Latest Developments in Governance, Stewardship and Sustainability

Valoris
Stewardship Catalysts

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Landmark Climate Risk Management Principles for Large U.S. Financial Institutions

On October 24, 2023, the Federal bank regulatory agencies (Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency) released Principles for Climate-Related Financial Risk Management for Large Financial Institutions. The Principles are intended to provide large U.S. financial institutions with a *"high-level framework for the safe and sound management of exposures to climate-related financial risks"*.

The Principles represent the first actual intervention from U.S. financial regulators to support institutions' boards of directors and management in the incorporation of climate into their risk frameworks and practices. The principles cover six areas: governance; policies, procedures, and limits; strategic planning; risk management; data, risk measurement, and reporting; and scenario analysis. Regarding Governance, the Principles outline the respective representation of the Board and Management:

Responsibilities of the Board

Understanding and Managing Climate-Related Financial Risks:
The board should understand the effects of climate-related financial risks on the institution, and specifically acquire sufficient information to understand such implications across different scenarios and planning horizons, to effectively oversee management's work.

Oversight of Risk Management and Resource Allocation:
The board should hold management accountable for adhering to the risk management framework and allocate appropriate resources to support climate-related financial risk management.

Responsibilities of Management

Expertise and Risk Management:
Management should assure that there is sufficient expertise to manage climate-related financial risks.

Identifying & Controlling Climate-Related Financial Risks:
Management "should be responsible for overseeing the development and implementation of processes to identify, measure, monitor and control climate-related financial risks".

Information Provision:
Management should provide the board with adequate information for it to understand material climate-related financial risks' impacts.

Responsibilities of both the Board & Management

Supporting the Stature and Independence of Risk Functions:
The board and management should "support the stature and independence of the financial institution's risk management and internal audit functions and, in their respective roles, assign accountability for climate-related financial risks within existing organizational structures or establish new structures for climate-related financial risks".

Assigning Accountability for Climate-Related Financial Risks:
Management should clearly define these units' responsibilities and interaction with existing governance structures when dedicated climate risk organizational structures are established by the board.

Regulators sometimes pay attention to reasonable issues raised by corporates and investors, as exemplified by recent developments in the UK

On October 16, 2023, the United Kingdom Government withdrew its long-awaited corporate governance reforms announced in July this year. The withdrawal comes as a result of consultation with companies (large UK listed and private companies) that would have been subject to the legislation and that voiced concerns about the burden additional reporting requirements would impose. Nevertheless, the Government has announced plans to deliver a new reform package that is "a more targeted, simpler and effective framework for both business and investors".

New Swiss Stewardship Code Aligns with International Standards

On October 4, 2023, the Asset Management Association Switzerland (AMAS) and Swiss Sustainable Finance (SSF) released the Swiss Stewardship Code. This Code can serve as an international reference, for its alignment with key global and national standards, particularly: the Global Stewardship Principles of the International Corporate Governance Network (ICGN), the Principles for Responsible Investment (PRI) and the UK Stewardship Code. The Swiss Code's nine principles identified as necessary for effective stewardship include: (1) governance, (2) stewardship policies, (3) voting, (4) engagement, (5) escalation, (6) monitoring of investees, (7) delegation of stewardship activities, (8) conflicts of interest, and (9) transparency and reporting. Board leadership, appropriate oversight and regular review of governance practices are some of the points the Code particularly emphasizes as essential to be maintained and monitored.