



**Chapter  
Zero**

The Directors' Climate Forum

[www.chapterzero.org.uk](http://www.chapterzero.org.uk)

# Why is climate change important?

- Physical impacts: extreme weather, flooding, drought
- Loss of coral and other species
- Mass migration and political instability
- Potential future economic turmoil

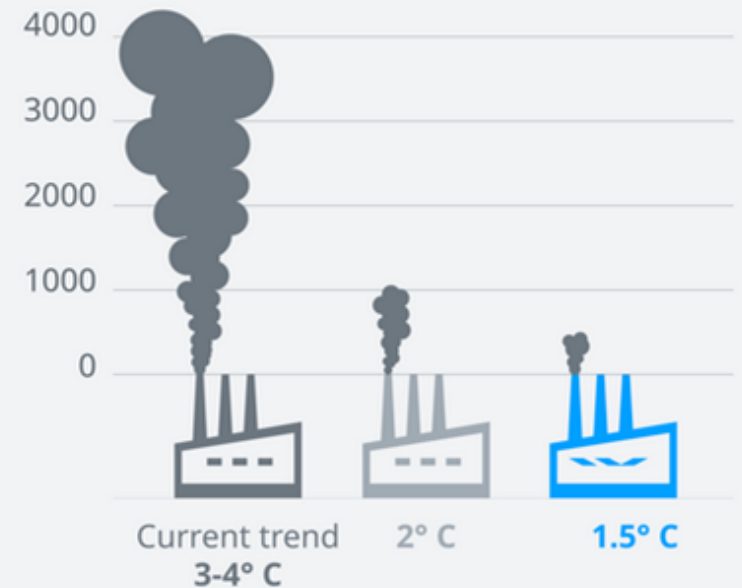


# Why is it urgent?

- Currently heading for a 4 degree rise in global temperatures
- To keep to 1.5 degrees, emissions must peak in 2020...
- ...and have halved by 2030
- IPCC report gives us a decade for action

## 1.5 degrees: How much carbon can we emit by 2100?

In gigatons of CO<sub>2</sub> equivalents



# The role of business

- Business generates the majority of the emissions - one way or another
- Companies need to adapt to the inevitable impacts to protect assets
- Emissions must be reduced dramatically if we are to meet the Paris targets
- There is no time to wait for regulation

# Why should business act now?

- Consumers', investors' and employees' attitudes are changing fast
- Bank of England transition pathways and stress tests will affect capital
- Regulation will inevitably change. The question is when?  
We need to be ready
- Current laws already require directors to engage with the issue: for example, Section 172

# The conversation in the boardroom



- WEF principles
- Strategic planning
- Risk assessment: physical and transition
- Opportunity assessment and investment
- Green finance



# The WEF Climate Governance Principles



Chapter  
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1. Climate accountability on boards
2. Command of the (climate) subject
3. Board Structure
4. Material risk and opportunity assessment
5. Strategic & organisational integration
6. Incentivisation
7. Reporting and disclosure
8. Exchange



# Reporting requirements: Taskforce on Climate Related Financial Disclosures (TCFD)



*'To develop consistent climate-related financial disclosures for investors, lenders, and insurance underwriters'*

- 1,027 organisations globally, representing a market capitalisation of over \$12 trillion (as at Feb 2020)
- The FCA requires UK companies with a premium listing to make climate related disclosures consistent with the TCFD's approach by Jan 2021
- Over 50 supporters listed on LSE (as at Feb 2020)



Core elements of recommended climate-related risks and opportunities



# Reporting requirements: Section 172



- *'To act, in good faith, in a way that you believe would be most likely to promote the success of the company for the benefit of its shareholders as a whole'*
- *172.1(a): ...have regard to...the likely consequences of any decision in the long term*

**Section 172**

- The strategic report must include a statement which describes how the directors have had regard to the matters set out in section 172(1)(a) to (f) when performing their duty under section 172.
- BEIS FAQs state that this should cover:
  - the issues, factors and stakeholders relevant in complying with s172 and why;
  - engagement methods; and
  - impact on decisions and strategies during the year

Updated BEIS Reporting Regulations from January 2019 (Deloitte, 2019)



# Reporting requirements: Carbon Disclosure Project (CDP)



- Global disclosure system for investors and companies to manage their environmental impacts
- Value of \$1 trillion in climate risk to 215 of the world's biggest companies
- Likely to hit within the next 5 years
- Potential US\$250 billion in losses due to write-off of assets
- CDP scored over 6,800 companies from A to D-; only the top 2% made the A List (2019)

# Tackling climate change is a huge opportunity



It isn't all about risk...

