

Climate Governance for Companies: key drivers and trends

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What we do?

EBRD's Mandate

- Mobilise foreign direct investment to promote transition to market economies by investing in the private sector
- Develop open and sustainable market economies in countries committed to and applying democratic principles
- Promote and encourage **environmentally sound and sustainable development** (Article 2(1)(vii) AEB)
- With an emphasis on working together with the private sector, we **invest in projects**, engage in **policy dialogue** and provide **technical advice** that fosters innovation and builds sustainable and open-market economies

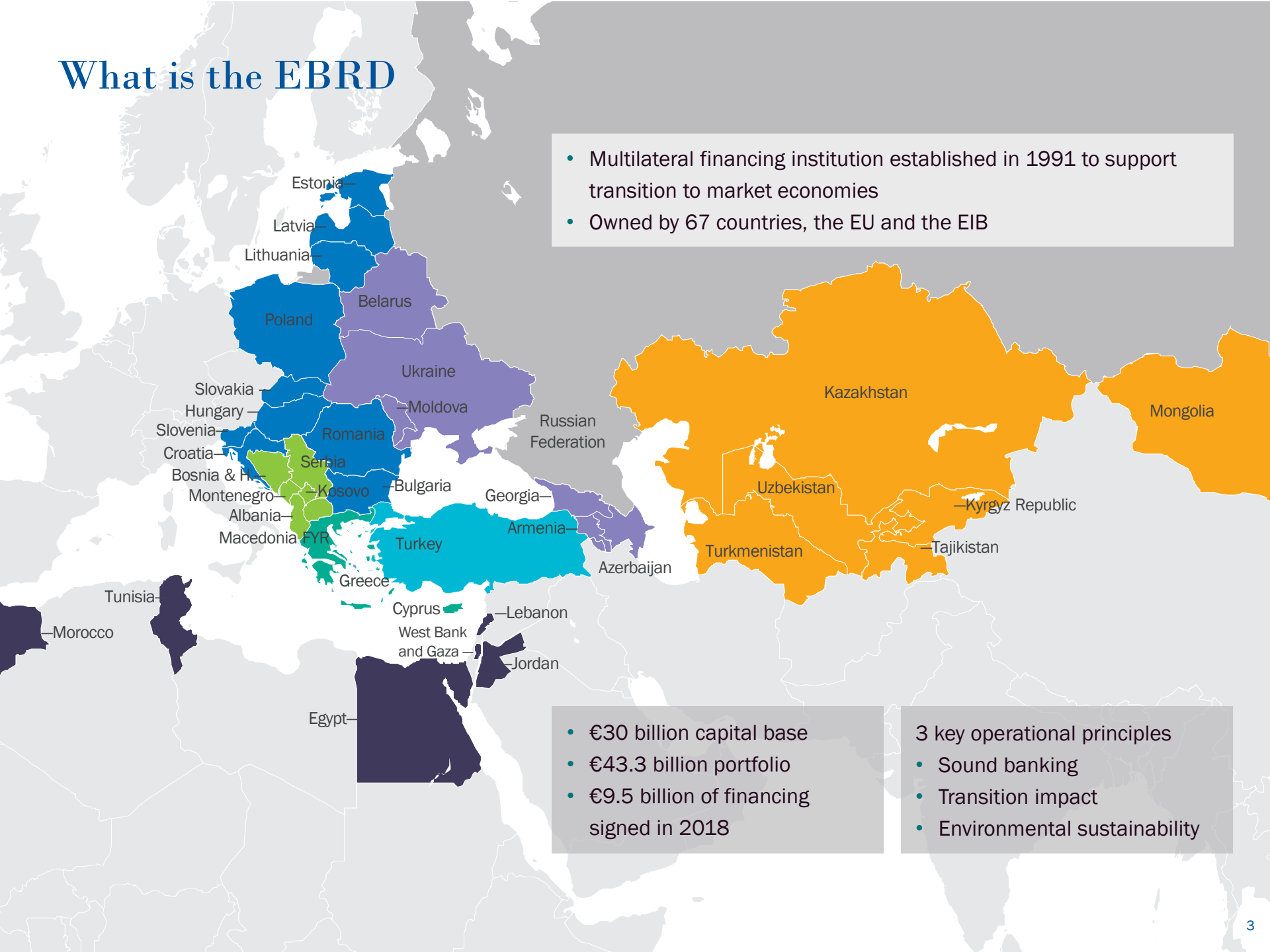
Legal Transition Programme

- Improve investment climate in the countries of operations by helping create an investor-friendly, transparent, and predictable legal environment
- Identify market best practice and provide inputs to standard-setting
- Review and assess legal and regulatory frameworks to identify reform needs
- **Key Sectors: Energy Regulation, Sustainable Development and Climate Change, PPP/Concessions, Public Procurement, Natural Resources Management, Alternative Dispute Settlement and Judicial Capacity Building. Insolvency, ICT, Access to Finance, Corporate Governance.**



