

CLIMATE CHANGE – WHY THE BOARD MATTERS

FIDELIO OVERTURE



GOVERNANCE AND JUDGEMENT

ON THE BOARD AGENDA

Investors care about climate change competence in the Boardroom, as do regulators, NGOs and a broad range of stakeholders.

This has led to a tremendous upskilling in UK and international Boardrooms. With our focus on building Board capability, Fidelio has been [actively supporting Boards](#) to increase their effectiveness here. [Search](#), [Evaluation](#), and [Development](#) assignments have all addressed gaps in climate competence and governance.

There is a tendency to focus on the technical requirements of measuring and reporting progress in decarbonisation, as well as setting out ambition and transition plans. But the technical should not cloud the very real contribution that Boards will need to make on the path to Net Zero.

Yes, Boards require a level of climate competence to effectively challenge and guide the Executive. Principally, however, Boards need to be able to exercise good judgement and decision-making. This requirement is all the more acute given the highly imperfect information upon which climate change planning and strategy is necessarily based.

JUDGEMENT IS KEY

TODAY'S BOARD AGENDA

Climate change is not just an issue for the longer term – it is placing very immediate pressures on Boards today. Independence of perspective and good judgement are key. The following are just a few examples of climate change impinging on today's Board Agenda:

- i. **Reputational Risk:** Technology and AI have made it much easier for investors and NGOs to analyse the integrity and coherence of company disclosures and Board commitments on decarbonisation. For example, [recent AI research](#) has reviewed

climate disclosure across the FTSE 100 clearly flagging leaders and laggards. A cohort of 30 companies have been identified at the forefront. However, despite the fact that TCFD reporting is now mandatory on a comply or explain basis, evidence suggests that many companies' approaches to disclosure are far from developed. Clearly the Board should not be constantly "in the weeds" of disclosure, but it does need to ensure that direction, materiality and integrity are observed.

- ii. **Regulatory Arbitrage:** With the [US](#), the [EU](#) and the [UK](#) moving at different speeds, adopting different approaches and at times even pulling in different directions on climate change regulation and policy, the Board has a key role in challenging and guiding management on how best to navigate. Short term regulatory arbitrage is neither a good outcome for the planet nor typically for individual companies in the long-term but there is clearly a gravitational pull towards lower levels of compliance or higher levels of support. This is very much where sound Board judgement is required.
- iii. **Good Corporate Citizens:** in the UK, the [FCA, a regulator](#), is regularly consulting on climate change reporting and regulation. As part of a broader debate about [listing standards](#) and potentially onerous levels of compliance, it may be tempting for companies to rail against a tightening of the regulatory framework on climate. A [good regulatory framework](#) will be key if the pathway to Net Zero is to be achieved. Companies should be actively contributing to the discussion about the regulatory framework needed. Boards need a strong sense at company, sector and national level as to what type of regulatory framework and reporting will best support a viable path to Net Zero.
- iv. **Bravery and Boldness:** the UK has moved at pace to ensure that [transition plans](#) are developed and published by major companies. Regulators recognise how tough this is, particularly given the uncertainties involved, and have urged companies to be brave and also offered safe harbour. This is uncharted territory for Boards. Some investors care deeply about climate change and some investors are litigious. Boards, in particular those of major listed companies, need to understand the at times competing demands from shareholders and stakeholders. The transition plan needs to serve the company well and create alignment rather than a fracturing of the stakeholder and shareholder base. Here too the Board has a key role.

BUILDING BOARD COMPETENCE

BUILDING BOARD JUDGEMENT

Climate change is potentially the greatest challenge for the Board. The pathway to Net Zero will only be achieved if Boards demonstrate independent judgment and a commitment to the company's sustainable future.

Fidelio's focus is building Board capability for a fast changing world – through [Evaluation Development](#) and [Search](#). We bring a deep understanding of both shareholder and stakeholder expectations, as well as the opportunity and risks presented by climate change.

To learn more about how Fidelio can support your Board, please contact gkarrancumberlege@fideliopartners.com.

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ABOUT FIDELIO

WHO WE ARE

Fidelio Partners is committed to “Building Better Boards” for a fast-changing world. We bring deep insight into shareholder and stakeholder expectations of the Board and are independent in our approach and advice.

Practically Fidelio supports Chairs in navigating complex challenges as follows:

- **Effectiveness** – Evaluation / Development
- **Alignment** – Strategy / ESG / Engagement
- **Composition** – Board and Executive Search / Diversity and Inclusion

FIDELIO INSIGHTS

- [Evaluating Climate Change](#)
- [ESG & The Board: What works](#)
- [The Chief Sustainability Officer Role: Emerging & Critical](#)
- [ESG or Not ESG – That is the question](#)
- [Investor Scrutiny; Climate Change; The Board](#)
- [Climate Change Competence in the Boardroom](#)
- [Setting the Agenda 2022: Climate Change Competence in the Boardroom](#)
- [ESG Activism & The Board](#)
- [Business, Boards, Government & the Planet](#)
- [The Search for Climate Change Competence](#)
- [Cars, Composition and Climate Change](#)