New reporting standards are progressively becoming rigorous

In recent years ESG has come to be a central focus for investors and regulators. However, the variations in operating context of the corporations, makes it difficult for investors and other market participants to objectively evaluate and acknowledge the intangible value created by the corporations.

To address this issue and protect the interests of Paris agreement and honour Sustainable Development Goals (SDGs) through performance evaluation, the World Economic Forum (WEF) in association with Bank of America and a leading professional services firm has released a set of ESG metrics which are consistent, standard, comparable, and harmonised across geographies. These metrics will also support in evaluating SDG's performance and associated NDCs. Additionally, on 3 November 2021, IFRS Foundation has formed International Sustainability Standards Board (ISSB), an independent, private-sector body to develop and approve IFRS Sustainability Disclosure Standards (IFRS SDS). The proposed standards would be high in quality, understandable, enforceable, and globally acceptable. These complementary set of standards are intended to support investors and participants of capital markets through provision of transparent, and comparable information for making informed decision. The foundation for the development of standards would be Climate Disclosure Standards Board (CDSB), Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, Value Reporting Foundation Framework and WEF ESG metrics to showcase the importance of interoperability between financial and non-financial reporting.

Adding to these, the IFRS Foundation has also published two publications, Climate-related Disclosures Prototype and its supplement to set the tone and ensure that boards realize the investors' seriousness.

Bringing different perspectives together-
Shaping the ISSB and IFRS Sustainability Disclosure Standards[17].

World Economic Forum

WEF: 'A core set of common metrics and disclosure on non-financial factors'

Task Force on climate-related Financial Disclosures — The Financial Stability Board's TCFD contributes 'a framework to help public companies and other organisations disclose climate related risks and opportunities'

Value reporting foundation

Formed by the merger of the SASB and <IR>

Sustainability Accounting Standards Board — SASB contributes 'a complete set of globally applicable industry standards'

Integrated Reporting Framework — <IR> aim is to 'improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital'

Climate Disclosure Standards Boards — **CDSB** contributes 'climate change related information of value to investors in mainstream financial reports'

IFRS Foundation

International Sustainability Standards Board (ISSB)

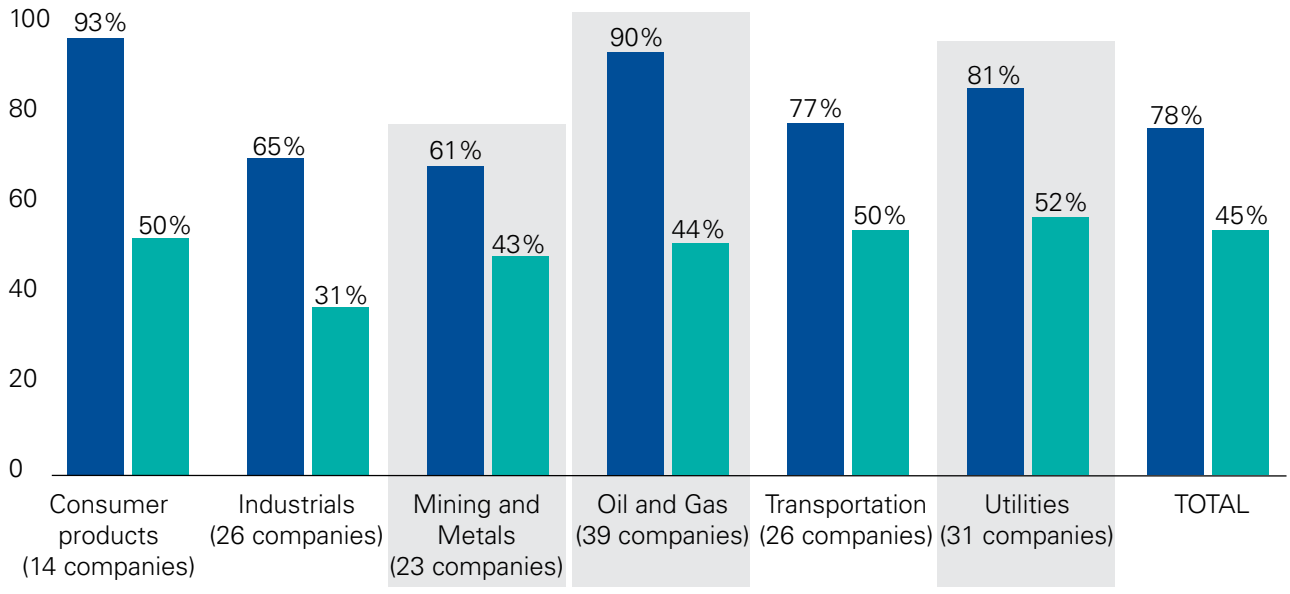
CEOs now increasingly recognise the role they need to play to ensure both total shareholder return and total societal return[18].

