



# Climate Change and Corporate Governance

ADBI-ADB-Korea University(IFG) Joint Webinar on ESG Regulations | 30 March 2022

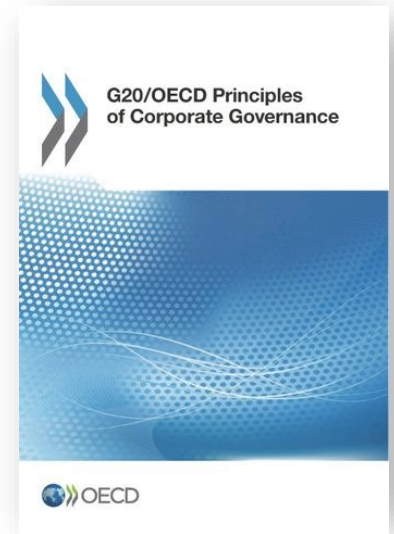
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# The G20/OECD Principles of Corporate Governance

- **Main international standard for corporate governance.**  
First issued as OECD instrument in 1999 and last revised in 2015. Endorsed by G20 Leaders in 2015.
- Help policy makers evaluate and improve the legal, regulatory and institutional framework for corporate governance.
- Endorsed by the FSB as one of its Key Standards for Sound Financial Systems and by the World Bank as the benchmark for its national Corporate Governance Assessments.
- 53 adherents: OECD, all G20 and FSB, Bulgaria, Croatia, Peru and Romania.



# The review of the G20/OECD Principles of Corporate Governance

## Rationale

- The crisis revealed or exacerbated pre-existing weaknesses in corporate governance and major shifts in capital markets, in particular:
  1. management of climate change and other ESG risks
  2. fewer new companies accessing capital markets
  3. changes in corporate ownership
- **Objective:** Strengthen the Principles, in particular by adapting relevant elements to the post-COVID-19 environment, taking into account any structural effects on capital markets and corporate governance practices.
- **Guiding principle:** Corporate governance policies have an important role to play in achieving broader economic objectives with respect to corporate sector sustainability, financial stability, investor confidence and capital formation.
- **Revised G20/OECD Principles:** end-2023.



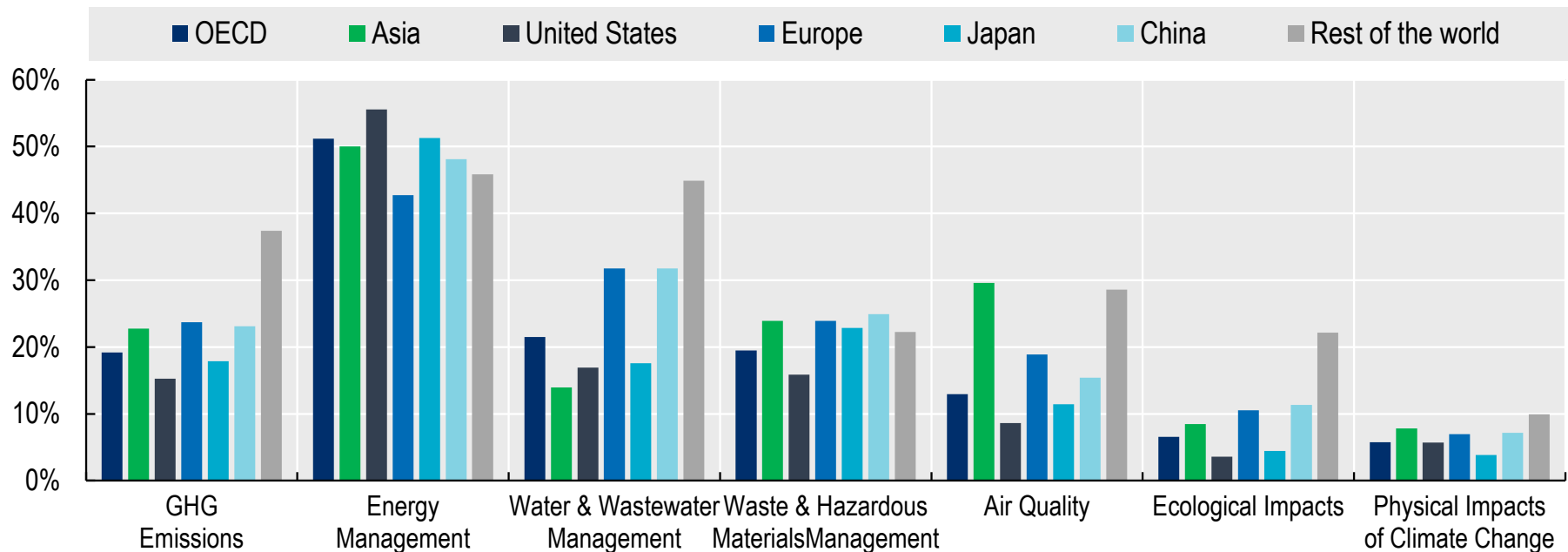
## Prioritisation of climate-related risks

