

## Charter of the Climate Governance Initiative (CGI)

### **I. Context**

The urgent need to address the climate emergency requires governments and business to accelerate the transition to a new economic model that is consistent with the 2018 recommendations of the Intergovernmental Panel on Climate Change (IPCC) of a 1.5° degree scenario and reiterated in the IPCC's 2021 report.

Climate change is shaping a new reality, creating risks and opportunities for business in a diverse number of ways. Investors, regulators and other stakeholders are now challenging companies to take responsibility by adopting an integrated, strategic approach to addressing the climate emergency.

Many if not most boardrooms are grappling with how to frame the risks and opportunities and embed a viable transition strategy into their business models. Boards of directors play a critical role in ensuring the long-term stewardship of the companies they oversee.

### **Climate Governance Principles & Community**

The World Economic Forum (the "Forum") has developed a set of Climate Governance Principles ("CGI Principles") for boards of directors, with a view to enabling non-executive directors (NEDs)<sup>1</sup> to gain climate awareness and skills, embed climate considerations into board decision-making, and understand and act upon the risks and opportunities that the climate emergency poses to the long-term resilience and business success of their companies, while taking into account all stakeholders.

The Forum's Guiding Principles 'How to Set Up Effective Climate Governance on Corporate Boards' are summarised overleaf.

This Charter outlines the vision and objectives that underpin the Climate Governance Initiative ("CGI") and should be read in conjunction with the CGI's Rules of Engagement and Code of Conduct.

The CGI Community is composed of NEDs and subject matter experts, organized in national associations ("CGI Chapters"), whose purpose is to promote the adoption of the Forum's CGI Principles by mobilizing, educating and equipping their NED members with the skills and knowledge necessary to address climate change at board level.

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<sup>1</sup> In this document, the terms "non-executive director" and "NED" should be understood to refer to any individual who serves on the board of directors, whether dual or unitary, and bears legal responsibility for the oversight and long-term success of the company. These terms are therefore intended to include all individuals who serve as members of boards of directors and may be referred to in their respective jurisdictions as "directors", "supervisory board members", "outside directors", "independent directors", "corporate directors" or "board members". Executive directors are welcome to join the activities of CGI.

### **Summary of the Forum's Guidelines for Effective Climate Governance**

Principle 1 – Climate accountability on boards – The board is ultimately accountable to shareholders for the long-term stewardship of the company. Accordingly, the board should be accountable for the company's long-term resilience with respect to potential shifts in the business landscape that may result from climate change. Failure to do so may constitute a breach of directors' duties.

Principle 2 – Command of the subject - The board should ensure that its composition is sufficiently diverse in knowledge, skills, experience and background to effectively debate and take decisions informed by an awareness and understanding of climate-related threats and opportunities.

Principle 3 – Board structure - As the stewards for long-term performance and resilience, the board should determine the most effective way to integrate climate considerations into its structure and committees.

Principle 4 – Material risk and opportunity assessment - The board should ensure that management assesses the short-, medium- and long-term materiality of climate-related risks and opportunities for the company on an ongoing basis. The board should further ensure that the organization's actions and responses to climate are proportionate to the materiality of climate to the company.

Principle 5 – Strategic integration - The board should ensure that climate systemically informs strategic investment planning and decision-making processes and is embedded into the management of risk and opportunities across the organization.

Principle 6 – Incentivization - The board should ensure that executive incentives are aligned to promote the long-term prosperity of the company. The board may want to consider including climate-related targets and indicators in their executive incentive schemes, where appropriate. In markets where it is commonplace to extend variable incentives to non-executive directors, a similar approach can be considered.

Principle 7 – Reporting and disclosure - The board should ensure that material climate-related risks, opportunities and strategic decisions are consistently and transparently disclosed to all stakeholders – particularly to investors and, where required, regulators. Such disclosures should be made in financial filings, such as annual reports and accounts, and be subject to the same disclosure governance as financial reporting.

Principle 8 – Exchange - The Board should maintain regular exchanges and dialogues with peers, policy-makers, investors and other stakeholders to encourage the sharing of methodologies and to stay informed about the latest climate-relevant risks, regulatory requirements etc.

## II. Vision and Objectives

A critical element in ensuring that businesses are appropriately positioned to confront the challenges posed by the climate emergency is the role that boards of directors play in the long-term stewardship of the companies they oversee. To fulfil their duties in the long-term service of their organizations, boards need to be fully aware of the implications of climate change, have the skills, tools, processes and information to act, and commit to steward their companies through the challenges climate change entails to embed it within their companies' strategic planning.

