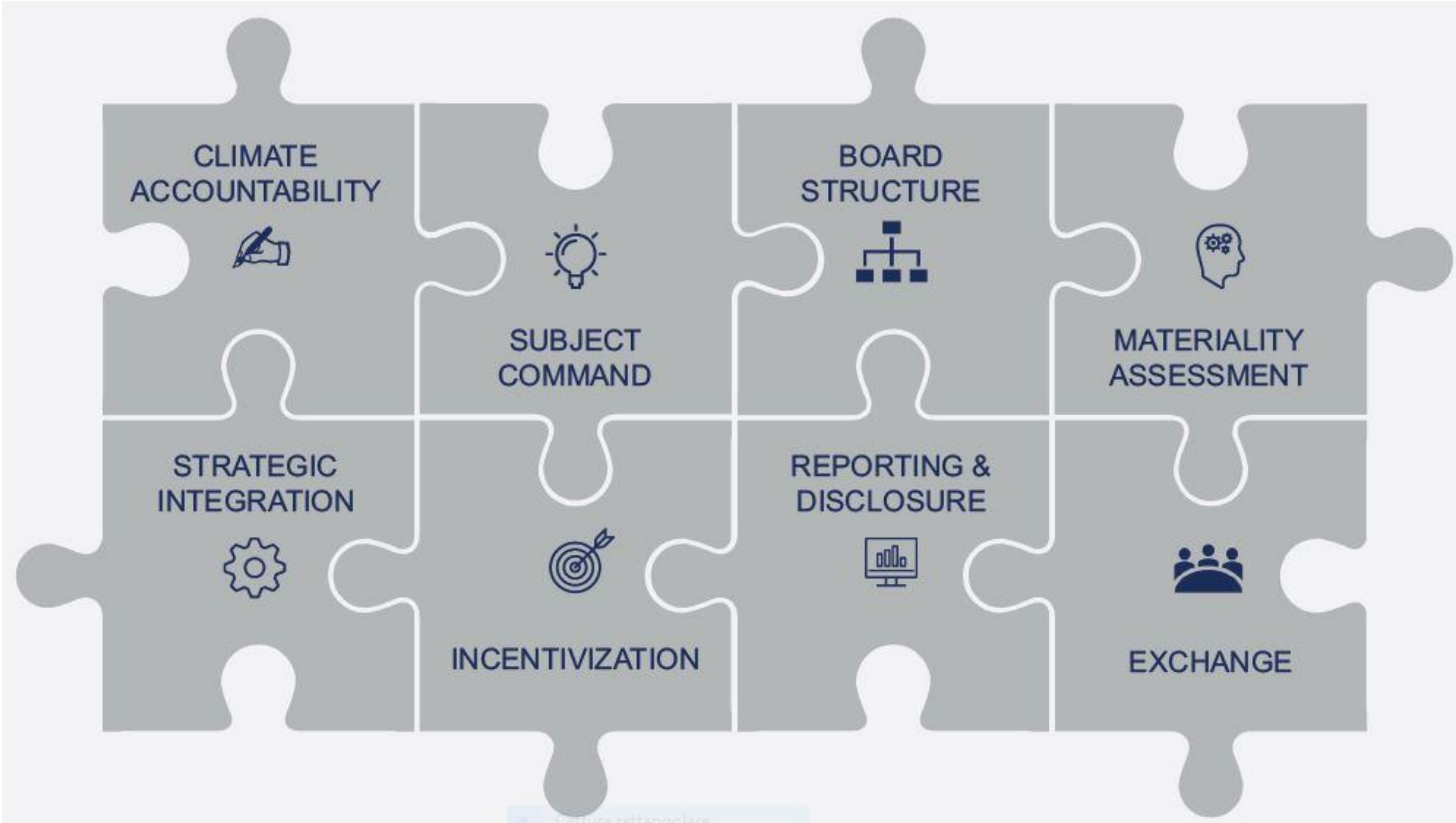
# Climate Governance Principles and Guiding Questions



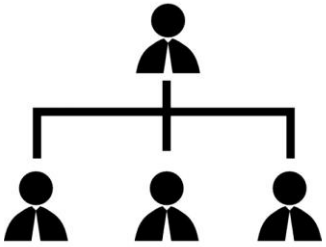
## Principle 1 – Climate Accountability on Boards

*The board is ultimately accountable to shareholders for the long-term stewardship of the company. Accordingly, the board should be accountable for the company's long-term resilience with respect to potential shifts in the business landscape that may result from climate change. Failure to do so may constitute a breach of directors' duties.*

# Principle 2 – Command of the Climate Subject

*The board should ensure that its composition is sufficiently diverse in knowledge, skills, experience and background to effectively debate and take decisions informed by an awareness and understanding of climate-related threats and opportunities.*

# Principle 3 – Board Structure

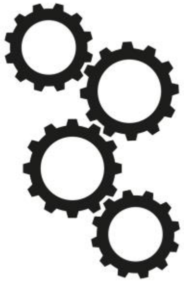


*As the stewards for long-term performance and resilience, the board should determine the most effective way to integrate climate considerations into its structure and committees.*

# Principle 4 – Material Risk and Opportunity Assessment

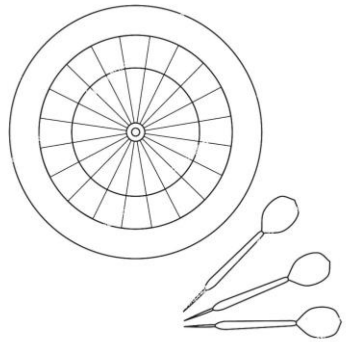
*The board should ensure that management assesses the short-, medium- and long-term materiality of climate-related risks and opportunities for the company on an ongoing basis. The board should further ensure that the organization's actions and responses to climate are proportionate to the materiality of climate to the company.*

# Principle 5 – Strategic and Organisational Integration



*The board should ensure that climate systematically informs strategic investment planning and decision-making processes and is embedded into the management of risk and opportunities across the organisation.*

# Principle 6 – Incentivisation

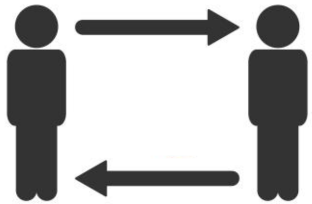


*The board should ensure that executive incentives are aligned to promote the long-term prosperity of the company. The board may want to consider including climate-related targets and indicators in their executive incentive schemes, where appropriate. In markets where it is commonplace to extend variable incentives to non-executive directors, a similar approach can be considered.*

# Principle 7 – Reporting and Disclosure

*The board should ensure that material climate-related risks, opportunities and strategic decisions are consistently and transparently disclosed to all stakeholders – particularly to investors and, where required, regulators. Such disclosures should be made in financial filings, such as annual reports and accounts, and be subject to the same disclosure governance as financial reporting.*

# Principle 8 – Exchange



*The board should maintain regular exchanges and dialogues with peers, policy-makers, investors and other stakeholders to encourage the sharing of methodologies and to stay informed about the latest climate-relevant risks, regulatory requirements etc.*



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## Limitations

- Principles are designed to be widely applicable across organisations, sectors and jurisdictions
  - Nonetheless, there is **no one-size-fits-all approach to good climate governance**
- The drafting process involved consultation with over 50 executive and non-executive boards of directors as well as other important organisational decision-makers
  - The consultation process represents a **geographic bias towards European and North American businesses**
  - The interviewees for this project represent a set of leaders who are particularly vocal and engaged regarding climate change: **lack of divergent perspectives**

# Discussion

# Thanks for watching!

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