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Boards and ESG Governance

May 20, 2022

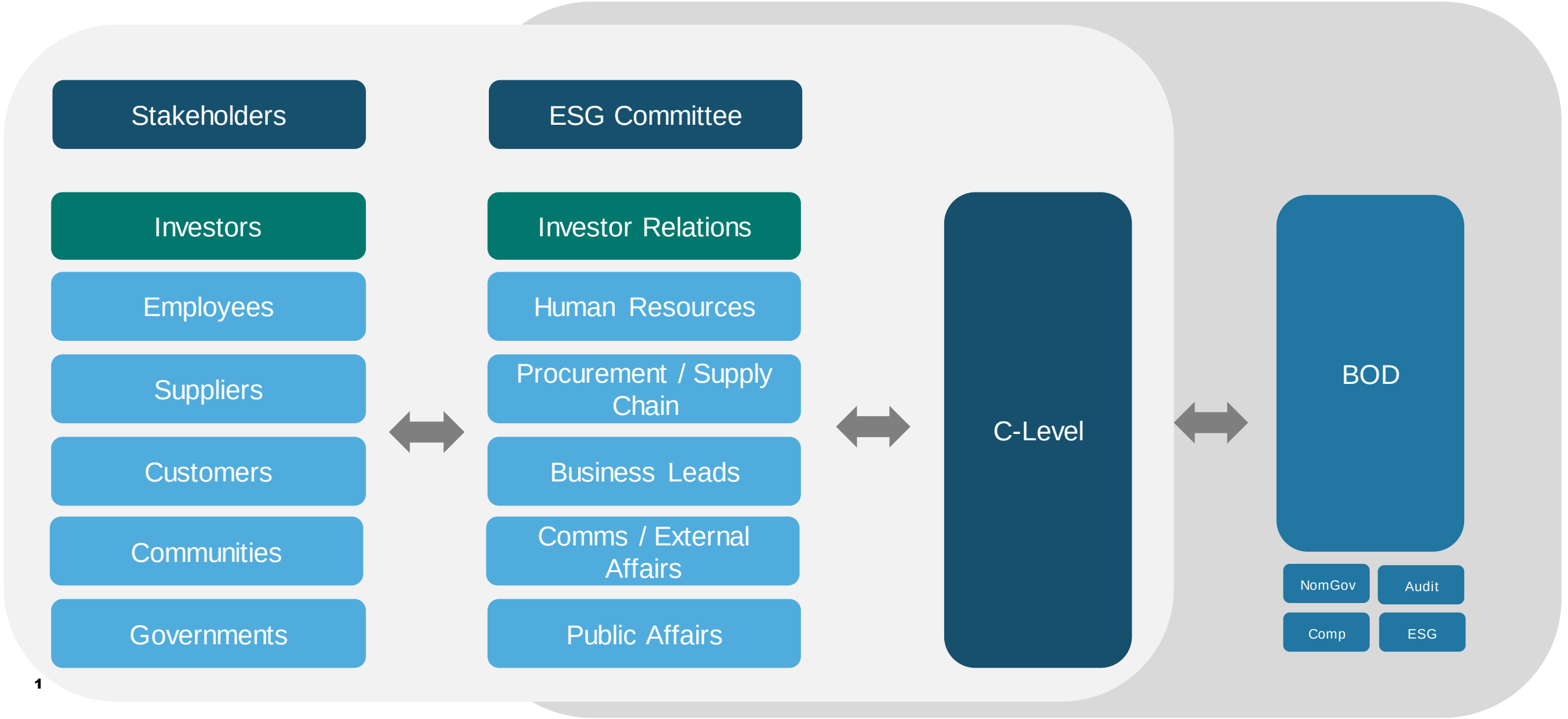
Brian C. Matt, CFA

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ESG Governance

Operational vs. oversight – possible structure

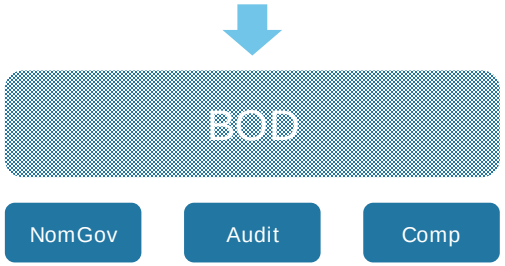


ESG governance – common structures

Four most common BOD structures in use today

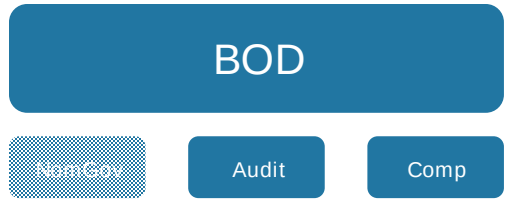
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Assign responsibilities to full board



