Climate Competence in the Boardroom

Board perspectives

Investors are concentrating on what companies are doing—and disclosing—about the potential impact of climate-related risks on business models and operations, leading to calls for climate-competent boards. It is clear that how a company addresses climate-related issues is not just about reputation and good corporate citizenship—it is a matter of long-term corporate performance.

BlackRock, the world's largest asset manager, identified climate risk as one of its top engagement priorities for 2017. CalPERS amended its corporate governance principles to state that board members of companies it owns should have expertise and experience in climate change risk-management strategies. State Street Global Advisors published guidance for directors on evaluating potential climate-related risks to their companies.

Investor expectations for climate competency in the boardroom was the topic of a roundtable we cosponsored with the University of Delaware's John L. Weinberg Center for Corporate Governance. Based on that discussion, it is clear that the thinking on these issues is still evolving. Even among investors who call for climate competency, views are still developing on what that means. Among the questions discussed were whether the board should tap outside expertise or add a director with specialized climate competency, the extent to which the assessment of the impact of climate-related issues should be integrated into the company's long-term strategic plan, and what the board's role should be with respect to disclosures and shareholder engagement on climate-related issues. In a similar vein, the Strategic Investor Initiative of the Committee Encouraging Corporate Philanthropy (CECP) recently convened a group of leading investors and CEOs and senior executives of Fortune 500 companies for a dialogue about long- term plans and commitments for sustainable value creation.

Another sign of investor interest is the significant and growing number of shareholder proposals seeking board action on climate-related issues. While some at the roundtable noted that those proposals may not receive much attention from boards and members of management because few have received majority support, they pointed out that those proposals serve as a bellwether of what investors want to know. And more than half of S&P 500 companies have adopted some form of proxy access, giving their shareholders more power to press directors to increase their climate competency.

In light of these trends and emerging expectations for boards to achieve some level of climate competency, the roundtable conversation produced three takeaways for directors to keep in mind as they think about how their own boards are addressing these issues.

Bring the full board up to speed on relevant climate-related issues. While bringing on a director with specialized climate expertise may or may not be warranted depending on the specific company and sector, boards should ensure they have the information needed for decision-making on risk, opportunities, and long-term strategy related to climate issues. Directors should be able to recognize potential issues and challenge management on assumptions with respect to climate risk as it pertains to the company's business model. Consider whether the board would benefit from education on current climate-risk issues and trends, either through director education programs or outside experts.

Elevate the conversation. While risk oversight generally is at the top of most board agendas today, for some boards, climate-related risk issues may still be relatively low on the agenda.

In a survey conducted at our director roundtables last spring, many directors indicated that sustainability and corporate social responsibility issues are areas they would like their boards to devote less time to. Yet, language matters: A boardroom discussion about the impact of environmental stability on the company's financial stability is likely to be more meaningful than a discussion about global warming. To help elevate the conversation, directors should integrate discussion of climate risk issues that are relevant to the business into broader board discussions on strategy, risk, and long-term performance.

Increase communication and transparency. When engaging with investors, include climate change issues on the agenda. Be ready for questions from institutional investors about the board's understanding of the business risks and opportunities, how it oversees material climate-related disclosure, and whether addressing climate risk (along with other environmental issues) is factored into compensation structures. Even companies that view themselves as being ahead of the curve in their thinking about climate issues may need to take a fresh look at their disclosures in light of investors' increasing expectations.

This article appeared in the May/June 2017 issue of NACD Directorship *magazine.*

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