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BUSINESS ENVIRONMENT COUNCIL
商界環保協會

BEC Topical Digest

Corporate Governance for Climate Resilience Report Highlights

For the past 20 years, environmental, social and governance (ESG) has evolved rapidly. From corporate philanthropy and best practice to standards for communicating various sustainability and financially material topics, more attention has now been put towards the interactions of "E", "S" and "G", especially on how strong corporate governance can build resilience against the physical and transition risks of climate change, and deliver better social and environmental performances, through a top-down approach.

Effective corporate governance for climate resilience requires strong Board oversight to manage climate-related risks and opportunities. Our research found that listed companies in Hong Kong are gradually improving their Board oversight on climate-related issues, including the establishment of a Board-level sustainability committee. In order to become more climate resilient, we recommend a city-wide climate resilience strategy to provide guidance for companies to follow. More advocacy work on climate resilience and its relevance to day-to-day work will be useful to align understanding for staff across all levels. Continuous training and recognition of climate risk and resilience professionals with provision of context-specific data are also crucial to ensure quality assessments, facilitate benchmarking and co-learning.

This Topical Digest highlights key findings of the study. Read full report here.

Trends of Corporate Climate Governance in Hong Kong

Governance

- Listed companies in Hong Kong are demonstrating **climate accountability** through establishing **Board-level sustainability committee**, Board statement and company policies on climate change/sustainability, setting and reviewing emission reduction targets
- **Board awareness on climate resilience** is largely supported by Board trainings, advisory from internal and external experts and introduction of **Board diversity**
- Group sustainability department plays an important role to inform Board discussions on climate resilience, coordinate with senior management, translate climate-related impacts into business terms and draw implications to operational practices

Risk Management

- **Coordination between Board-level sustainability and risk & audit committees** enables strong oversight on climate risk management
- "Climate adaptation/resilience" is not commonly identified as a materiality metric. Rather, "carbon & energy", "energy saving", "greenhouse gas emissions", which are more mitigation focused
- Recommendations provided by the **Taskforce for Climate-related Financial Disclosure (TCFD)** is the most adopted approach to conduct climate risk assessments to evaluate group and/or asset-wide climate risks
- Many in-house ESG and sustainability professionals find difficulty to conduct climate risk assessment, given the assessment technicality and limited access to government data for scenario analyses

Strategy

- **Climate change integration** is readily seen among listed companies in their strategic planning and **Enterprise Risk Management (ERM)**
- Climate-related issues are incorporated into company strategies via two approaches – (1) "climate change" as a stand-alone risk; and (2) climate change as a contributing factor of each type of risks
- Incorporation of **climate-related performances as key performance indicators (KPIs) and/or executive incentive programmes** for senior management staff and Board directors are effective means to drive better climate-related/ESG performances

Disclosure & Engagement

- The TCFD-recommended framework for climate-related disclosure is often perceived by companies as an additional reporting structure. More emphasis should be placed on **corporate governance** as an **enabling factor** for **better risk management, strategic planning** and development of **metrics/targets**
- Most companies are using KPIs from the HKEx ESG Reporting Guide and UN Sustainable Development Goals as their climate-related metrics and targets with little emphasis on governance and other non-quantifiable indicators
- Bottom-up approach should couple with corporate governance to demonstrate company commitment on climate resilience, e.g. **stakeholder engagement, staff awareness programmes, public policy contributions**, etc.

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Checklist on Effective Corporate Governance for Climate Resilience

- Embed climate change and sustainability concepts in company's core values
- Establish committees/working groups/taskforces to oversee climate-related discussions
- Advocate Board directors and staff to align understanding on climate resilience
- Include subject-expertise on climate change as criteria to appoint Board directors
- Integrate climate risks and opportunities into ERM and/or business continuity plans
- Formulate corporate-wide strategy on climate change and climate resilience action plans
- Incorporate climate related KPIs for senior management and Board directors
- Disclose governance structure and director responsibilities related to climate change
- Demonstrate commitment on climate change through regular dialogues with industry peers, policymakers, investors and civil society

About Business Environment Council Limited 商界環保協會有限公司

Business Environment Council Limited ("BEC") is an independent, charitable membership organisation, established by the business sector in Hong Kong. Since its establishment in 1992, BEC has been at the forefront of promoting environmental excellence by advocating the uptake of clean technologies and practices which reduce waste, conserve resources, prevent pollution and improve corporate environmental and social responsibility. BEC offers sustainable solutions and professional services covering advisory, research, assessment, training and award programs for government, business and the community, thus enabling environmental protection and contributing to the transition to a low carbon economy.

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