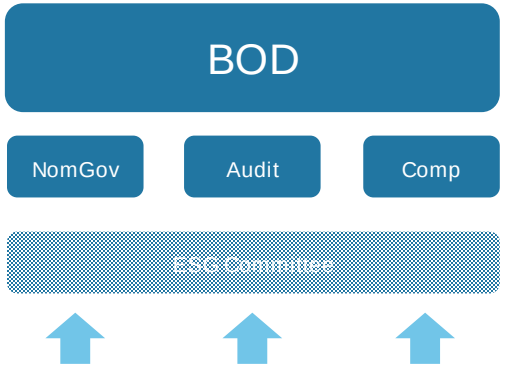
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Assign responsibilities to existing committee (often nomgov)



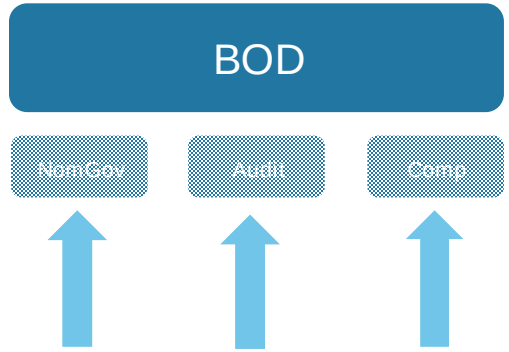
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Dedicated board-level ESG / sustainability committee



4

Federate ESG responsibilities out to multiple committees



ESG Governance – selecting a structure

Board skills

- Availability of **narrow skill sets** – sustainability skill sets often industry-specific
- Availability of **general skill sets** – climate, HCM, DE&I more broadly comparable
- **New skills** and evolution of requirements (cyber, climate)
- **Comp committee** and ESG-aligned exec compensation

Committee / full board agendas

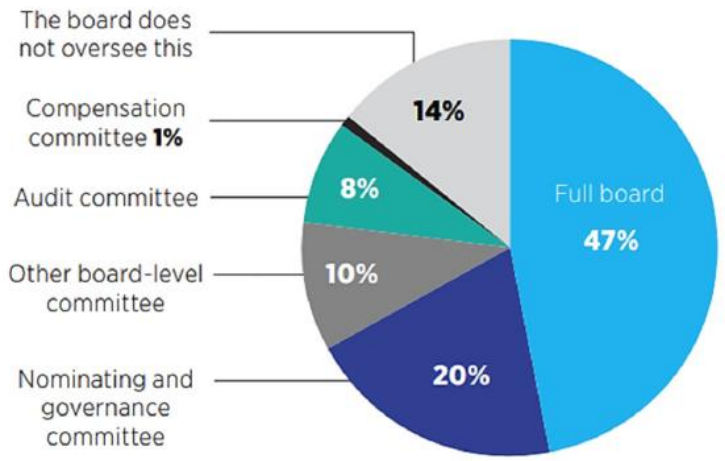
- **Crowding out** – does ESG rank too low on a committee's agenda
- **Isolation** – does separating ESG responsibilities silo it from business strategy?
- **Overlap** – does multiple committees lead to risk of overlap at full board level

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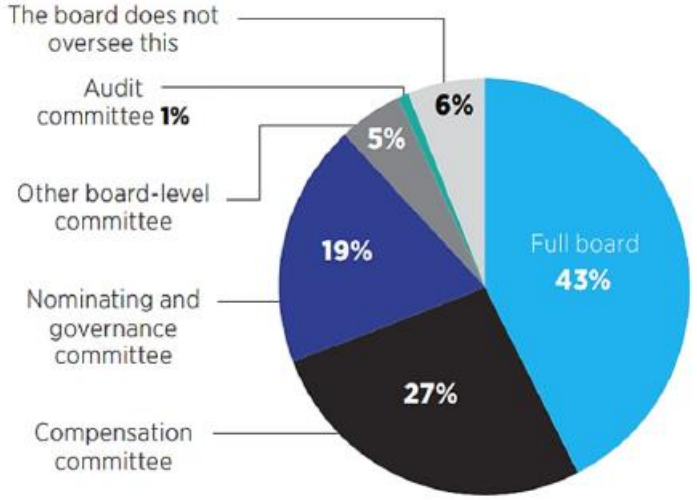
ESG Governance – selecting a structure

Choice of structure varies by size and stage of company

Where does oversight of climate-related risks and opportunities primarily reside within your board?