What is the EBRD

- Multilateral financing institution established in 1991 to support transition to market economies
- Owned by 67 countries, the EU and the EIB



- €30 billion capital base
- €43.3 billion portfolio
- €9.5 billion of financing signed in 2018

- 3 key operational principles
- Sound banking
 - Transition impact
 - Environmental sustainability

Green Economy Financing results in 2006 – July 2019



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FINANCED

1,750+
green projects

1280+ directly financed projects
with green components, and
479+ credit lines to local
financial institutions for on-
lending to smaller projects

SIGNED

€ 31 billion
of green financing

For projects with a total value of
€188+ billion
Since 2016 green financing has
represented 36% of EBRD's total
business(2018).

Green Economy Transition* impacts in 2006 – July 2019



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REDUCED

100 million

tonnes of CO₂/year

Emission reductions equal
to the annual energy use
related emissions of Greece

SAVED

343 million

m³ water /year
since 2013*

Equal the annual water use
of more than a third of
London's population

AVOIDED

3.2 million

tonnes of material use
/year, since 2013*

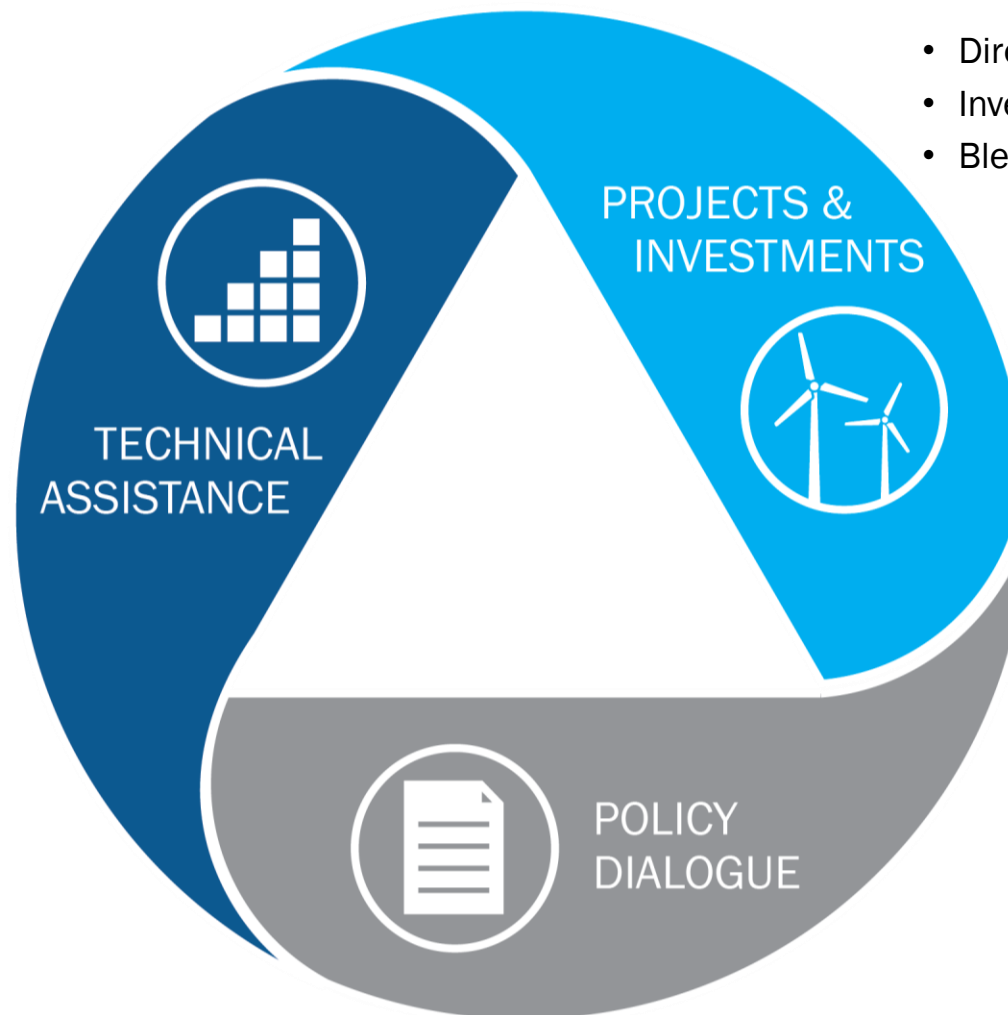
This amount weighs as
much as the waste
generated in Latvia in 2014