- The business opportunity: cumulative gains of \$2.1 trillion
- Increased revenue through demand for low emissions products and services and shifting consumer preferences
- Increased capital availability as financial institutions increasingly favour low-emissions producers
- Achieving the Paris Agreement objectives alone would require making 95% of the electricity supply low carbon, 70% of new cars zero emission, and reducing the CO2 intensity of the housing industry by 80% by 2050

# Reporting requirements: Scope



- Scope 1 - direct emissions from owned or controlled sources
- Scope 2 - indirect emissions from the generation of purchased energy
- Scope 3 - all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company



# Examples of leadership



Cut carbon intensity of electricity generation by 50% by 2030



60% absolute carbon reduction from operations by 2025 and 100% by 2050



**MAERSK**

Net-zero CO2 emissions from operations by 2050, with carbon neutral vessels commercially viable by 2030

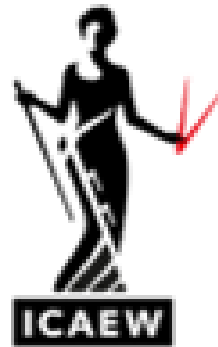
# Chapter Zero: a response to the challenge



- A network & space for non-executives to enhance knowledge, understanding and share experience of climate change
- Become familiar with the risks and opportunities
- Encourage boards to hold strategic discussions and respond



# Chapter Zero Partners



**CENTRE FOR  
CLIMATE CHANGE  
ENGAGEMENT**  
HUGHES HALL  
UNIVERSITY OF CAMBRIDGE



**The Royal Institution**  
Science Lives Here

# Chapter Zero progress and goals



- Currently over 900 members
- FTSE 100 representation: 47 companies
- FTSE 250 representation: 97 companies
- Aiming for 1,000 by COP 26
- With at least two members on each FTSE 350 board
- Events and resources
- Part of an international network





# The Chapter Zero toolkit



The **Berkeley** Partnership



- Highly practical, ever-evolving
- Continually applying feedback from NEDs
- Gives the evidence to get this on senior management's agenda
- Enables boards to structure their discussions and actions on climate-related issues

# Directors' Climate Journey - Purpose



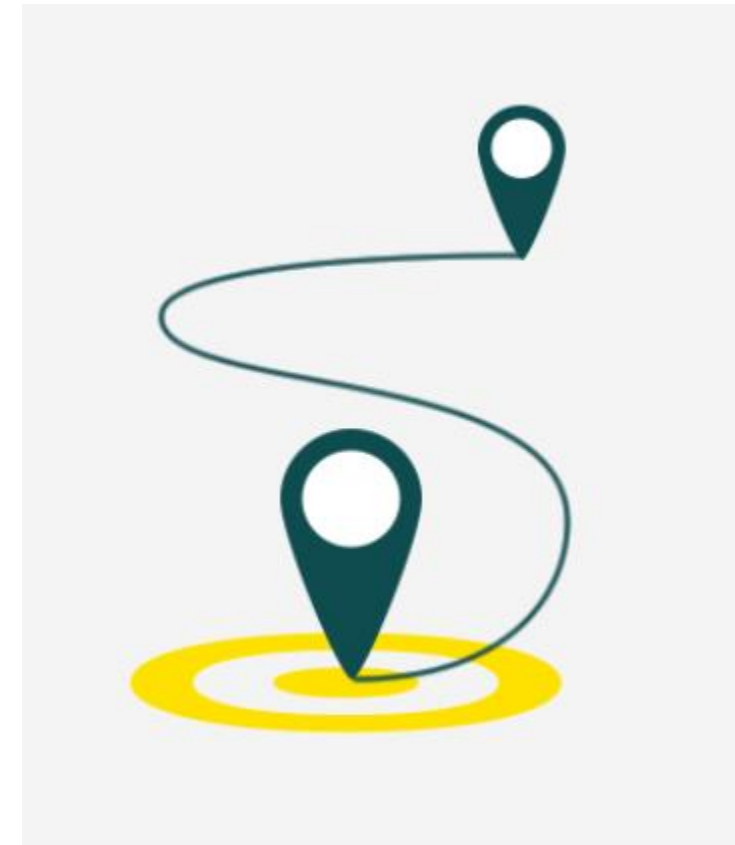
To give NED's confidence that their understanding of the climate challenge and providing a level of competency on all aspects of this topic is up to date and informed.

Enabling you to -

- Contribute to high quality and effective boardroom discussions
- debate the impacts of climate change on businesses
- consider the strategic response needed
- Be assured you are up to date on all topics

# How?

- [www.chapterzero.org.uk](http://www.chapterzero.org.uk)
  - Directors' Climate Journey – at the top of every page
- Eight simple steps, for NEDs to gain confidence and insight into the fundamentals
- Dedicate a day to this reading and viewing.
- After which you will be able to -



# You will know



- the scale of the net zero challenge
- Requirements as a Director
- Stakeholder needs
- What to ask of the Execs
- How to facilitate a strategy for your business
- The specialist advisers
- The reporting requirements
- How to remain up to date on all topics