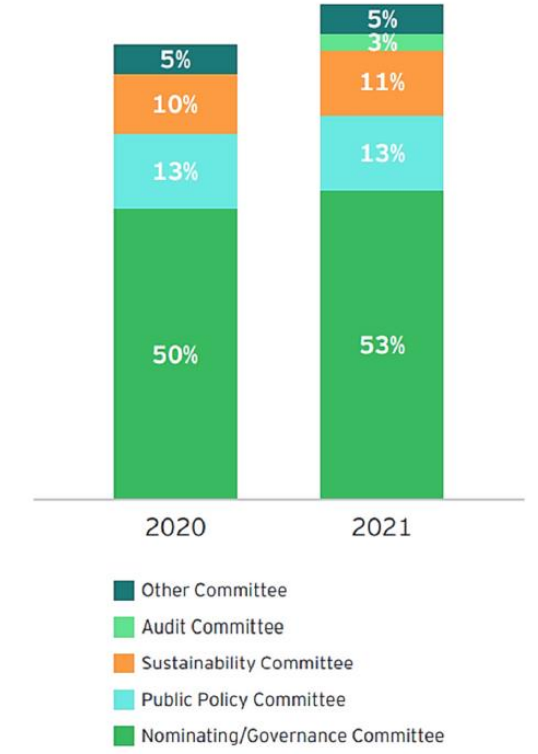


Where does oversight of broader workforce diversity, equity and inclusion primarily reside within your board?



*Percentages may not add up to 100 due to rounding.

Committee oversight of environmental sustainability or corporate social responsibility matters
(% Fortune 100)



Source: Analysis by EY Center for Board Matters

Source: https://corpgov.law.harvard.edu/2021/11/10/esg-governance-board-and-management-roles-responsibilities/

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Considerations on governance structure

Potential new regulatory requirements

- SEC proposed **cyber** rules (March 22):
  - board disclosure of cyber oversight, process, evaluation of cyber risks
  - board disclosure of cyber expertise
  - (safe harbor for director with expertise…)
- SEC proposed **climate** rules (March 22):
  - board disclosure of climate risk oversight, process for informing board, integration of climate risk, frequency of discussion
  - board disclosure of climate expertise

Suggestions & resources for onboarding process for new directors

- **1:1 from CSO, IRO**, other stakeholder leads
- NACD / other **third-party training** toolkit
- **ESG topic briefs** – short description of topic with links to internal and external resources, useful for ongoing training

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Appendix

Resources

Board member education / training

- Ceres / UC Berkeley ESG director education program: link
- Diligent / Glass Lewis climate leadership program: link
- Competent Boards ESG Designation program: link
- NACD ESG Oversight resource center: link

Board structure & function

- PWC corporate directors' guide: link
- Deloitte – board role in overseeing ESG: link
- KPMG on ESG in agendas: link
- EY on board oversight concepts: link
- Conference Board – corporate board practices guide: link

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10 tips for board reporting on ESG

1. **Use the appropriate depth** – committee vs. full board, wider range of knowledge / awareness in larger group
2. **Stakeholder, especially investor, feedback is paramount** – seek it out even from analysts / PMs if you haven't talked to stewardship teams recently
3. **Level-set, progress, goal** framework works well for reporting individual topics
4. **Structure reporting** on ESG by a) **materiality assessment** or b) **stakeholder group**
5. **Reach out in advance** – ask questions to make sure you're covering new topics effectively
6. **The appendix is your friend** – both for reference and to plant the seed for future topics
7. **Keep the balance** – "balanced scorecard" approach can keep appropriate focus on any individual topic, limiting too much depth
8. **Use outside education resources** – NACD, others can help give boards pre-reads on new topics
9. **Provide perspective on third-party ESG ratings**
10. **Listen for what's next** – include the future look of rising topics in peers / industry

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