Green Economy Transition - *The Business Model*



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- Support governments with the development of predictable, transparent and investor-friendly policy and legal frameworks.
- Climate vulnerability risk assessments.
- Transition gaps assessment & market scoping.
- Enhance the green financing capacity of partner financial institutions.



- Direct & indirect financing.
- Investment grant support.
- Blended concessional finance.

- Promote legal, regulatory & institutional mechanisms enabling green investment and climate action.
- Address sustainability & environmental market failures.

EBRD pilot project on climate governance (2018/2019)

Findings of the pilot project commissioned by the Bank* provide guidelines for assessing and enhancing companies' governance around climate-related risks and opportunities.

Topics covered in the study:

- Climate risk and climate liability
- Key drivers for companies to address climate-related risks and opportunities
- Regulatory and voluntary climate disclosure frameworks
- Legal risks for companies and governments (climate litigation)
- Success factors and recommendations for companies
- Recommendations for national authorities

*EBRD retained experts from Ernst&Young, Norton Rose Fulbright LLP and Mott Macdonald to assist in the implementation of the project.

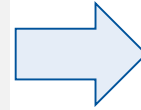
Climate-related risks and opportunities

Climate risks can affect all or any parts of companies' business and have a significant financial impact

✓ **Transition risks :**
Policy and legal (including litigation risks), technology and market change, may result in varying levels of financial and reputational risks to organisations



✓ **Physical risks:**
Acute risks: Event-driven risks (droughts, floods, hurricanes, etc.)
Chronic risks: Longer-term shifts in weather patterns (higher temperatures, rising sea level)



Extract of the TCFD Final report 2017 showing the potential financial impacts of climate change risks and opportunities

Climate change is most likely to adversely affect sectors of activity:

