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GOVERNANCE IN THE NEW DECADE: **THE RISE OF BOARDROOM ESG**

NOVEMBER 2020

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INTRODUCTION

COVID-19, recognition of institutionalized racism, and climate change are rapidly transforming organizations and board room dynamics. Boards and governance professionals need to equip themselves to understand the evolving expectations of boards as society hurtles through the 21st century.

To help Boards and Governance Professionals get up to speed on this topic, Governance Professionals of Canada convened its second annual conference on ESG Governance on September 14, 2020. This followed a very successful first-ever deep dive on ESG Governance in May 2019. As before, it was attended by participants from a cross-section of business, investment, academic and non-profit sectors, and included people in corporate director, governance professional, sustainability, and investment roles. Due to COVID-19 the session was held virtually, which enabled participation from thought leaders and practitioners from around the world. Registration was up over 40% from the prior year, indicating both the virtues of virtual events, and the rising interest in the topic.

COMPANION REPORT: PURPOSE GOVERNANCE: A NEW ROLE FOR BOARDS

Governance Professionals of Canada held a plenary discussion at its 22nd Annual Corporate Governance Conference on Purpose Governance and the Role of the Board of Directors. [Click here for a copy of the report and to learn more about this rising governance trend.](#)

The purpose of the conference was to understand:

- What is ESG (Environmental, Social, Governance) and Climate Governance and how does this relate to the board's role?
- What practices should competent boards have in place to build ESG and Climate Governance in their organizations from the perspective of directors and corporate secretaries?
- How is the rest of the world responding? What are international developments and perspectives on ESG Governance and the implications for Canadian governance?
- How are capital markets making use of ESG information and how does it affect investor decision-making?

This Discussion Paper summarizes the conference dialogue and is intended to stimulate further progress in ESG Governance at organizations across Canada and beyond.

The list of moderators, panelists and resources is provided in the Appendix, along with a link to a recording of the session.

This summary report was produced by the Conference Chair, Coro Strandberg, President of Strandberg Consulting and ESG/Purpose Governance faculty member of [GPC's Governance in Practice Education Program](#).

CONFERENCE HIGHLIGHTS

- ESG Governance is now mainstream. ESG Governance best practices exist – boards and advisors can use them to update their governance models to address ESG
- Board ESG competency is a significant gap, and can be addressed through the recruitment of directors with ESG expertise, routine board ESG education and ensuring professionals advising the board have ESG expertise
- These are the top ESG topics raised in the conference:
 - Diversity
 - Climate change
 - Systemic racism
 - Biodiversity
 - Indigenous reconciliation
 - Purpose of the corporation
 - Income inequality
 - Stakeholder relations
 - COVID-19
- There is a trend to companies moving away from shareholder value creation towards stakeholder value creation and to companies adopting a societal purpose as the reason they exist
- COVID-19 has accelerated ESG, and paves the way for business model innovation and transformation towards a more sustainable future
- Global regulatory ESG developments will raise the bar for Canadian companies who need to keep abreast of these changes to reduce the cost of capital and compete globally
- The role of the board and governance professional includes:
 - Be proactive and not reactive
 - Go beyond ESG risk mitigation to value creation
 - Consider stakeholders in decision-making
 - Keep on top of regulatory trends
 - The S in ESG matters, including indigenous rights, human rights, employee rights, etc.

Finally, a number of panelists commented that ESG is moving from risk reduction to value creation – in the future companies and their boards will need to think of ESG not just as a risk to the business but as a future source of value. Companies will need to have positive stakeholder relations and demonstrate their positive societal impact to thrive in the future.

