

**ICGN**

International Corporate Governance Network

Inspiring good governance & stewardship

The Rt Hon Alok Sharma MP
COP26 President
26th United Nations Climate Change Conference

Via email: alok.sharma.mp@parliament.uk

20 October 2021

Dear Minister Sharma,

Re: ICGN Statement of Shared Climate Change Responsibilities to the United Nations Climate Change Conference of the Parties 26 (COP 26)

I have pleasure in sending you a Statement from the International Corporate Governance Network (ICGN) regarding climate change related priorities for governments and capital market participants.

Led by investors responsible for assets under management of over \$59 trillion, and bringing together companies and stakeholders, ICGN advances the highest standards of corporate governance and investor stewardship worldwide in pursuit of long-term value creation, contributing to healthy and sustainable economies, society, and environment.

ICGN engages with policy makers around the world to advocate for high standards of corporate governance, primarily from the perspective of long-term institutional investors. In this regard we have taken the liberty of articulating a series of priorities relevant for governments, investors, companies, and auditors which we hope will be useful to the deliberations at COP 26. I attach the Statement for your perusal and highlight the following priorities for your consideration:

- For Governments: Publish action plans and commit funding for achieving net-zero carbon emission targets, including carbon pricing, eradication of fossil fuel industry subsidies, phasing out coal-based electricity generation and strengthening Nationally Determined Contributions for 2030 in line with the Paris Agreement.
- For Investors: Publicly commit to science-based targets on how investment portfolios will achieve net-zero carbon emissions by 2050, improve quality of climate-related disclosure, and integrate financial, natural, and human capital considerations into stewardship activities across asset classes.
- For Companies: Publicly commit to science-based targets on how the business will adapt to net-zero carbon emissions by 2050 aligned with company purpose and long-term strategy. Transition plans should include assessments of physical, transition and liability risks and opportunities based on climate change scenario analysis.
- For Auditors: Ensure the application of guidance related to climate change risks in planning and performing audits on financial statements as provided by standard-setters. Commit to discharging obligations under professional standards as external auditors with quality, integrity, and independence.

Much of ICGN's work is guided by the ICGN Global Governance Principles which were established in 2001 and are used by ICGN Members in their voting policies and company engagements. The ICGN Principles were updated this year with specific reference to climate change under guidance 7.5 as follows:

“The board should assess the impact of climate change on the company business model and how it will be adapted to meet the needs of a net zero economy as part of a long-term strategy. This includes setting and disclosing targets to reduce carbon emissions and a period for achievement. Where climate change risks, whether physical or transitional, are identified as material and relevant, reporting should include discussion of the diligence process, strategy, metrics, targets and initiatives used to manage the risks. Disclosure around these actions would help investors understand the resilience of companies facing climate change risks and to assess progress towards achieving net zero targets.”

As we advance towards a net-zero carbon emission economy by 2050, strong corporate governance, and investor stewardship, supported by common sustainability reporting standards and reporting, will be critical. ICGN’s Statement sets out priorities for companies, investors, auditors, and governments to clearly identify challenges, determine solutions, and implement assertive action. It is in this spirit that we share our Statement with you and hope that our comments are helpful.

We remain at your disposal should you wish to engage with ICGN on the positions outlined in our Statement and wish you a successful 26th United Nations Climate Change Conference.

Yours faithfully,



Kerrie Waring,
Chief Executive Officer, ICGN
Kerrie.waring@icgn.org

Cc: George Dallas, ICGN Policy Director (George.dallas@icgn.org)
Robert Walker, ICGN Sustainability Manager (rwalker@icgn.org)

**ICGN**International Corporate Governance Network
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**ICGN Statement of Shared Climate Change Responsibilities
to the United Nations Climate Change Conference of the Parties 26
20 October 2021**

The United Nations Climate Change Conference of the Parties (COP 26) will bring together governments and stakeholders to accelerate actions to address the world's climate crisis and limit global warming to below 1.5°C by 2100. This 'Statement of Shared Climate Change Responsibilities' clarifies the position of the International Corporate Governance Network (ICGN), a global organisation led by investors responsible for assets of \$59 trillion, regarding priorities for governments and capital market participants.