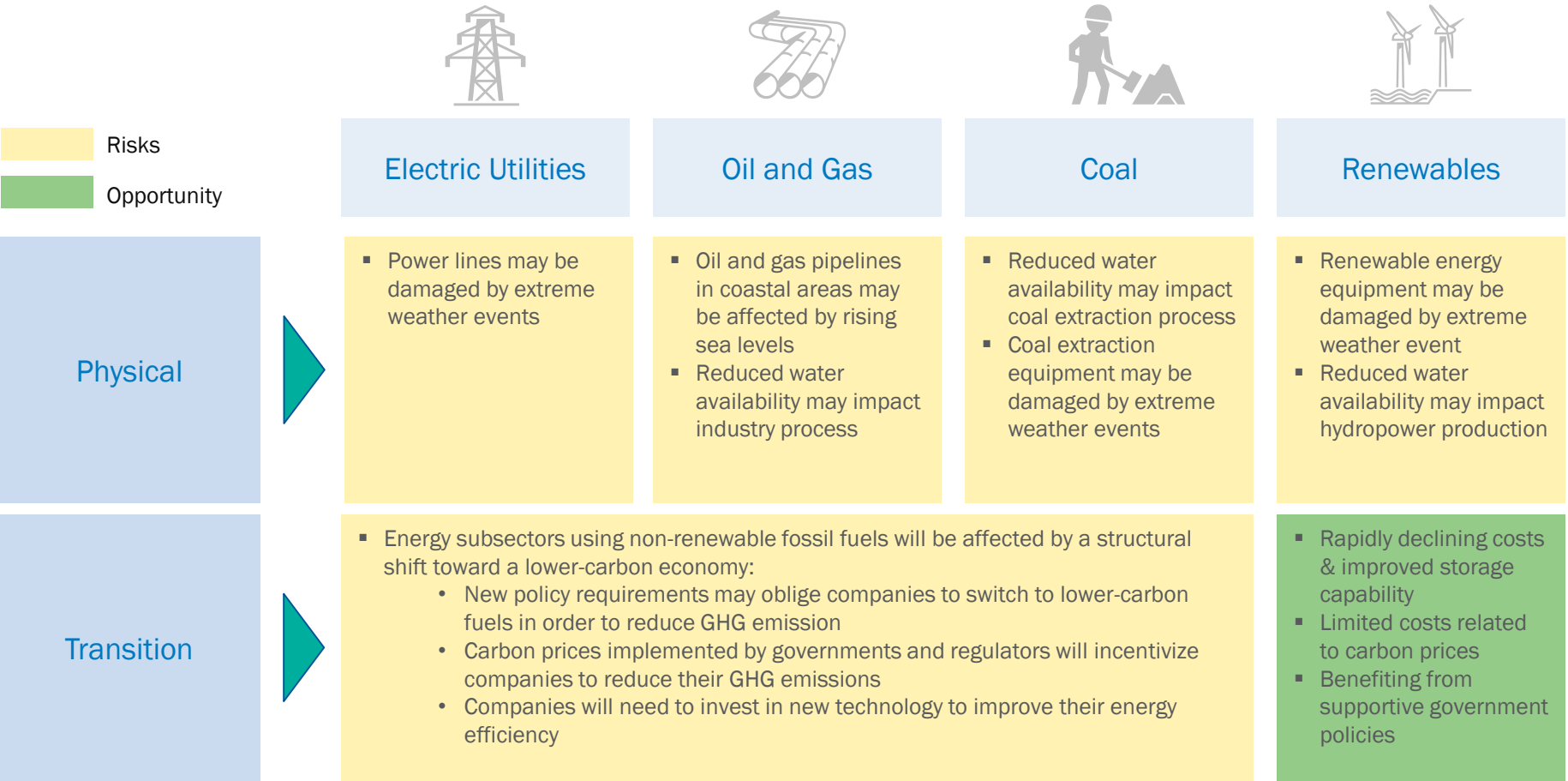


- Strongly relying on **fixed assets**: Extreme weather events can cause trade disruption/ damaged property etc
- **Dependent on water availability**: Increased frequency and severity of droughts can result in decreased production
- **Heavy emitters**: Carbon pricing instrument such as carbon taxes or GHG trading systems will lead to significant costs



The **Power & Energy sector** is highly exposed to climate-related transition and physical risks

Zoom in on the power and energy sector



Regulatory frameworks as drivers for effective climate governance



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Regulatory frameworks as drivers for climate governance

Benchmark on the following **regulatory frameworks**:

- ✓ Focus on France and the United Kingdom,
- ✓ European Union,
- ✓ United States,
- ✓ Canada,
- ✓ Australia



Governments can implement regulatory frameworks, obliging companies to include climate change R&O assessments within their financial disclosures.