- The disclosure of **climate-related** risks and opportunities has been the focus in a number of jurisdictions.
  - Regulators in China, Hong Kong (China), Japan, India, Indonesia, Korea, Malaysia, Philippine, Singapore, Thailand, and the UK have **announced requirements or recommendations** to report most of the case in an alignment with the TCFD's Recommendations.
  - The US SEC proposed new rules to enhance and standardise **climate-related disclosure for investors**.

## Prioritisation of climate-related risks

- Companies that are likely to be exposed to **financially material risks** related to GHG-Emissions and Energy Management represent **61% of market capitalisation in Asia**.

The share of market capitalisation by environmental risks in 2020



Source: OECD Capital Market Series Dataset, Factset, Thomson Reuters Eikon, Bloomberg, SASB mapping, and OECD calculations.

# Key issues

**1** The concept of materiality

**2** ESG standards

**3** Director's duty of loyalty

**4** Shareholders' rights

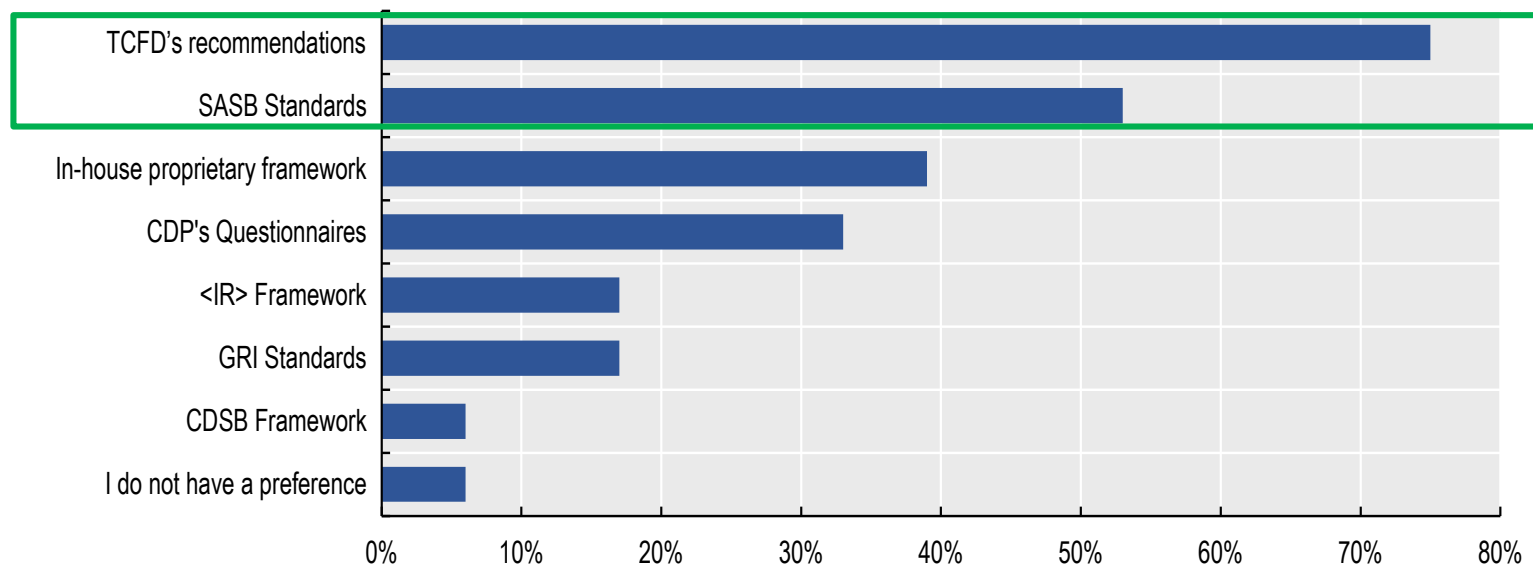
## The concept of materiality: financial vs. double materiality