Scientists have warned that global carbon emissions have risen by 20% over the past five years with atmospheric temperature increases set to exceed 3°C by 2100 if action is not taken now to wean our dependence from fossil fuels. We are already experiencing weather extremes with intense temperatures, rainfall, floods, fire, and drought. United Nations Secretary-General António Guterres has characterized the most recent report of the Intergovernmental Panel on Climate Change (IPCC) as 'code red' for humanity, asserting that *"The alarm bells are deafening, and the evidence is irrefutable."*¹

The climate crisis is intricately linked to the biodiversity crisis. In a landmark report, the IPCC and the Intergovernmental Science Policy Platform on Biodiversity and Ecosystem Services concluded: *"Unprecedented changes in climate and biodiversity, driven by human activities, have combined and increasingly threaten nature, human lives, livelihoods and well-being around the world. Biodiversity loss and climate change are both driven by human economic activities and mutually reinforce each other. Neither will be successfully resolved unless both are tackled together."*²

The climate and biodiversity crises have exacerbated social inequality by decreasing life expectancies, disrupting cultures, and impairing the ability of disadvantaged groups to sustain, cope and recover. As the world's industrial economy transitions towards net-zero carbon emissions, workers, communities, and entire regions are in peril of being stranded. This was recognised in the Paris Agreement 2015 stating: *"Actions must take into account the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally-defined development opportunities."*³ The transition to net-zero must be just, inclusive, and effectively address social inequality as a systemic risk.

In this context, the United Nations Sustainable Development Goals (UNSDGs) set out a vision for a prosperous future that can guide efforts towards a just transition to net-zero carbon emissions. Though not initially designed for capital markets participants, the UNSDGs define global priorities for public and private institutions. They provide a strategic vision for the future and can help guide how investors, companies, and other capital market actors to adapt long-term strategy, enhance risk management practices and innovate for a just transition towards net zero carbon emissions.

ICGN Recommendations

As we advance towards a just transition, strong corporate governance and investor stewardship, supported by common sustainability reporting standards and reporting, will be critical. Corporate boards, management, investors, the auditing profession, standard setters and others have unique responsibilities to clearly identify challenges, determine solutions, and implement assertive action. This will help ensure that present and future generations are not unfairly burdened with the negative social, ecological, political, economic, and financial consequences that result from the climate and biodiversity crises.

It is in this spirit that ICGN recommends the following priorities for consideration:

For Investors:

- Publicly commit to science-based emission reduction targets (including credible interim targets) on how investment portfolios will achieve net-zero carbon emissions by 2050. Improve the quality of climate-related public disclosure including investment policies, company engagements, proxy voting and submissions to authorities. Where feasible, investors should collaborate to leverage influence and align expectations towards companies and stakeholders.
- Comprehensively integrate financial, natural, and human capital considerations into stewardship activities across asset classes, investment decision-making, company monitoring, engagement (individually or collectively) and voting⁴. Stewardship activities should ensure that boards of directors are held to account for achieving progress towards meeting just transition plans.
- Ensure that contractual terms in mandates between asset owners and asset managers incorporate stewardship obligations associated with sustainable value creation and positive impact as described in the ICGN Model Mandate⁵ consistent with just transition concepts.

For Companies:

- Publicly commit to science-based targets (including credible interim targets) on how the business will adapt to net-zero carbon emissions by 2050 aligned with the company's purpose and long-term strategy. Transition plans should include assessments of physical, transition and liability risks and opportunities based on climate change scenario analysis. The board should communicate progress towards meeting just transition plans through annual reports to shareholders and other stakeholders⁶.
- Ensure robust governance procedures and board competence in overseeing how management identifies, monitors, measures, and manages climate change risks and opportunities aligned with company purpose and long-term strategy⁷. Effective oversight relies on a genuinely diverse group of directors with relevant knowledge, independence, experience, and cognitive skills to ensure effective, equitable and inclusive decision-making.
- Align CEO and senior executive pay and incentives fairly and effectively with the company's purpose, strategy and workforce while respecting global best practices⁸. This entails the use of quantifiable financial, human, and natural capital related performance metrics, particularly those associated with the company's just transition plan and how long-term value is created by integrating these elements into business operations.