LESSONS FROM ESG GOVERNANCE 2019

The Conference opened with a reflection on the key lessons from last-year's event, as follows:

- A year ago, participants agreed that ESG Governance was an emerging topic for boards and yet was not fully mainstream
- It was acknowledged there is no legal risk for boards to consider ESG performance
- The need to address social sustainability beyond environmental sustainability was recognized as important
- Boards and committees were counseled to formalize their ESG roles; it was mentioned that GPC offers an ESG Governance award, the criteria of which provide a good checklist for boards and advisors to benchmark their practices

The Conference chair flagged a few developments since 2019 as the Conference backdrop:

- There is a rise in ESG investing
- ESG reporting has increased in Canada, and there is a rise in auditor verification of ESG reports
- More and more companies are setting up ESG committees
- Boards are increasingly using ESG metrics in incentive compensation programs
- There is a move away from the language of CSR towards ESG, as evidenced by reporting

THOUGHT LEADER REFLECTIONS ON ESG GOVERNANCE DEVELOPMENTS

A thought leader panel kicked off the Conference, reflecting on the ESG Governance trends of the past year and into the future. Key themes include:

- **Increase in ESG Governance**
 - ESG momentum is picking up. ESG investment products are proliferating, ESG assets under management are growing, large investors are building their ESG teams
 - ESG Governance has hit the mainstream. Boards are becoming more proactive to understand shareholder expectations and how ESG affects their business
- **Rising focus on social issues**
 - Year of the E (environment) became year of the S (social), due to COVID-19 and the recognition of systemic racism
 - Boards are expected to go beyond gender diversity to consider racial justice

- **Interest in corporate purpose and stakeholder value creation**
 - More companies are adopting a “societal purpose” as the reason their companies exist. There is an emerging expectation that boards approve and provide oversight of the company’s purpose
 - Shareholder primacy is being questioned – and doesn’t operate in Canada due to our unique legislative context. Instead, companies need to be responsive to stakeholders, creating broader value to society, not having a sole focus on profit for shareholders
 - According to Canadian laws, directors are not confined to short term profit or share value, but should look to the long-term interests of the company and stakeholders; directors have a responsibility to treat stakeholders equitably and fairly, according to the BCE judgement rule; directors are better protected in Canada by considering stakeholder interests
- **Climate change oversight is director responsibility**
 - As Canadian courts have given judicial notice on climate change (judicial notice is when a fact is so well-known and proven that it cannot be reasonably doubted), boards don’t need to prove to Canadian courts that climate change exists (since 2014). Thus, in executing their duties Canadian directors are obliged to consider climate change risk
 - Having a climate change denier on your board is not adding a diverse perspective, that director is renegeing on their duty of care to the corporation
- **ESG Governance momentum will continue to accelerate**
 - Over the coming five years, the pace will not slow down. ESG disclosure is likely to be standardized driving greater ESG measurement, management and reporting
 - In the future, investors will focus on ESG impact and outcomes. For example, companies will be evaluated against the UN Sustainable Development Goals, which are a way to measure their societal impact

INTERNATIONAL ESG GOVERNANCE DEVELOPMENTS

An international panel shared their views of ESG Governance practices from around the world. Key themes include:

- **European Union is demonstrating ESG leadership**
 - There is a high level of market penetration, asset growth and level of ambition in sustainable finance and ESG. EU has developed a taxonomy on sustainable finance which is being put into EU regulation. It is expected to become the de facto gold standard for ESG worldwide. The taxonomy includes:
 - **Environment:** climate change mitigation and adaption, protection of water and marine resources, circular economy transition, pollution prevention and control; biodiversity and ecosystem protection

- Social: minimum social safeguards related to international instruments:
 - International Bill of Human Rights
 - OECD Guidelines for Multinational Enterprises
 - UN Guiding Principles on Business and Human Rights
 - ILO Declaration on the Principle of Rights at Work
- **ESG regulation is growing around the world.** There is ESG regulation in most markets, forcing capital markets to think of their purpose which includes sustainable outcomes. For example, South Africa requires integrated reporting (in which companies disclose their financial and non-financial performance in one report) and requires boards to have ESG committees
- **Stakeholder and Purpose Capitalism is redefining the role of business in society.** The Business Roundtable on the Statement of the Purpose of the Corporation said companies should serve all stakeholders, not just shareholders. From this perspective, ESG is about more than risk and return but about the outcomes of a company's activities on society. A global Diligent survey reveals most directors agree a company is more than an economic unit generating wealth. They believe business is moving to stakeholder capitalism. Directors now regularly consider the impact of decisions on stakeholders at board meetings, since the pandemic. This is expected to rise post-pandemic. Boards are expected to focus on how to create value for a broader range of stakeholders in future.

