instituto brasileiro de governança corporativa

Guide on Climate Governance for Board of Directors

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Guide on Climate Governance for Board of Directors

São Paulo | 2024

Founded on November 27, 1995, the Brazilian Institute of Corporate Governance (IBGC), a civil society organization, is a national reference and one of the main reference organizations for corporate governance worldwide. Its purpose is to generate and disseminate knowledge on the best corporate governance practices and influence the most diverse agents in their adoption, contributing to the sustainable performance of organizations and, consequently, to a better society.

ICGC
Instituto Colombiano de Gobierno Corporativo

The Colombian Institute of Corporate Governance (ICGC) was founded on March 17, 2017, by a group of entities and business leaders in the country, with the purpose of promoting the development and adoption of good corporate governance practices in Colombia, contributing to the improvement of organizational management and performance and, consequently, to the general well-being of society.

To achieve this, it will conduct activities such as:

a. Developing training programs in corporate governance for members of boards of directors, senior executives, partners or shareholders, auditors, fiscal reviewers, and the public interested in the subject.

b. Organizing forums and conferences on corporate governance to promote discussion and interaction around the topic.

c. Providing information that supports the performance of governance bodies in public, private, and mixed organizations.

Instituto de Gobierno Corporativo de Costa Rica

The Costa Rican Institute of Corporate Governance (IGC-CR) is a non-profit association, founded on August 20, 2009, which seeks to be the main source of information and training in corporate governance for public and private organizations in the country.

The objective of the IGC-CR is to help national companies survive in the market in the medium and long term, through the implementation of good practices in their internal structures and in their organizational control and management processes.

Board of Directors

Board Chair
Silvia Canales Coto

Deputy Board Chair
Hugo De La Fuente Sánchez

Board Members
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Jessica Salas Arroyo
José Francisco Naranjo
Matthew Sullivan
Neftalí Garro Zúñiga
Roberto Truque Harrington
Victor Chácon Rodriguez

The Corporate Governance Institute of Panama (IGCP) is a non-profit organization committed to promoting good corporate governance practices. It was founded on July 23, 2008, with the support of Panamanians interested in contributing to the dissemination of the concept of corporate governance and its benefits for companies in our country. The Institute is the main center in Panama for training, dissemination, and research in corporate governance and for sharing knowledge.

Board of Directors

Board Chair
Marta Cristina Lasso

Deputy Board Chair
Marisol Sierra

Board Members
Geasmine Quesada
Jorge Luiz Real
Justin Lahitte
Luis Müller
Temístocles Rosas

Instituto de Gobernanza Empresarial y Pública

The Institute of Business and Public Governance (IGEP) is a non-profit civil association based in Argentina, dedicated to studying, developing, and promoting best governance practices in business, non-governmental and public organizations.

IGEP promotes the professionalization and continuous training of board members of companies and organizations, through the development of knowledge, capabilities and skills that are essential to guarantee competence in their professional performance.

Furthermore, it constitutes a professional meeting point, both for practicing board members and for graduates of training and certification programs as company senior managers.

Board of Directors

Board Chair
Santiago Juan Gallichio

Deputy Board Chair
Luis Rodriguez Villasuso

Corporate Secretary
Alejandro Emilio Marchionna Faré

Treasurer
Silvia Giordano

Board Members
Cecilia Osler, Eduardo Reilly Grant, Pablo San Martín
Deputy Board Members: Alejandro Bertín, Sebastían Rossi

Chapter Zero Brazil
The IBGC Climate Forum

The Climate Governance Initiative (CGI) is an initiative of the World Economic Forum that aims to mobilize boards of directors to address the challenge of climate change in their organizations.

Created in 2019, as a branch of a Forum working group, the movement has a growing number of supporters around the world, thus forming a global network of independent organizations.

IBGC is Chapter Zero Brazil, the Brazilian chapter of CGI, and is committed to promoting content and events to inform, exchange ideas and share experiences on actions that minimize climate change, for the benefit of the planet. The goal is to raise awareness and train board members and business leaders so that they can identify the risks and opportunities that the climate emergency represents.

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IDB Invest is a multilateral development bank committed to promoting the economic development of its member countries in Latin America and the Caribbean through the private sector. IDB Invest finances sustainable companies and projects to achieve financial results and maximize economic, social, and environmental development in the region. With a portfolio of $21 billion in assets under management and over 394 clients in 25 countries, IDB Invest provides innovative financial solutions and advisory services that meet the needs of its clients in a variety of industries. Visit our website www.idbinvest.org/en.

Production
Writing: Mirá Sustentabilidade. **Proofreading, text preparation and spelling and grammar review:** Anna Santiago, Renan Perondi and Thais Domingues. **Graphic Design, Layout and Cover:** Kato Editorial. **Cover Image:** Adobe Stock.

Acknowledgement
To Carolina Colleta, Gabriela Blanchet and Meire Ferreira for the critical reading and comments sent to a restricted audience.

We would like to express our gratitude to IDB Invest, specifically to the members of the Corporate Governance team, Bruno Sbardellini Cossi and Rebeca Fernandez Vivas, and the climate advisory team, Luis Alejandro Mejia, Malini Samtani, and Tamara Handfas, for their contributions to the body of this guide.

International Cataloguing in Publication Data (CIP) according to ISBD

I59g Instituto Brasileiro de Governança Corporativa

Guide on Climate Governance for Board of Directors [electronic resource] / Instituto Brasileiro de Governança Corporativa ; translated by José Marcos Brito dos Santos. - São Paulo, SP : Instituto Brasileiro de Governança Corporativa - IBGC, 2024.
40 p. ; PDF ; 1,00 MB.