"Environmental and social sustainability is the starting point and the premise of our growth" **- Hironori Kamezawa, President & Group CEO, Mitsubishi UFJ Financial Group**

"CEOs are under increasing pressure from stakeholders to deliver on ESG goals and to actively address societal issues. It's crucial in today's landscape that businesses and their leadership teams show real-world examples of their dedication to building back better" **- Jane Lawrie, Global Head of Corporate Affairs, KPMG International**

"As we have talked about our purpose, and galvanised around it, that has raised our ambition level. It's made us more growth oriented. It's helped us innovate even faster" **- Penny Pennington, Managing Partner, Edward Jones**

Corporate boards have initiated measures for driving board level governance for climate change. The adoption of such measures, however, remain low for Energy and Natural Resources (ENR) companies compared to other sectors[19].



Boards as stewards - Why boards should show the way?

For the corporate world, it is time to own up and act on climate change, and **corporate boards carry the principal fiduciary responsibility** for making that change happen. As focus converges on actions that truly help in carbon abatement (as compared to, say, externalizing the emissions), boards have to motivate and assist the executive in setting clear goals, formulate viable strategies and bring in the right levels of governance for their attainment.

This is not just about managing risks. **Climate change related risks are both a threat and opportunity** for long term survival of corporations. Climate change is evolving into a governance issue driven by complex and hard-hitting scientific, social, policy, financial and macro-economic parameters.

Short term value maximization can no longer be seen in isolation as a business objective; **long term profitability as well as sustainability are the keys to survival.** Boards have a major role to play in protecting shareholders and stakeholder interests, considering the probable disruptions and risks in the offing.

Regulatory pressure will ratchet up and boards will be accountable for compliance. The new proposed IFRS Sustainability Disclosure Standards will only increase the linkages and nexus between sustainability and financial reporting. This will increase compliance burden on companies who are not prepared for new climate order.

Boards have to assume a key role in strategy formulation and then in overseeing its effective and agile implementation. This includes driving a culture through the organisation to ensure alignment and enablement. It is a collective fiduciary responsibility, beyond the basics of company's operations, but an integral part of the board's daily imperatives and obligations. It will call for much higher levels of engagement and commitment, and may call for a different framework for board roles in the new reality.

Key Focus Areas	What boards can do?
1. Defining the energy transition roadmap	
Set the energy transition vision for the organisation	• Take ownership of and inculcate a common sense of corporate purpose within the organisation • Link ESG initiatives with strategic levers such as Vision, Mission, Business Plan etc.
Seizing opportunities created by climate change	• Oversee effective management of climate related risks and opportunities • Ensure accountability of climate responsive decisions, many of which may bear returns in the long run.
2. Steer the ESG agenda	
Increased reporting and transparency on ESG issues	• Ensure integrated reporting and disclosure of material climate risks, opportunities and growth drivers through financial filings to all concerned stakeholders- shareholders, regulators and policy makers.
Improve climate competency	• Ensure board includes members with expertise in managing climate change risks for the organisation • Independent assessment on executives' skills related to climate change.
Institute governance mechanism	• Integration of climate considerations into board committees and to track the performance • Define the role played by executive, non-executive and independent directors.
Incentivise executive leadership	• Remuneration structures of the CEO and leadership team linked with KPIs for the achievement of climate strategy and emissions reduction targets • Establish incentives and metrics for attracting, retaining and rewarding diverse talent across the organisation using both financial and non-financial KPIs.
3. Set the tone for cultural transition	
Actively engage with key stakeholders on climate related issues	• Act as stewards to drive engagement with key stakeholder groups including activists, Non-Governmental Organisations (NGOs), investors, academicians, sector experts etc. to stay informed about the climate related risks and opportunities.

How boards should approach the challenge?

Boards have to transform themselves to integrate and embed climate into existing board structures through separate committees or external advisory forums. This will drive regular focus and closer scrutiny of climate related matters.

Boards leadership will involve many dimensions:

- Organisational culture and performance metrics
- Maintaining and enhancing climate competence within the board as well as within the organisation
- Translating commitments into material changes- move beyond tokenism
- Risk and opportunity assessment
- Disclosures and compliance
- Investment planning and technology selection.

Organisations need to do more than what the regulation demands and move beyond compliance. They need to comply with and exceed industry standard for key issues such as sustainability/ESG reporting, disclosures, climate responsive investments etc. Indeed, for true corporate leadership, boards should set the bar high and ensure that the slew of actions that follow adhere to the core principles set by the board. While the details will be many, here are two guardrails that we recommend:

- *Don't Harm: Managing environmental impacts related to own business*
- *Don't be Harmed: Preventing/limiting damage to business because of external environmental impacts.*

Aligned to these two principles, **boards have to set very clear directions to guide thought and action at every level.** To ensure that the guidance is indeed being followed, boards need to find ways to maintain regular dialogue with peers and key stakeholders such as policy makers, regulators, customers, investors, shareholders etc. This will help anticipate future requirements in terms of regulatory obligations, due-diligence, reporting etc.

As decarbonisation accelerates, it is clear that business goals and sustainability goals have become indistinguishable. **Boards have to ensure that sustainability and climate aspects are brought into day-to-day operations** by integrating sustainability and non-financial targets into the existing incentive structure.