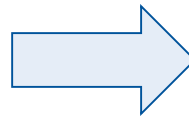
- ✓ Frameworks in USA / Canada / Australia / the EU can be described as guidance to encourage companies to disclose on climate-related risks
- ✓ French model identified as the most stringent
- ✓ Quality of reporting in terms of governance and physical climate risks in countries taking a guidance-based approach is variable across sectors but generally low
- ✓ TCFD recommendations on governance go beyond what would usually be required under existing financial regulatory reporting regimes

Voluntary frameworks as drivers for effective climate governance

Voluntary disclosure standards as additional guidelines for climate governance

Benchmark on voluntary Standards including:

- ✓ TCFD
- ✓ CDP;
- ✓ CDSB;
- ✓ GRI;
- ✓ IIRC;
- ✓ PRI Reporting Framework
- ✓ IGCC Oil & Gas and Electric Utilities



Voluntary standards as guidance to implement a structure for climate governance

- ✓ CDP and GRI can be identified as the most aligned with the TCFD recommendations
- ✓ Most frameworks lack specific disclosure requirements on physical climate risks

Recent evolution:

Some voluntary frameworks are moving towards mandatory reporting

- ✓ The PRI introduced TCFD-aligned indicators to its Reporting Framework in 2018, on a voluntary basis:
 - ✓ Over 480 investors completed the TCFD indicators
- ✓ Climate indicators will remain voluntary in 2019
- ✓ The PRI made reporting of some of the climate indicators mandatory from 2020



Climate litigation



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Recent litigation trends:

- Claims against **companies** (mostly in energy, financial, insurance sectors)
 - Legal grounds (examples):**
 - Tort (*Lliuya v RWE AG*)
 - Product liability
 - Planning/environmental
 - Investor/shareholder claims (ex. *Shareholder claims against ExxonMobil Cops on grounds of non-disclosure of climate-related risks (among others)*)
 - Insurance claims
- Claims against **governments'** climate policies and / or lack of engagement
 - Court based claims (*Urgenda Foundation v. The State of Netherlands*)
 - Investor/state arbitration under investment treaties



Summary of findings on climate litigation:

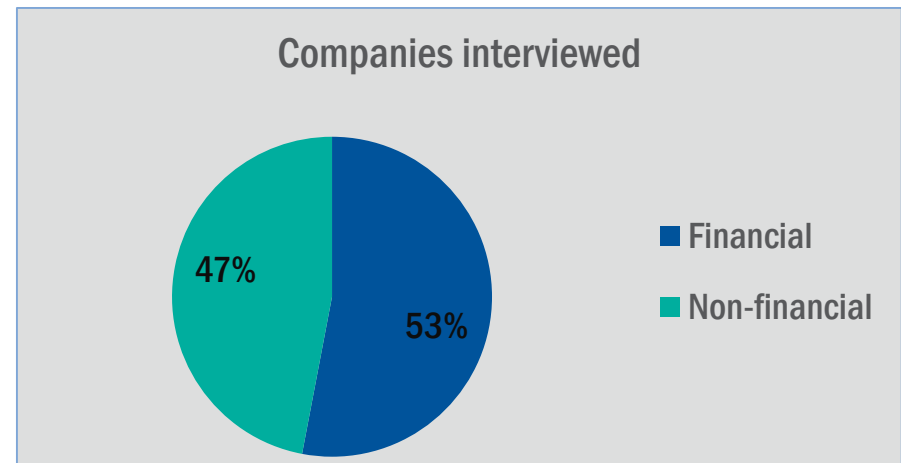
- ✓ Litigation against companies increasing and likely to accelerate
- ✓ Increasing tools to show near / medium term physical risks also increase litigation risk for companies which ignore this
- ✓ Currently limited evidence of climate litigation in developing economies
- ✓ Fiduciary duties of directors extend to taking action to be informed of climate risks and potential impact on business
- ✓ Good faith business judgement defence relevant but key defence is showing access to appropriate advice and considering that advice

Key findings of the EBRD study

Companies at different levels of maturity around climate-related R&O

Stakeholders consultation : 17 companies identified as climate change “leaders”

Sector
Energy & Utilities
Water
Agribusiness & Food products
Minings & Metals
Oil & Gas
Retail & Luxury goods
Bank/Central Bank
Insurance