The core mission of the CGI Chapters is to promote the implementation of the CGI Principles, by mobilizing NEDs who either are locally based or serve on the boards of locally based companies and providing a range of engagement opportunities aimed at enhancing their skills in this area. The CGI Community aspires to achieve critical mass in each of the countries where it is present. The CGI Chapters and other members of the CGI Community commit to working with each other within their respective countries as well as across borders to share knowledge and promote the adoption of the CGI Principles at both a local and global level.

While NEDs individually do not represent the voice of their board, their membership in the CGI implies a best-efforts commitment on their part to serve as advocates within their boards for the adoption of strategies that are aligned with the best-available recommendations of the scientific community, to achieve net-zero carbon emissions by 2050 or earlier, consistent with a global average temperature rise of no more than 1.5°C above pre-industrial levels.

To support NEDs in their efforts to drive implementation of the CGI Principles by their respective boards, the CGI Chapters, working collaboratively with fellow members of the CGI Community, undertake to ensure that NEDs are enabled in bringing:

- The necessary awareness, skills and ownership at board level of an effective strategic response to the climate challenge facing their companies' long-term business prospects.
- A board-level understanding of current mandatory and voluntary standards related to identifying, managing and mitigating climate risks; defining appropriate metrics and targets over the short, medium and long term; and financial reporting, including the recommendations of the Task Force on Climate-Related Financial Reporting (TCFD).
- An understanding of how climate factors inform investment decision-making, consistent with the delivery of their companies' climate transition strategy over the near, medium and long term.
- An understanding of how the executive remuneration policy incorporates climate-related Key Performance Indicators ("KPIs") that are aligned with interim milestones on the pathway to delivering their companies' climate transition strategy.
- Alignment of their companies' public policy positioning, so as to ensure consistency with their long-term climate transition strategy.
- The ability to contribute an informed, independent, "outside-in" perspective into the boardroom to help inform and enrich debate and complement the internal expertise of management.

- To support achievement of these objectives, the Forum together with the CGI Community, comprised of CGI Chapters, Subject Matter Experts and Individual NEDs, will exchange best practices and knowledge, and mutually support each other in addressing climate change at board level.

### **III. Roles and Responsibilities**

Each CGI Chapter will:

- Be established with the mission to promote the implementation of the CGI Principles.
- Organize activities for NEDs aimed at implementing the CGI Principles in their respective countries.
- Undertake to work collaboratively with other CGI Community Members who are also committed to upholding the CGI vision and objectives.
- Support the awareness-raising, best-practice sharing and implementation of good climate governance within corporate boards of companies from different sectors based on their country or region.
- Maintain its own website detailing its mission, legal representatives and programme of activities, on which this Charter will be displayed.
- Consist of NEDs supporting, and advocating for the adoption of, the CGI Principles in the boards of companies on which they serve.
- Be hosted by, or closely associated with, a relevant organization or institution, e.g. a university, a national institute of directors, or other relevant non-profit entity.
- Develop curriculum and relevant content adapted to regulations, practices, circumstances and language required for the adoption of the CGI Principles in their country or region.
- Manage and grow the Local Chapter's membership base and strive to develop and strengthen its Members' skill set and competencies via activities such as physical and/or online training and webinars.
- Manage and develop local relationships with external constituents in order to strengthen the ecosystem of stakeholders with whom their members may engage.
- Lend assistance to other CGI Chapters, by sharing materials, making events available to members of fellow CGI Chapters, making relevant introductions and promoting each other's events.
- Abide by the Code of Conduct and CGI's Rules of Engagement.
- Once established, be eligible to vote on decisions taken to all Chapters for consultation including any proposed changes to this CGI Charter, the CGI governance structure and in Governing Board elections. Established Chapters may also make nominations to the Governing Board. *The Appendix sets out the criteria for 'established' CGI Chapters.*

### **Individual Members**

- NEDs engaged with the CGI commit, on a best-efforts basis, to address the climate emergency on the boards of companies on which they serve and support other NEDs to do the same.

- Subject Matter Experts commit to support the CGI with their knowledge and capacity of mobilization of other leaders, as well as to regularly participate in activities organized by the CGI.

The roles of the CGI Governing Board, Chapters, the World Economic Forum and the Secretariat are set out comprehensively in the Climate Governance Initiative's governance structure document.