Translation of: Guia de Orientação sobre Governança Climática para Conselhos de Administração
Includes bibliography and index.
ISBN: 978-65-85913-14-0 (Ebook)

1. Corporate governance. 2. Climate governance. 3. Boards of directors I. Santos, José Marcos Brito dos. II. Title.

CDD 658.4
2024-3796 CDU 658.114

Prepared by Odilio Hilario Moreira Junior - CRB-8/9949

Index for systematic catalog:

1. Corporate governance 658.4
2. Corporate governance 658.114

Summary

Introduction

Boards of Directors face a constant and increasing challenge of understanding the impacts of climate change on companies across different sectors and contributing to corporate decision-making to minimize corporate, social, environmental and climate risks in their operations.

The *Guide on Climate Governance for Boards of Directors* proposes practical recommendations to guide board members in relation to their role as governance agents in a global context of increasing intensity and frequency of the impacts of climate change on business.

The guide is based on the eight principles of climate governance and their respective guiding questions, presented in the publication *How to establish effective climate governance on boards of directors*, prepared by the World Economic Forum and translated by the Brazilian Institute of Corporate Governance (IBGC). This guide complements other internationally recognized corporate governance standards and frameworks, such as the ISSB (International Sustainability Standards Board), ensuring an integrated approach aligned with global best practices.

This publication is a partnership between the Brazilian Institute of Corporate Governance, the Colombian Institute of Corporate Governance, the Costa Rican Institute of Corporate Governance, the Panamanian Institute of Corporate Governance, Institute of Corporate and Public Governance, and Chapter Zero Brazil, with the aim of guiding and engaging board members from their countries to follow global guidelines for tackling climate change, while considering the local realities and contexts of Latin America.

The guide provides an overview of the current climate change scenario in a selection of Latin American countries so that board members can acquire relevant knowledge and sources and formulate their own assessments in the contexts of the companies and countries in which they operate. In this sense, it is essential that boards of directors adapt the recommendations presented here to the socioeconomic realities and specific climate vulnerabilities of their regions. This adaptation will allow climate governance practices to be applied more effectively and contextually, meeting local needs without losing sight of global standards. The document includes information from studies conducted by international organizations and institutions recognized by the countries where they operate, in addition to government data.

Enjoy your reading.

Executive Summary

Climate Change: a public and private issue

The impacts of climate change on the economy and society have required action by international organizations, governments, civil society, and the private sector to combat global warming and to mitigate and adapt to existing environmental effects. Since the signing of the Paris Agreement in 2015, 195 countries have recognized that it is necessary to keep the increase in the global average temperature to less than 2°C above industrial levels and to promote efforts to limit the temperature increase to 1.5°C above pre-industrial levels. (UNITED NATIONS BRAZIL, 2015).

Despite many efforts, in 2023, the Emission Gap Report 2023, the final document of COP28 (UN Conference of the Parties on Climate Change) held in Dubai, highlighted the need for countries to increase their actions and be more stringent in the full implementation of Nationally Determined Contributions (NDCs – in the abbreviation in English). In September of the same year, Brazil announced the adjustment of its climate targets – returning to the initial NDCs proposal made in 2015 in the Paris Agreement –, committing to reduce Brazilian greenhouse gas emissions by 48% by 2025 and by 53% by 2030.

Nations face different scenarios when developing public policies that enable a positive context for advancing their NDCs, which must ensure the decarbonization of the economy. In the NDCs, countries present their goals and action plans to achieve them. In addition, the document must include plans for resilience and adaptation to climate change.

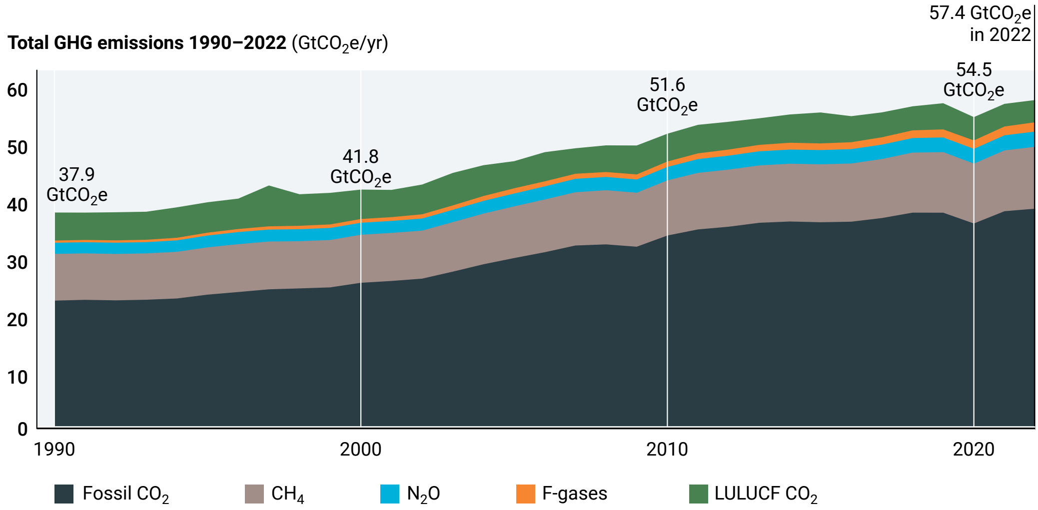
> "The report finds that progress has been made since the Paris Agreement was signed in 2015. Greenhouse gas (GHG) emissions in 2030, based on current policies, were projected to increase by 16% at the time of the agreement's adoption. Today, the projected increase is 3%. However, projected 2030 greenhouse gas emissions are still expected to fall by 28% for the Paris Agreement's 2°C trajectory and by 42% for the 1.5°C trajectory." (EMISSIONS GAP REPORT 2023, 2023)

In global terms, most GHG emissions come from the energy sector, which is responsible for around three-quarters of the production of these gases worldwide, as shown in the graph of total greenhouse gas emissions published in the Emission Gap Report 2023 (Figure 1). Therefore, the energy transition is considered the most important action to achieve the goal of controlling the increase in the planet's temperature. This is especially true for the countries that lead the list of largest emitters, according to the United Nations (UN): China, the United States, India, the European Union, and Russia (Figure 2). These countries must increase the production and consumption of renewable energy and continually reduce the use of fossil fuels.