Key findings from the stakeholder consultation

- ✓ All interviewed companies have already well-implemented governance structure for climate change issues
- ✓ Some companies showed a **more advanced level of maturity** (concrete climate action plan, CC well integrated into overall strategy and risks management process, ...)
 - => Fed into the design of “success factors” for emerging markets

Observations from engagement with companies from the EBRD region/ literature review:

- ✓ Many companies / sectors / regions are lagging behind on climate-related governance / risk management:
 - No clearly defined governance structure for climate change;
 - Climate risks and opportunities are not discussed during Board meetings
 - Climate risks identification management not integrated into overall risks management strategy



Key high-level principles of effective climate governance for companies

The table below provides a **non-exhaustive list of high-level principles** of good governance for companies based on the EBRD pilot study.

Key topics	Principles
Endorsement by highest executive levels	<ul style="list-style-type: none"> ✓ A clear climate policy should be formalized ✓ Climate change (CC) issues should be overseen by the Board ✓ Regular communication should be implemented between the Board and CC Committee (or any dedicated governance structure) ✓ Tasks related to climate-related risks should be clearly defined and allocated
Involvement of financial, risk and audit divisions	<ul style="list-style-type: none"> ✓ Companies should consider planning regular meetings between all divisions involved in climate risks management process ✓ Climate-related risk management should be integrated into the company's overall risks management process ✓ Regular meetings could be planned with external stakeholders to discuss their expectations regarding CC risks management and disclosures
Involvement of local BUs	<ul style="list-style-type: none"> ✓ Lines of responsibility from corporate committee to local sites should be clearly established ✓ Local teams should be involved in scenario modelling
Financial incentives	<ul style="list-style-type: none"> ✓ Part of the variable remuneration of Board and CC Committee members could be based on the achievement of climate-related objectives
Internal carbon price	<ul style="list-style-type: none"> ✓ An internal carbon price could be implemented to help achieve climate-related objectives
Reporting and Disclosure	<ul style="list-style-type: none"> ✓ Companies should ensure that material climate-related risks, opportunities and strategic decisions are consistently and transparently disclosed to all stakeholders ✓ Such disclosures should be subject to the same disclosure governance as financial reporting

Early indicative roadmap towards an effective climate governance



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Less mature companies

More advanced companies

1

Implementa-
tion of the
new
governance
structure

- ✓ Create a Climate Committee (or Subcommittee within the existing Sustainability Committee), ideally chaired by CEO with key Board members
- ✓ Define the frequency with which climate R&O are discussed based on a roadmap aligned to sector recommendations (analysis, strategy, disclosure)

4

Integration of
climate R&O
in overall risk
management

- Use climate scenario modelling to support the R&O analysis aligned to leading practices and to support organizational decision making process (e.g. investment, asset planning, adaptation plans)
- Embed the climate R&O assessment process into the Enterprise Risk Management Process



2

Early R&O
identification
and
management
process

- Involvement of other Committees in the process of risk identification (Risk, Audit, Investment Committees)
- Involvement of local sites and Business Units to understand regionalized stakes and develop local actions
- Consider the company's entire value chain during the risk identification

3

Improving
governance
structure in
place

- Establish lines of responsibility to flow down from the designated Committee to local sites and Bus
- Train key decision makers on the topics of climate change to build capacity to address climate R&O
- Consider using remuneration as an incentive to achieve targets (for both adaptation and mitigation)



Implementing the steps described above may require over **1 to 3 years** including an **iterative process** between the **new governance structure set-up process** and the **climate R&O identification and management process**

- Evidence on the **links between climate change and business** is becoming increasingly clear
- Main objective of the study – provide **guidance** to companies from emerging countries, more vulnerable to climate risks
- Companies face growing pressure from investors, lenders and regulators to **address the risks and opportunities** related to climate change
- Effective climate governance mechanisms can allow companies to assess and **strengthen their resilience** in response to climate change
- EBRD recommendations are intended to **support companies at any level of "maturity"** and **engage with national authorities** as they seek to move to low-carbon and more resilient economies.

Thank you!



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