For Auditors:

- Ensure the application of guidance related to climate change risks in planning and performing audits on financial statements as provided by standard-setters such as the International Accounting Standards Board and the International Auditing and Assurance Board. Commit to discharging obligations under professional standards as external auditors with quality, integrity, and independence.⁹
- Where required by regulation or requested by companies, provide assurance on quantitative and qualitative corporate sustainability reporting, and ensure that conflicts of interest are well-managed. Reporting should reflect the complexities in a contemporary business by blending financial, human, and natural capital considerations in the context of a company's current and future strategic direction.¹⁰
- Collaborate with standard-setters as they develop requirements that ensure companies report the effects of climate risks and opportunities on assets and liabilities and develop financial reporting requirements for various types of carbon or other pollutant pricing mechanisms.

For Governments and Standard-Setters:

- Publish action plans and commit funding for achieving net-zero carbon emission targets, including carbon pricing, eradication of fossil fuel industry subsidies, phasing out coal-based electricity generation and strengthening Nationally Determined Contributions for 2030 in line with the Paris Agreement. Introduce incentives to mobilise private capital towards climate solution investments including renewable energy, resource efficiency, smart technologies, and innovative infrastructure investments.
- Support the establishment of the International Sustainability Standards Board¹¹ as proposed by the IFRS Foundation, to ensure consistency among sustainability reporting standards, coordinated with standards on financial statements and management commentary. This includes consideration of internationally agreed frameworks, such as the Taskforce for Climate-Related Financial Disclosures and the Taskforce for Nature-Related Financial Disclosure to provide material information required by investors and stakeholders to allocate capital appropriately.
- Mandate regulations and collaborate internationally to criminalise ecocide. Ensure sanctions, enforcement, and resources to protect biodiversity, advance conservation and increase protected areas as guided by science. Protect human rights and incorporate the perspectives of disadvantaged groups and regions adversely impacted by biodiversity measures and transition plans. Countries should ratify and implement relevant labour and occupational health and safety standards that contribute to decent work for workers and businesses affected by the just transition.

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About ICGN

Led by investors responsible for assets under management of US\$59 trillion, and bringing together companies and stakeholders, ICGN advances the highest standards of corporate governance and investor stewardship worldwide in pursuit of long-term value creation, contributing to healthy and sustainable economies, society, and environment. For more information visit www.icgn.org.

¹ See 'Guterres: The IPCC Report is a code red for humanity' (2021): <https://unric.org/en/guterres-the-ipcc-report-is-a-code-red-for-humanity/>

² See IPBES 'Tackling Biodiversity & Climate Crises Together and Their Combined Social Impacts' (2021): <https://www.un.org/sustainabledevelopment/blog/2021/06/tackling-biodiversity-climate-crises-together-and-their-combined-social-impacts/>

³ See Paris Agreement (2015): https://unfccc.int/sites/default/files/english_paris_agreement.pdf

⁴ See ICGN Global Stewardship Principles (2020): https://www.icgn.org/sites/default/files/ICGN%20Global%20Stewardship%20Principles%202020_0.pdf

⁵ See ICGN Model Mandate (2012) currently being revised in partnership with the UN Global Investors for Sustainable Development Alliance

⁶ See ICGN Global Governance Principles (2021), Guidance 7.5: Climate change: https://www.icgn.org/sites/default/files/ICGN%20Global%20Governance%20Principles2021_0.pdf

⁷ See ICGN Global Governance Principles (2021), Guidance 1.5: Commitment: https://www.icgn.org/sites/default/files/ICGN%20Global%20Governance%20Principles2021_0.pdf

⁸ See ICGN Global Governance Principles (2021), Principle 5: Remuneration: https://www.icgn.org/sites/default/files/ICGN%20Global%20Governance%20Principles2021_0.pdf

⁹ See ICGN Global Governance Principles (2021), Guidance 7.3 (h): Financial Reports https://www.icgn.org/sites/default/files/ICGN%20Global%20Governance%20Principles2021_0.pdf

¹⁰ See ICGN Global Governance Principles (2021), Guidance 7.4: Sustainability Reports: https://www.icgn.org/sites/default/files/ICGN%20Global%20Governance%20Principles2021_0.pdf

¹¹ See ICGN Letter to the IFRS Foundation in support of the proposed ISSB (14 September 2021): https://www.icgn.org/sites/default/files/19.%20ICGN%20Letter%20to%20IFRS%2C%20%20Proposed%20Establishment%20of%20an%20International%20Sustainability%20Standards%20Board%2C%2014%20Sept%202021_0.pdf