The challenge for Latin American countries is to combine a cleaner energy base with fewer emissions with the need for socioeconomic development, considering Latin American realities and needs to the detriment of a Eurocentric development pattern.

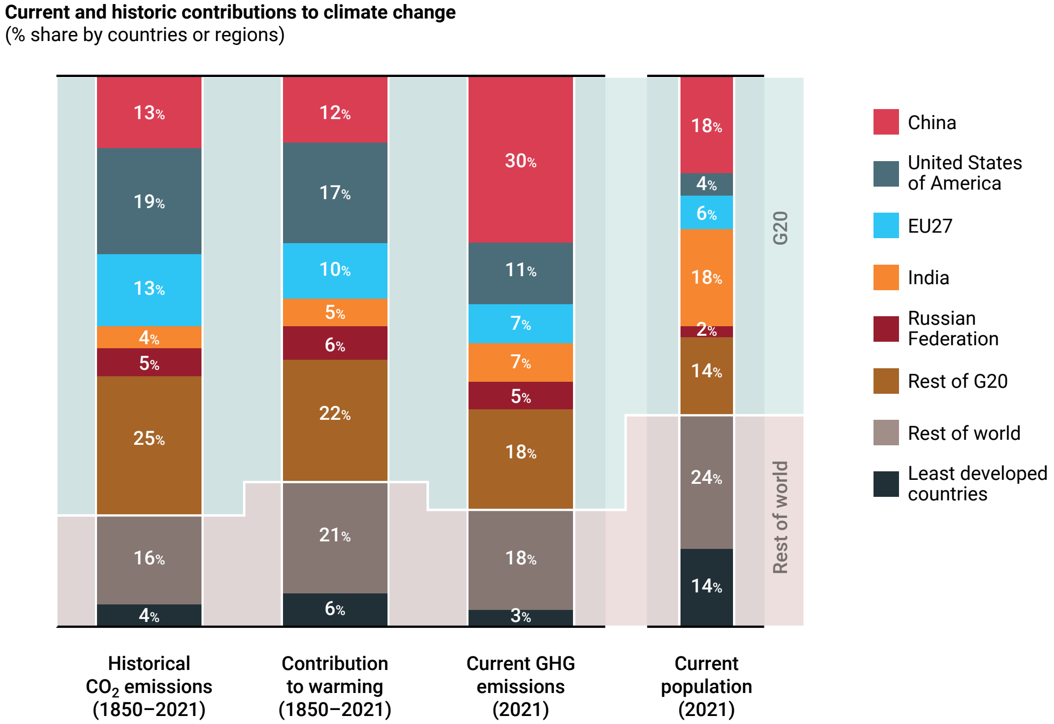
Most GHG emissions come from the energy sector, which is responsible for around three-quarters of the production of these gases worldwide.

Figure 1 Total greenhouse gas emissions



Source: Emission Gap Report 2023

Figure 2 Contributions to climate change by countries and regions

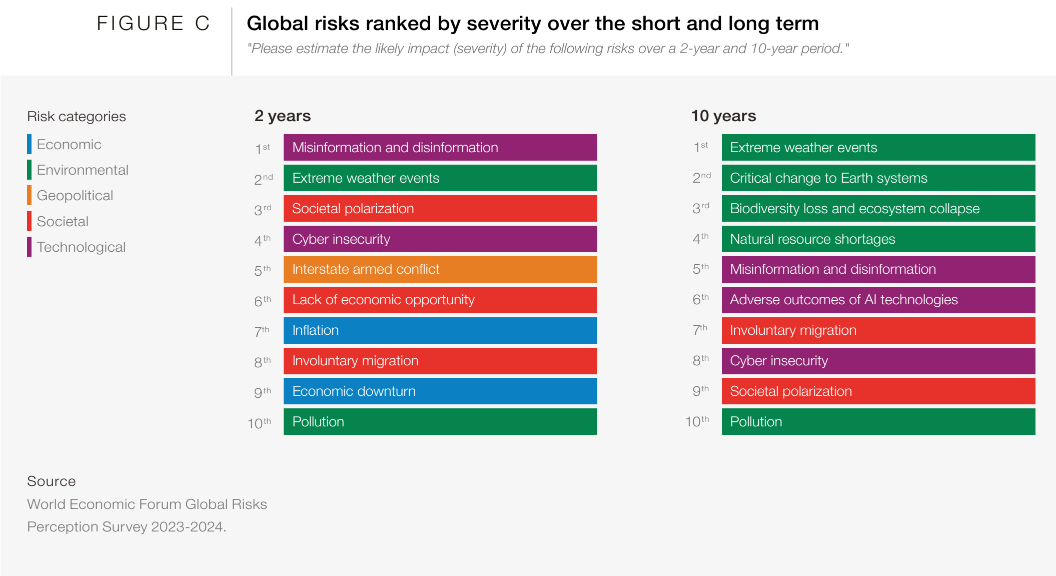


Source: Emission Gap Report 2023

The private sector plays a key role in developing and implementing adaptation and mitigation plans. However, the perception of urgency for these actions differs among representatives of governments, civil society, and companies. This is shown in the World Economic Forum's Annual Global Risks Report 2024 (2024). Younger executives believe that "extreme weather" is a short-term risk, within the next two years, while older executives consider these concerns to be ten years out, if aligned with the general perception that environmental issues are more evident risks in the long term (Figure 3).