GUEST SPEAKER ADDRESSES ANTI-BLACK SYSTEMIC RACISM

Wes Hall, Executive Chairman of KSS Group of Companies and the founder of The Canadian Council of Business Leaders Against Anti-Black Systemic Racism and the BlackNorth Initiative, described the importance of dismantling systemic racism. He profiled the work of the Council which is dedicated to holding corporations accountable for ending anti-Black racism in their organizations and invited participants to take the [Pledge](#) in support of ending anti-Black systemic racism.

ROLE OF THE BOARD AND GOVERNANCE PROFESSIONAL

A panel of directors and governance professionals spoke to the ESG role of the board and advisors. This section sums up ideas raised throughout the Conference.

- **ESG advice to governance professionals:** Take advantage of your unique position to influence boards, given role providing advice and connecting with the board, CEO, and staff. There are so many opportunities to advance ESG in the organization as a governance professional. Be a change agent within your organization and be proactive in getting the board on the right path; be proactive, not reactive. Ensure board agendas provide room for ESG
- **ESG advice to boards:** Create a boardroom culture where diverse views can be shared. Directors need to feel comfortable sharing their views with each other. Boards should be proactive, not reactive, on ESG. Specific suggestions for advancing the ESG discussion at the board include:
 - Updating Director Duties to include ESG; include ESG in director onboarding; add ESG to all your governance documents
 - Enhancing Board ESG competency through ESG education, access to outside ESG expertise, including ESG in the skills matrix, and broaden recruitment beyond the c-suite to find expertise in climate, diversity and other ESG issues
 - Creating a platform for boards to engage stakeholders on ESG issues
 - Requiring outside advisors to have ESG expertise
 - Ensuring ESG is addressed in the ERM, corporate strategy and incentive compensation
 - Using an integrated report for disclosures, that includes ESG/non-financial metrics
 - Having conversations with investors and ask them what ESG issues are important to them
 - While the full board needs to “own” ESG, there are different views on having an ESG committee. Some think the board should have a stand-alone committee to allow in depth exploration of issues; others believe it should be the responsibility of the full board and not delegated to a committee. The board can also incorporate ESG into all board committees

CAPITAL MARKETS

A panel of capital markets ecosystem players shared how they address ESG from their perspective. This section is a summary of the discussion.

- **ESG supply chain:** There is a whole supply chain of interest in ESG information. ESG information is now being demanded from asset owners, universities, municipalities, and others. Asset owners and assets managers are now under pressure to show how they are performing on ESG and this is driving demand for greater and reliable ESG disclosure from public companies. ESG disclosures are also used to inform corporate shareholder engagement and proxy-voting
- **Regulatory developments:** There is a global push for regulatory requirements for standardized ESG disclosure. If Canadian companies hope to raise capital outside of Canada, they need to meet these new standards

CLIMATE GOVERNANCE

A panel of climate governance experts shared their views on the imperative for boards to accelerate their climate governance oversight, as summarized below.

- **Board has broad climate role:** An accelerated response to climate change is needed by all organizations to avoid the predicted catastrophic impacts of rising global temperatures. Boards need to understand their oversight roles, the physical risks, and value propositions, liability risks, and transition risks to a low carbon economy, such as regulatory changes, reputational changes, technology changes. COVID will be seen to be relatively minor compared to the impacts of climate change. In addition to managing the risks, there are opportunities for innovation and value creation – and boards need to understand all these impacts and opportunities to inform corporate strategy
- **Investor engagement:** Investors are coalescing around the Task Force on Climate-Related Financial Disclosure (TCFD), and this is moving into regulator discussions. TCFD is more than a disclosure guideline, it provides advice on how to govern and manage climate risks and opportunities. Boards are advised to reach out to their investors to discuss what climate disclosure they would like to see
- **Governance enhancements are required:** Boards need to think long-term and thus should rethink their risk models which tend to be short-term. All board committees should address climate change, for example, governance committees should ensure up to date climate change resources are provided as part of onboarding and director education; audit committees need to understand how information on ESG risk is flowing up to boards; ESG committees should have climate related risks in their mandates. The entire board of directors should be educated on climate change risk. Boards need access to relevant data and experts to make sense of it. Boards should have outside, independent advice – if they rely on internal resources, they might not get the full picture
- **ESG expectations of advisors:** Expectations of professional advisors, including lawyers, accountants, and auditors, is increasing. They need to keep abreast of changing ESG expectations

