Ceres Guidance for Engaging on Climate Risk Governance and Voting on Directors

Ceres, a nonprofit organization focused on solving climate and sustainability challenges through coordinated action by capital market leaders, recently issued its 2022 Guidance for Engaging on Climate Risk Governance and Voting on Directors (guidance). The guidance provides information on corporate governance practices and lobbying as well as disclosure of climate-change related risks and opportunities, noting that this information is valuable to investors and proxy adviser firms preparing for upcoming annual shareholder meetings and shareholder engagement. In addition, the guidance promotes compliance with the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD). This Alert provides a brief overview of the guidance.

Top 10 Guidance Based on TCFD "Governance" Recommended Disclosures and the Net-Zero Company Benchmark As Well As Climate Action 100+ Net Zero Company Benchmark Indicators

The guidance notes the following with respect to disclosures and benchmarking around climate risks and opportunities:

1. Companies should publicly disclose, in a committee charter or in the corporate governance guidelines, the company's oversight of climate-related risks and opportunities and efforts by the company to reduce greenhouse gas emissions.
2. Companies should establish and maintain a committee dedicated to managing the company's climate-related risks. This committee should be comprised of members from various company departments such as audit, human resources, research and development, risk management, and more.
3. Companies should disclose, in their proxy statement or corporate social responsibility report, how each director's experience or expertise allows them to contribute to the company's ongoing discussions on climate risks and opportunities.
4. Companies should respond to votes by a majority of the shareholders that address climate-related proposals and director nominations.
5. Companies should disclose their actions related to climate-change controversies or incidents.
6. Companies should nominate at least one independent director to connect with significant shareholders on climate change risks and opportunities.
7. Companies should include in their scope of work by the company's financial team and independent auditors the review and analysis of climate-related risks and their impact on the financial statements.
8. Companies should implement a transition plan targeted at reducing greenhouse gas emissions and reaching other climate-related goals.
9. Companies should align their policies and practices with climate lobbying activities consistent with the Paris Agreement.
10. Companies should include the disclosures recommended by the TCFD.

How Investors and Proxy Advisory Firms May Hold Boards Accountable for Inadequate Climate-Related Risk Governance

The guidance highlighted the point that investors and proxy advisory firms dissatisfied with an organizations action on climate-related risks and opportunities may withhold, and are withholding, support from directors and chairs of committees such as the audit committee, nominating and governance committee and public affairs committee.

How Companies Should Consider and Implement Guidance

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Related Practice Areas

- Capital Markets & Securities
- Corporate Governance
- Environmental, Social & Governance

According to Cynthia McHale, Ceres senior director, “Strong climate governance is particularly critical given the urgent, systemic and non-diversifiable risks that the crisis poses to the economy and to investor’s portfolios, as well as the significant threat it poses for individual companies.” The guidance informs investors and proxy adviser firms of the climate-related corporate actions recommended for companies. As a result, we recommend companies consider the guidance as they address climate-related risks and opportunities through corporate governance and disclosures.