"The private sector highlights these (environmental) risks as key long-term concerns, in contrast to civil society or government respondents who prioritize these risks in the shorter term. This dissonance in perceptions of urgency among key decision-makers implies substandard alignment and decision-making, increasing the risk of missing key moments of intervention that would result in long-term changes to planetary systems." (GLOBAL RISKS REPORT 2024, 2024)

Figure 3 Key global risks for the short and long term



Source: Global Risks Report 2024

Even though this segment of executives considers environmental risks to be long-term, ten years should not be considered too far away when preparing a strategic plan aimed at the sustainability and resilience of the business, which must meet the expectations of its investors, customers, and society.

The Carbon Disclosure Project (CDP), an institution that works on collecting and organizing data related to climate impact, showed in its study CDP 2023 disclosure data factsheet (2023), conducted with 23 thousand companies, that the use of renewable energy is an objective for most of them, although it is a reality for the minority. Of the companies that answered about deforestation, 52% state that they are close to eliminating their impact.

Challenges of Decarbonizing the Economy in Latin America

Latin Americans are dealing with the complexity of combining economic development with decarbonization of the economy and environmental preservation. To support them in the planning and implementation of NDCs, national and international organizations have produced a series of studies in partnership with governments.

One example is the Inter-American Development Bank (IDB), which conducted a study to support six countries - Argentina, Colombia, Costa Rica, Ecuador, Mexico, and Peru - in defining their public policies of an economic and social nature to comply with the NDCs Net Zero - Decarbonization: Paths for Latin America: Challenges and Opportunities (2020) shows how, with the exception of Peru, the energy sector, especially with regard to transportation, should be the focus of action for the energy transition in these countries.

To learn about the NDCs and policies adopted by countries, visit UN Climate Change website.

Argentina

Argentina's National Plan for Adaptation and Mitigation of Climate Change, launched in 2022, represented a strategic framework that aims to strengthen the country's actions in both adaptation and mitigation of the impacts of climate change. The main points of the plan include the transversal integration of public policies; greenhouse gas (GHG) emissions reduction targets, aligned with the revised NDCs, with a focus on the goal of not exceeding the net emission of 349 million tons of CO2 equivalent by 2030.

The plan also foresees the mobilization of financial resources, both national and international, to finance adaptation and mitigation actions, including the search for partnerships and international cooperation with a focus on renewable energy; monitoring and evaluation; education and awareness; and measures to increase the resilience of vulnerable communities and sectors, such as agriculture, infrastructure and health, in the face of climate impacts, such as droughts, floods and heat waves.

Brazil

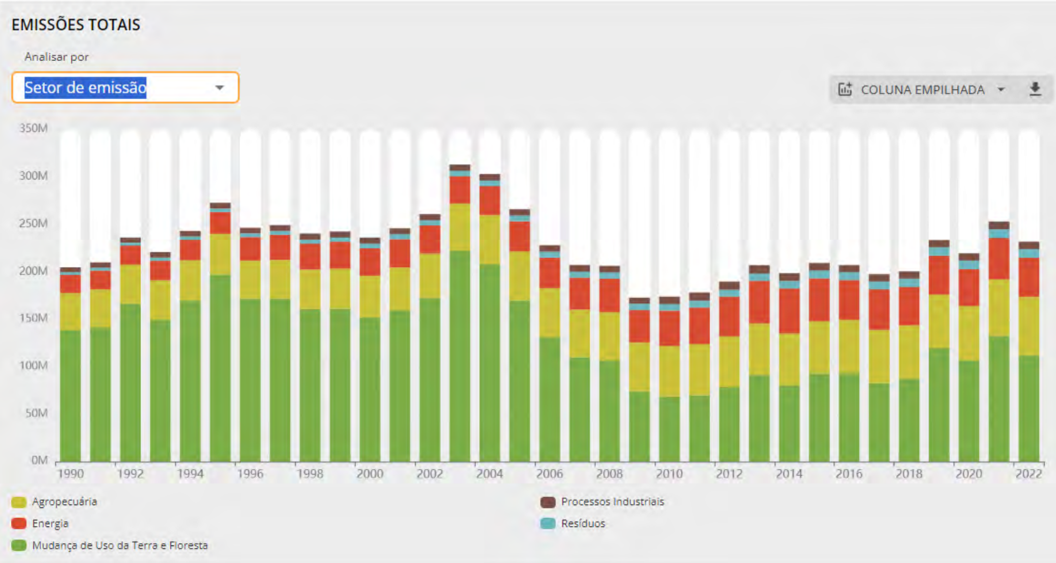
Brazil is a leading player in the debates on the roles and responsibilities of each country in developing actions to control greenhouse gas emissions. At COP28, the country proposed the creation of the Tropical Forest Forever Fund (FFTS), which will support the preservation of tropical forests through resources from developed countries.

Brazil's role on the international stage derives from the fact that 48% of its territory is made up of the Amazon biome and contains the richest biodiversity in the world, according to the publication "Facts of the Amazon 2021" by Imazon. Given this responsibility, in 2023 the country revised its NDC ambitiously: to reduce its emissions by 48% by 2025 and 53% by 2030, in relation to 2005 emissions.