CONCLUSION

The Conference concluded with a recognition that boards and their advisors need to keep abreast of these rapidly changing expectations. GPC will be furthering ESG Governance education and tool development over the coming years to address this rising demand. It believes ESG Governance is now a necessary skillset for boards and those who advise them.

APPENDIX

Conference Recording

The conference recording is available for free to 2020 ESG Conference attendees [HERE](https://gpcanada.org/Governance-in-the-New-Decade/):
<https://gpcanada.org/Governance-in-the-New-Decade/>

For non-attendees, the conference recording can be purchased [HERE](https://gpcanada.org/Sys/Store/Products/170545):
<https://gpcanada.org/Sys/Store/Products/170545>

Conference Moderators and Panelists

Panel 1: Thought Leader Expert Panel Returns

Moderator: **Coro Strandberg**, President, Strandberg Consulting and GPC advisor on Sustainability Governance

Panel: **Christie Stephenson**, Executive Director, Dhillon Centre for Business Ethics, University of British Columbia's Sauder School of Business; **Carol Liao**, Associate Professor, Peter A. Allard School of Law, University of British Columbia; **Ian Robertson**, Vice- President, Director and Portfolio Manager, Odlum Brown and Chair of the Board, Responsible Investment Association; **Jennifer Coulson**, Vice President, ESG, Public Markets, BC

Panel 2: International ESG Governance Developments

Moderator: **Helle Bank Jorgensen**, CEO & Founder, Competent Boards Inc.

Panel: **Bob Walker**, International Corporate Governance Network (ICGN); **Will Martindale**, Director of Policy & Research, PRI; **Dottie Schindlinger**, Executive Director of the Diligent Institute, Diligent; **Scott Williams**, Associate Director, PwC; **Lisa Hayles**, Investment Manager, Trillium

Panel 3: ESG in the Boardroom

Moderator: **Margie Parikh**, Principal, On Governance Consulting and Board Director

Panel: **Argiro Kotsalis**, Vice President, Legal and Chief Governance Officer, Vancouver Airport Authority; **Kim Baird**, Board Member; **Penny McIntyre**, Corporate Director, PVH, **John Bell**, Chief Advisor Strategic Planning, Governance and Sustainability, BC Housing; **Karina Litvak**, Non-Executive Director, Eni S.p.A. and Founder/Executive Director of Chapter Zero

Panel 4: ESG Governance and the Capital Markets Ecosystem

Moderator: **Michelle de Cordova**, Principal, ESG Global Advisors Inc.

Panel: **Andrew Sweeney**, Vice President, PH&N Institutional, RBC Global Asset Management Inc; **Shannon Rohan**, Chief Strategy Officer, Shareholder Association for Research and Education (SHARE); **Blythe Clark**, Engagement & Stewardship Analyst, Connor, Clark & Lunn Financial Group Ltd.; **Gary Hawton**, Senior Director of Client Relations, Sustainalytics

Panel 5: Climate Change Governance

Moderator: *Stephanie Bertels*, Director, Centre for Corporate Governance and Sustainability, SFU Beedie School of Business and Founder, Embedding Projects

Panel: *Robin S. Cox*, PhD, Director Resilience by Design Research Innovation Lab, Professor Disaster and Emergency Management, Royal Roads University; *Jamie Bonham*, Director, Corporate Engagement, NEI Investments; *Roopa Davé*, Partner, Sustainability Services, KPMG; *Ravipal Bains*, Associate, McMillan LLP

Guest Speaker:

Wes Hall, Executive Chairman, KSS Group of Companies and Founder and Chair of The BlackNorth Initiative

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