- Financial materiality: information is expected to influence an investor's or a creditor's analysis of **a company's future cash flows**.
  - The rule in **financial standards** (e.g. IFRS) and **securities regulation** (such as the disclosure of risks in annual forms).
  - The rule in **most existing sustainability standards** (e.g. SASB and TCFD).
- Double materiality: what is **financially material** + a company's **effect on society and the environment**.
  - **EU Non-Financial Reporting Directive**.
  - The **exception** in existing sustainability standards (GRI Standards).

## The concept of materiality: financial vs. double materiality

- The top two preferred reporting frameworks by institutional investors are **the TCFD recommendations** and **the SASB Standards**.

Institutional investors' ESG reporting preferences in 2020



Source: Morrow Sodali (2021), Institutional Investor Survey.



# ESG standards

## Climate-related and other ESG standards

Institution	System	Materiality	Audience	Issues
Financial Stability Board's - TCFD	TCFD's recommendations	Financially material	Investors, lenders and insurance underwriters	Climate-related issues
Value Reporting Foundation – SASB Standards Board	SASB Standards	Financially material	Investors	A great number of ESG issues, with subset of standards in each of 77 industries
Value Reporting Foundation – Integrated Reporting Framework Board	<IR> Framework	Financially material	Investors	A great number of ESG issues
Climate Disclosure Standards Board	CDSB Framework	Financially material and relevant	Investors	Environmental information
IFRS Foundation – International Sustainability Standards Board	IFRS Sustainability Standards	Financially material	Investors	Initial focus on climate-related issues, but with a plan to cover a great number of ESG issues
Global Sustainability Standards Board	GRI Standards	Double materiality	Multiple stakeholders	A great number of ESG issues, with a plan to have a subset of standards in each of 40 sectors
GHG Protocol	GHG Protocol Corporate Standards	-	-	GHG emissions
CDP	CDP's questionnaires	-	Investors and customers	Climate change, forests and water security

Source: Standards, frameworks and websites of the institutions visited in July and November 2021; OECD elaboration.

## Directors' duty of loyalty

- Different models of director's duty of loyalty reflect a combination of “**shareholder primacy**” and “**stakeholder capitalism**” views with a varying degree.

- ❖ “Shareholder primacy” view:

- Only **shareholders' financial interests** in the long-term.
- One advantage: clear **accountability**.

- ❖ “Stakeholder capitalism” view:

- **Shareholders' and other stakeholders'** interests are equally important.
- May compensate a **market failure** (e.g. inadequate public policies to reduce GHG emissions).

- On matters related to ESG issues, **shareholders** have been exercising some of **their rights**.

- **Ongoing litigations on climate and ESG related matters**

- On GHG emissions reduction targets

- **Fit-for-purpose legislation** for profits + common goods:

- Public Benefit Corporations in **Delaware**: balance all stakeholders' interests + defined public benefits
  - 207 private and 7 listed PBCs.
- **Société à Mission** in France: adopt social and environmental objectives
  - 203 private and 3 listed sociétés à mission.



**Thank you for your attention!**