The Brazilian challenge lies in controlling deforestation and land use. Although the Brazilian energy matrix needs to further reduce the consumption of fossil fuels, both in transportation and in industrial processes, it is considered one of the cleanest in the world, with 47% of its energy coming from renewable sources, predominantly biofuels derived from sugarcane, such as ethanol, and hydroelectric power. The graph below, produced by the Brazilian

Emissions Estimation System, shows the extent of the impact of land use on the country's emissions. Thus, the efforts of governments, civil society and companies should focus on developing solutions that support the achievement of the NDCs.

Chart 1 Brazil's Emissions Estimates by Sector (1990–2022)



Source: Climate Observatory SEEG - Greenhouse Gas Emissions Estimation System.

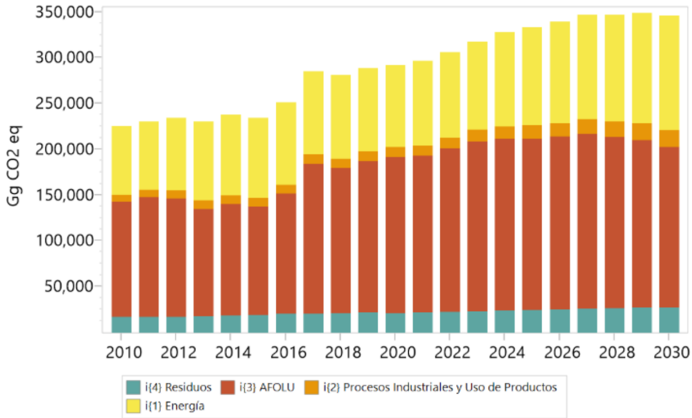
Colombia

Colombia's territory is formed of 40% of the Amazon rainforest, which means that the country, like Brazil, faces the main challenges of controlling land use and deforestation, which are among the most relevant causes of its greenhouse gas emissions, alongside the energy sector.

Colombia is a signatory to the Paris Agreement and is working on developing policies such as the Long-Term Climate Strategy (2021). The country is committed to decarbonizing its economy and adapting to climate change, and highlights these points in the update of its NDCs submitted to the UN in 2020. The goal is to reduce emissions by 51% in total by 2030.

The graph below presents the projections of the Ministry of Environment and Sustainable Development of Colombia for CO2 emissions by sector until 2030, with a predominance of land use and agriculture.

Graph 2 Greenhouse gas emissions in Colombia with projections from the Ministry of Environment and Sustainable Development (2010–2030)



** Acronym in English AFOLU - AGRICULTURE FORESTRY AND OTHER LAND USE*

Source: Ministry of Environment a and Sustainable Development 2020

Costa Rica

In 2022, Costa Rica launched its National Climate Change Adaptation Plan, which defined the strategy to increase the country's resilience to climate impacts over the next five years. In total, the country has forty-nine institutions to implement the planned actions.

Six thematic work areas were defined: (1) knowledge management, climate services and development of institutional capacities; (2) fostering conditions for human and nature resilience through territorial planning; (3) management of biodiversity and ecosystems; (4) adaptation of public services; (5) productive and eco-competitive systems and (6) investments in financial security.

The country revised its NDCs in 2020 and committed to zero greenhouse gas emissions by 2050, and by 2030 its goal is to achieve 9.11 million tons of CO2e (carbon dioxide equivalent). In the document registered with the UN, the government states that meeting these goals depends on international agreements to finance the necessary actions.

Panama

Panama´s NDCs were updated in 2020. In addition to setting targets for reducing greenhouse gas emissions and specific actions for its ecosystems, the country committed to strengthening the transparency of information on climate factors, expanding monitoring and assessment of data. This action aims to improve decision-making conditions and the development of national policies. In 2023, the National Adaptation Plan was launched, which will strengthen governance and institutional coordination to accelerate the country's climate adaptation and resilience actions.

As in Brazil and Colombia, land use and deforestation pose major climate risks in the country, but the energy sector contributed 46% of GHG emissions in 2021. In its review of its targets, Panama defined commitments for the energy and forestry sectors, considering a 24% reduction in total emissions from the country's energy sector by 2050 and 11.5% by 2030. As for forestry, it is planned to restore 50,000 hectares of forest by 2050 across the country compared to the amount recorded in 2020.

Results of the survey on the actions of boards of directors in the face of climate impacts and the net zero strategy

This survey arose from the need to better understand how the boards of directors of organizations in the member countries of the Corporate Governance Network in Latin America and the Caribbean, both administrative and advisory, have dealt with the issue of climate change and the commitment to transition to the net zero strategy.

The survey questionnaire was based on the Board Scorecard – a tool developed by Chapter Zero in the United Kingdom – and consists of twenty questions that aim to indicate how well boards of directors are responding to the challenges of climate change. Adaptations were made to the questionnaire for use in Latin America, and the scope of the questionnaire was expanded to include the perception of the performance of advisory boards on the issue, and not just the performance of boards of directors. The results of this survey have no statistical value but serve to illustrate perceptions on the issue.

What is the organization's country of operation?

	Brazil	Colombia	Costa Rica	Others[1]
No. of respondents	107	54	5	3

1. No responses were received from professionals in Panama, and the survey was not conducted in Argentina. The "others" category includes responses from professionals who indicated working in organizations from Chile, Mexico, or elsewhere in Latin America.

What position do you hold in the organization you work for?

