RECOMMENDATIONS FOR ASSET MANAGERS | CLIMATE GOVERNANCE

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This document is part of a set of recommendations for asset managers to develop their climate policies. To be found HERE.

General context and objectives

The credibility of climate transition plans also depends on how companies take climate issues into account in their governance. For example, if the proper implementation of climate-related measures is not fully integrated into the company's performance indicators, then economic imperatives will continue to drive business strategy, without serious consideration for the negative environmental externalities generated by the activities.

A company that does not make its climate commitments a priority in the development and monitoring of its overall strategy cannot claim to be achieving its climate objectives.

What to expect from companies on climate governance

Board and management responsibility

The development and evaluation of the implementation of the climate transition plan should be fully integrated into the priorities of the companies' top management, by setting up a dedicated committee within the Board of Directors and senior management and by naming a position at the board level with responsibility for climate issues.[1]

These committees must have sufficient resources to work well, and their power must be sufficiently strong internally to rectify any inadequate implementation of a climate transition plan.

Annual accounts

Asset managers shall assess whether a company's accounting practices and related disclosures, and the auditor's report thereon, reflect the way that climate change and global decarbonization efforts are being captured in critical accounting assumptions and judgments.[2]

Climate remuneration

The board members' and managers' remuneration scheme shall incorporate the climate transition plan's implementation as a KPI determining performance-linked compensation.

If the climate transition plan is not complete or sufficiently ambitious, asset managers can still make their vote in favour of the resolution on executive remuneration conditional on compliance with certain key indicators. For example, for an oil and gas company, bonuses should not be granted if a significant portion of profits is invested in oil and gas expansion.

Recommendations on engagement and vote regarding climate governance

The asset managers shall clarify how they intend to hold relevant company decision-makers accountable for specific failures to implement the climate transition plan. Recognising that companies headquartered in different regions of the world are at different starting points and have different responsibilities, investors may wish to adapt such policies to accommodate varying expectations for different regions, for example to take account of different board structures and voting timetables.

If the above-mentioned expectations are not met, asset managers shall vote against the resolution at the AGM following a clear escalation strategy, especially:

- Vote against the resolution (re)appointing board directors if the climate objectives are not consistent with a 1.5°C scenario, or if the climate transition plan is not comprehensive enough. Additionally, and in jurisdictions where not all board directors are elected every year, investors may wish to outline how they plan to use routine votes on remuneration, auditor (re)appointments, and similar.
- Vote against the resolution of the remuneration ("Say on Pay") if the climate performances are not satisfactory.
- Vote against the annual accounts and/or the auditor (re)appointments if they do not sufficiently consider the issues related to climate risks and the implementation of the climate transition plan.

Each sanction vote must be motivated and backed up by a clear explanation to ensure that the reasons for the vote are explicit.

[1] For more information: IGCC, What investors expect of company directors on climate risk, November 2021

[2] For more information : Climate Action 100+, Climate Accounting and Audit Indicator, November 2021. PRI, Climate Accounting and CA100+ briefing. IFRS, Effects of climate-related matters on financial statements, November 2021.