GLOBAL FORUM ON RESPONSIBLE BUSINESS CONDUCT

# SESSION NOTE

# Lessons from the Climate Agenda

**29 June 2017 - 16:30-18:00**

The transition to a low-carbon economy is supported by the development of new policies and business tools to encourage climate-friendly business conduct. They include, for example, enhanced disclosure of climate-related risks; methodologies to measure and put a price on impacts; stronger engagement of board members in dealing with climate risks, and enhanced engagement with suppliers. This session will discuss how the experience gained in the development and implementation of these policies and tools can help address issues in other areas of corporate responsibility, such as human rights.

The session will focus on the following policies and tools :

- **Metrics and benchmarks:** One challenge for companies in managing their climate (and other environmental) risks is to obtain the necessary data to evaluate their own impact and that of their suppliers. Another challenge is for companies to be able to benchmark their impacts with those of others and for investors, to compare companies. Some companies have developed unique methodologies to measure, and put a price on their environmental impact, which in turn help taking decisions in line with the company's environmental targets. An example is Kering's Environmental Profit and Loss (EP&L), which allows it "to measure the costs and benefits it generates for the environment, and in turn make more sustainable business decisions". Initiatives such as the CDPs surveys of company climate disclosures provide tools for investors to compare companies' performance and level of engagement in addressing climate related risks and opportunities. Similar approaches are being taken in other areas, e.g. under the Corporate Human Rights Benchmark.

- **The role of boards:** The G20/OECD Principles of Corporate Governance specifically include environmental risks among foreseeable risk factors. Boards' crucial role in steering a company towards a more sustainable pathway is undeniable, and in leading companies the board is a key engine for change, as suggested, for example, by the Governance Leadership Centre. Though the interest of boards in dealing with climate issues, has grown, more needs to be done to get full board involvement. For example, the KPMG Board Leadership Center recently surveyed corporate directors on the top issues that they would rather spend less time on, and sustainability and climate change was one of the issues that ranks low on the board agenda.

- **Disclosure and reporting :** Under the Disclosure chapter of the OECD Guidelines for Multinational Enterprises, companies are expected to provide both financial and non-financial material information, including “foreseeable risk factors”. Companies are well-aware that climate change and other environmental impacts may now pose foreseeable material risks to their supply chains, their installations and their clients. In particular since the adoption of the Paris Agreement, a number of policy and regulatory developments have increased the attention paid by companies and investors to climate-related risks. These developments include the establishment of the industry-led FSB Task Force on climate-related financial disclosures (TFCD), which has produced guidance for

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climate-related financial disclosures that would be useful to investors, lenders, and insurance underwriters in understanding material risks. Article 173 of the French Energy Transition Law requires investors to disclose the carbon footprint of their portfolio. The EU Directive on non-financial disclosure, along with legislation requiring companies to report on how they deal with human rights and other risks in their supply chains (e.g. the 2015 UK Modern Slavery Act or the 2017 French Law on duty of care) is generating a shift from traditional, voluntary and sometimes "PR-oriented" corporate reporting toward more meaningful and user-oriented disclosure.

- **Engaging with suppliers**: The number of companies assessing their carbon footprint, setting targets to reduce their GHG emission, and taking measures to achieve these targets is growing. This is generally easy in terms of direct (scope 1 and 2 emissions). But companies are also expected to engage with their suppliers in managing their carbon risks - to deal with the (in) famous scope 3 emissions. As reflected, inter alia, in CDPs' 2017 report on supply chains, companies are increasingly engaging with their suppliers to identify and reduce emissions; however, management of climate risks through supply chains is still at an infant stage, and in many cases, engagement often remains limited to first tier suppliers. On the other hand, this experience may be useful in enhancing supplier engagement in addressing other kinds of risks and in identifying opportunities, where experience is still low and action limited, as reflected, for example, in Shift's 2016 report on corporate human rights due diligence disclosure.