	Brazil	Colombia	Costa Rica	Others
Board Member	43.0%	17.6%	80.0%	66.7%
Fiscal council Member	4.7%	0.00%	0.0%	0.0%
Advisory Board Member	21.5%	9.8%	20.0%	33.3%
Executive management/C- Level	30.8%	72.5%	0.0%	0.0%

Sector of activity of the organization in which the respondent works

	Brazil	Colombia	Costa Rica	Others
Legal services	1.9%	3.9%	20.0%	0.0%
Agriculture and livestock	3.7%	9.8%	0.0%	0.0%
Water and sanitation	1.9%	3.9%	0.0%	33.3%
Food and beverages	2.8%	3.9%	0.0%	0.0%
Auditing and/or consulting	4.7%	5.9%	20.0%	0.0%
Commerce	1.9%	2.0%	0.0%	0.0%
Civil construction	1.9%	3.9%	0.0%	0.0%
Consumption or retail	3.7%	2.0%	0.0%	0.0%
Education	6.5%	3.9%	0.0%	0.0%
Energy	0.0%	2.0%	0.0%	0.0%
Pharmaceutical	0.9%	0.0%	0.0%	0.0%
Industry	15.0%	5.9%	0.0%	0.0%
Infrastructure	1.9%	0.0%	0.0%	0.0%
Planning and/or distribution	3.7%	2.0%	0.0%	0.0%
Petroleum, oil, gas, or biofuel	4.7%	15.7%	0.0%	0.0%
Health or hospital	2.8%	2.0%	0.0%	0.0%
Financial	15.0%	15.7%	40.0%	0.0%
Services in general	5.6%	3.9%	0.0%	33.3%
Technology	5.6%	5.9%	20.0%	33.3%
Telecommunications	3.7%	5.9%	0.0%	0.0%
Third sector	3.7%	2.0%	0.0%	0.0%
Others	9.3%	0.0%	0.0%	0.0%

Statement 1: The topic is included on the board of director's agenda at least four times a year, with clear objectives for discussion, in addition to robust data and information to inform it.

	Brazil	Colombia	Costa Rica	Others
Agree	34.6%	33.3%	0.0%	0.0%
Strongly agree	4.7%	19.6%	20.0%	66.7%
Disagree	29.9%	19.6%	40.0%	0.0%
Strongly disagree	15.9%	9.8%	20.0%	0.0%
Neither agree nor disagree (neutral)	15.0%	17.6%	20.0%	33.3%

Statement 2: The CEO/president, the president, and members of the board of directors or advisory board communicate and disseminate to employees and executives, through the organization's official communication channels, the importance of meeting the climate target established for the organization.

	Brazil	Colombia	Costa Rica	Others
Agree	31.8%	43.1%	40.0%	0.0%
Strongly agree	9.3%	17.6%	0.0%	66.7%
Disagree	20.6%	7.8%	40.0%	0.0%
Strongly disagree	16.8%	9.8%	20.0%	0.0%
Neither agree nor disagree (neutral)	21.5%	21.6%	0.0%	33.3%

Statement 3: Climate-related targets are incorporated into senior management members' salary incentives and remuneration in a meaningful and measurable way.

	Brazil	Colombia	Costa Rica	Others
Agree	7.5%	27.5%	0.0%	0.0%
Strongly agree	3.7%	7.8%	20.0%	0.0%
Disagree	43.9%	15.7%	20.0%	0.0%
Strongly disagree	25.2%	17.6%	60.0%	33.3%
Neither agree nor disagree (neutral)	19.6%	31.4%	0.0%	66.7%

Statement 4: The climate issue is incorporated into the assessment of risks and opportunities and into the core business strategy.

	Brazil	Colombia	Costa Rica	Others
Agree	36.4%	45.10%	20.00%	0.00%
Strongly agree	6.5%	23.53%	20.00%	33.33%
Disagree	25.2%	5.88%	40.00%	66.67%
Strongly disagree	11.2%	7.84%	20.00%	0.00%
Neither agree nor disagree (neutral)	20.6%	17.65%	0.00%	0.00%

Statement 5: The board of directors analyzed the business strategy considering at least two climate change scenarios.

	Brazil	Colombia	Costa Rica	Others
Agree	22.4%	39.2%	0.0%	33.3%
Strongly agree	1.9%	15.7%	20.0%	0.0%
Disagree	32.7%	11.8%	20.0%	33.3%
Strongly disagree	15.9%	9.8%	20.0%	0.0%
Neither agree nor disagree (neutral)	27.1%	23.5%	40.0%	33.3%

Statement 6: The board of directors has set a net zero target for greenhouse gas emissions and is aligned with the commitment to achieve the goal of limiting the global temperature increase to 1.50°C.

	Brazil	Colombia	Costa Rica	Others
Agree	18.7%	31.4%	20.0%	0.0%
Strongly agree	4.7%	17.6%	0.0%	33.3%
Disagree	26.2%	13.7%	60.0%	0.0%
Strongly disagree	24.3%	9.8%	20.0%	0.0%
Neither agree nor disagree (neutral)	26.2%	27.5%	0.0%	66.7%

Statement 7: Ambition has been translated into short-term goals and a five-year action plan.

	Brazil	Colombia	Costa Rica	Others
Agree	19.6%	41.2%	40.0%	0.0%
Strongly agree	3.7%	17.6%	0.0%	0.0%
Disagree	29.9%	7.8%	40.0%	33.3%
Strongly disagree	23.4%	11.8%	20.0%	0.0%
Neither agree nor disagree (neutral)	23.4%	21.6%	0.0%	66.7%

Statement 8: The board of directors has agreed on a set of short- and long-term measures aligned with greenhouse gas emissions reduction plans and reviews the performance of these plans regularly.

