



10 QUESTIONS NEDs SHOULD BE ASKING ABOUT CLIMATE CHANGE IN FINANCIAL SERVICES

HELPSHEET

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Climate change is firmly on the board agenda, but it can be challenging to ask the right questions about new rapidly changing risks. ICAEW's Financial Services Faculty and the Sustainability team highlight 10 questions non-executive directors can ask to get a robust conversation going and help drive strong governance.

1. Where does the board get its information on climate change and what is the quality of that information?

Climate change is a complex and inherently systemic issue. The risks are uncertain and not always visible. Boards need the right level of information for decision-making, including risk and opportunities in their strategies.

2. To what extent does the board have an awareness and understanding of how climate change may affect the company?

Boards need to ensure that collectively they are aware of the effect climate change may have on the business. The tone set at board level will drive greater understanding and commitment from senior management and staff.

3. Is there climate change expertise on the board itself? If not, how does the board go about accessing that expertise?

Boards may consider including a non-executive director who has specific expertise when it comes to climate change. If this is not possible, external advisors need to be tasked with including climate considerations in their advice.

4. Is there a designated director responsible for climate change and how is the responsibility structured?

Managing climate-related risks and opportunities at director level ensures sufficient scrutiny of those risks and opportunities. For banks and insurers in the UK, there is regulatory expectation that such management is included in the senior manager function.

5. How does the board ensure that there is sufficient and sustained attention given to climate change related risks?

Once there is the right level of expertise on the board, the board needs to maintain awareness and understanding of the issues. These considerations need to remain standing items on the agenda, and regular updates must be requested from executives by the board.

6. Does corporate strategy include a holistic climate strategy informed by scenario analysis?

Climate-related risks and opportunities will affect the business over different timeframes in uncertain and variable ways. Strategic decision making should be based on scenario analysis and the results built into strategic planning decisions.

7. Are short-, medium- and long-term timeframes considered in assessing climate change related risks and opportunities?

Short-term decisions may have a profound effect on a company's long-term position. Boards must explicitly consider the long-term impact of climate change on the business, taking into account long-term resilience.

8. How does the board ensure that climate risks and opportunities are identified, monitored and managed across the company?

Climate-related risks and opportunities should be integrated across the whole company so their impact, potentially negative or positive, is clear to all. Risks should be mitigated and opportunities enacted.

9. Are any climate targets and/or goals integrated into management's incentivisation model?

Incentivisation should be designed to align the interest of executive directors to the long-term health and resilience of the company. The board should approve and monitor the suitability targets and goals against which management is assessed.

10. Is the board prepared to explain the company's disclosures on climate to investor-led challenges?

Some companies are reluctant to disclose climate-related information in case detailed disclosures reveal commercially sensitive information and/or make the company vulnerable to future legal action. In fact, accurate and decision-useful climate disclosures made to investors and other stakeholders should help mitigate risks of failing to disclose relevant information about the company.

Further reading:

How to Set Up Effective Climate Governance on Corporate Boards (WEF) –

<https://www.weforum.org/whitepapers/how-to-set-up-effective-climate-governance-on-corporate-boards-guiding-principles-and-questions>

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Chartered Accountants' Hall
Moorgate Place, London
icaew.com

T +44 (0)20 7920 8100
E generalenquiries@icaew.com