	Brazil	Colombia	Costa Rica	Others
Agree	23.4%	39.2%	0.0%	0.0%
Strongly agree	0.9%	11.8%	0.0%	33.3%
Disagree	29.9%	15.7%	60.0%	33.3%
Strongly disagree	20.6%	11.8%	20.0%	0.0%
Neither agree nor disagree (neutral)	25.5%	21.6%	20.0%	33.3%

Statement 9: The board of directors fully understands the requirements of investors related to the theme's "climate" and "climate change" and how they will evaluate the theme and its progress over time.

	Brazil	Colombia	Costa Rica	Others
Agree	34.6%	39.2%	20.0%	33.3%
Strongly agree	3.7%	11.8%	0.0%	66.7%
Disagree	23.4%	11.8%	80.0%	0.0%
Strongly disagree	12.7%	9.8%	0.0%	0.0%
Neither agree nor disagree (neutral)	26.2%	27.5%	0.0%	0.0%

Statement 10: The company discloses its climate ambition, action plans and progress on its actions based on scientific methods and metrics.

	Brazil	Colombia	Costa Rica	Others
Agree	22.4%	43.1%	20.0%	0.0%
Strongly agree	4.7%	17.6%	0.0%	33.3%
Disagree	29.0%	11.8%	40.0%	0.0%
Strongly disagree	20.6%	9.8%	20.0%	0.0%
Neither agree nor disagree (neutral)	23.4%	17.6%	20.0%	66.7%

Practical recommendations based on the 8 Principles for Climate Governance

Developing climate governance is a fundamental tool for boards of directors to develop strategic plans for the sustainability and resilience of businesses in the short, medium, and long term, considering climate impacts. Below we present practical recommendations for boards of directors based on the eight principles for climate governance proposed by the World Economic Forum.

Principle 1: Climate accountability on boards of directors

The board of directors has a fiduciary duty to be accountable to shareholders for the company's long-term results. Accordingly, the board of directors must be accountable for the company's long-term resilience to potential changes in the business scenario arising from climate change. Failure to meet this responsibility may constitute a breach of fiduciary duty.

Recommendations

- Assess the impact of climate change on the business, considering the risks and opportunities and integrating it into the company's overall risk management framework. The assessment should be conducted at least once a year, considering the balance between risks and opportunities for climate transition and adaptation (mitigation of physical risks). In addition, the assessment should include scenario analysis and the company's risks and opportunities in each climate scenario.
- The board of directors must work to ensure that these considerations are integrated into the company's strategy, addressing the interdependence between climate risks and other strategic risks, and considering the constant changes in national and global scenarios, the roles of stakeholders, the views of investors and creditors, and advances in competition.
- Discuss the assessment with the advisory committees so that they incorporate climate change criteria and their respective impacts as a recurring theme in their meetings.
- Request that climate risks be included in the company's risk map and that they be reported, together with opportunities and developments on the topic, in accordance with the guidelines of IFRS S2, which specifically deals with climate-related disclosures.
- Monitor the issue and make decisions based on recurring information provided by the advisory committees and the executive board, as well as having their vision supplemented annually by assessment. In this way, climate change becomes part of the company's business strategy and, therefore, the topic will be part of the board of directors' agenda on a regular basis.

Principle 2: Subject Command (Climate Change)

The board of directors should ensure that its composition is sufficiently diverse in knowledge, skills, experience, and background so that discussions are effective, and decisions are based on knowledge and understanding of the threats and opportunities related to climate change.

Recommendations

- Consider the preparation and periodic review of a competence matrix for the composition of the board of directors that covers the topic of climate change in accordance with the organization's sectors of activity and their socio-environmental impacts.
- Implement an ongoing education and training program for all board members focused on climate change and sustainability. This program should include regular updates on the latest trends, regulations, and global best practices, ensuring that the board of directors is always equipped to make informed decisions. As this is a new topic for the board of directors and the market, changes and innovations are expected to occur from time to time until the best practices are fully agreed upon regionally and globally.
- Consider setting up an advisory committee, especially if there is not at least one board member with knowledge of climate change to provide support.
- Ensure that the company's climate governance is ongoing and monitored, as necessary. It is important that the issue be discussed in the board of directors' meetings at least four times a year, and its impacts be discussed in advisory committees.

Principle 3: **Board of Directors Structure**

As guardians of the long-term performance and fiduciary duties of organizations, the board of directors must determine the most effective way to integrate climate considerations into their structure and committees.

Recommendations

- Ensure that climate issues receive sufficient attention on the board of directors' agenda and that of advisory bodies. The way in which the board discusses and integrates the issue of climate change in its meetings, in advisory committees and in its interactions with the executive board are crucial to superior performance, especially from the perspective of risks and opportunities for business.
- The board of directors should ensure that responsibility for integrating climate governance functions is clearly assigned to senior management. Under the Board of Director's supervision, the CEO should ensure that this responsibility is delegated to a specific part of the organizational structure, whether an existing team or a new unit, with adequate resources.

Principle 4: **Material risk and opportunity assessment**

The board of directors should ensure that management constantly assesses the relevance – in the short, medium, and long term – of climate-related risks and opportunities that present themselves to the company. The board of directors should also ensure that the company's actions and responses to climate are commensurate with the relevance of climate to the company.

Recommendations

- Annually review climate risks and opportunities, monitoring the material impacts generated by the business and targeting the company's long-term strategy.
- Consider climate factors in the organization's strategic planning and ensure that the respective risks and opportunities are reflected in the company's short, medium, and long-term actions in different areas. For that, plans will be needed to mitigate greenhouse gases and adapt operations to a new way of doing business.
- Conduct scenario analysis exercises that consider a wide range of future climate conditions, including transition scenarios. These exercises should be used to evaluate the resilience of the company's strategy, informing the board of directors' decisions on mitigation and adaptation.
- Conduct impact forecasting exercises in different climate scenarios, considering a more conservative context and a more optimistic one, always considering global changes and local impacts. This exercise can be shared with advisory committees so that they can be integrated into the business, through objective goals and monitoring of results.
- Incorporate the results of climate risk analyses into the corporate risk map, ensuring that management and the board of directors can continuously monitor the evolution of these risks and emerging opportunities. Management should report regularly to the board of directors on how climate risks are being mitigated and opportunities explored.
- Together with the committees, define the long-term responsibilities of these bodies, and then the responsibilities and duties of the areas and their respective executives, providing clarity on the topic for the entire organization. This way, the committees will receive support to address the topic correctly in their planning, defining clear goals and monitoring the results of climate impacts on business.

Principle 5: **Strategic Integration**

The board of directors must ensure that climate aspects are systematically integrated into the basis for strategic investment planning and decision-making processes, as well as the management of risks and opportunities throughout the organization.

Recommendations

- Integrate the risks and opportunities brought about by climate change into strategic planning and decision-making processes, even in scenarios with various levels of complexity and uncertainty. This integration will allow boards of directors to act rapidly to address climate-related impacts, establishing mitigation, adaptation, and monitoring plans.
- Ensure that mitigation, adaptation, and monitoring plans include clear and measurable metrics, and that these plans are reviewed regularly to reflect changes in the climate scenario and the company's strategic objectives.
- Ensure that the actions provided for in the mitigation, adaptation and monitoring plans are included in the annual budget, as well as their continuity in subsequent years.
- Work on strategic planning with scenarios that may occur in the event of extreme temperatures, accelerated loss of biodiversity, impacts caused by negative changes in agricultural production, increased incidence of pandemics and constant care for people impacted by the organization.
- Integrate communication and engagement with relevant stakeholders, including investors, regulators, and other stakeholders, into strategic planning. The board of directors should ensure that climate-related decisions are communicated transparently and proactively, reinforcing trust and engagement with these audiences, and aligning expectations with the company's long-term goals and actions.

Principle 6: Incentivization

The board of directors should ensure that senior management's salary incentives are aligned to promote the long-term results of the company. The board of directors may consider including climate targets and indicators in senior management's salary incentive models, when appropriate. In markets where it is common to offer variable incentives to external and independent board members, a similar approach may be considered.

Recommendations

- Decide on the development of a specific incentive policy for senior management members and board members, which considers climate aspects and develops solutions and practices to support the strategy, whether through risk management or by taking advantage of opportunities.
- Ask advisory committees to establish clear performance indicators aligned with the company's long-term goals. Goals and indicators can be developed based on the impacts of climate change on the business, considering the transversal theme, and should be reviewed regularly to reflect changes in climate conditions and corporate strategies.
- Share the goals across the entire executive board, with greater weight given to the areas directly responsible for the topic and the impact generated, as well as to those responsible for strategy and financial planning, as they are responsible for forecasting resources and must ensure that there is a budget for executing the actions.

Principle 7: Reporting and Disclosure

The board of directors should ensure that material climate-related risks, opportunities and strategic decisions are disclosed consistently and transparently to all stakeholders - especially investors and, when required, regulatory bodies. These disclosures should be included in financial reports, such as annual reports and financial statements, and be subject to the same governance disclosure as financial disclosures.

Recommendations

- Ensure that reports and disclosures reporting on actions related to climate adaptation and mitigation and adaptation plans of the climate impacts are transparent, detailed, and accessible.
- Ensure the alignment of information disclosure with international reporting standards, especially the ISSB standards, created in 2021 by the International Financial Reporting Standards Foundation (IFRS)[2] to facilitate comparison and evaluation by stakeholders.
- Consider obtaining independent verification for climate disclosures, ensuring that the data reported is accurate and dependable, which increases the confidence of investors and other stakeholders in the information provided.
- Provide stakeholders with visibility into how the organization identifies, assesses, and manages climate-related risks and opportunities.

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2. In Brazil, the Brazilian Securities and Exchange Commission (CVM) published CVM Resolution No. 193, of October 20, 2023, which deals with the preparation and disclosure of the financial information report related to sustainability, based on the standard of the norms issued by the ISSB/IFRS. Currently, IFRS S1 and S2, and their Implementation Guide, are in the process of being published by the Brazilian Sustainability Committee (CBPS). In addition, the ISSB is working on issuing new norms, based on the last public consultation, whose priority themes were biodiversity and ecosystem, human rights, human capital, and integration in reports.

Principle 8: Exchange

The board of directors needs to maintain regular exchanges and dialogues with peers, public policymakers, investors, and other stakeholders to promote the sharing of methodologies and to stay informed about the latest climate-related risks, new regulatory requirements, etc.

Recommendations

- Maintain a constant exchange of information and knowledge with stakeholders from other organizations, including, if necessary, government agencies, academic institutions, and research centers. This is a way to ensure that the board of directors makes decisions based on up-to-date scientific data.
- Establish the practice of exchanging knowledge and new learning, including trends in climate litigation in the country and in the sector, as well as their impact on the operations and results of companies. It is recommended that the board of directors request the advisory committees to map the most relevant stakeholders in the climate debate, especially those related to the organization's material issues, as well as a mapping of topics under discussion in the public sphere, event calendars and other actions that are relevant to contextualizing the topic.
- Holding meetings with internal and external experts, participating in climate events, as well as following the publication of studies by local and international institutions, is also an efficient way of monitoring the evolution of predicted scenarios.

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This *Guide on Climate Governance for Board of Directors* offers practical recommendations to guide board members in their role as governance agents in a global context where the intensity and frequency of climate change impacts on businesses are increasing.

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ISBN: 978-65-85913-14-0
9 786585 913140