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Climate change and corporate value

What companies really think

A survey and report by Eversheds Sutherland and KPMG IMPACT seeks to uncover the real impact of climate change on company value and how the global corporate world is responding

Foreword

By Dr. Mark Carney

In 2015, I spoke of the “Tragedy of the Horizon”¹—that the catastrophic impacts of climate change would be felt beyond the traditional horizons of businesses, regulators, and politicians. By the time it becomes a clear and present danger, it could be too late to avoid widespread environmental and economic destruction. The conclusion was that we must start to think now about how the physical impacts of climate change—such as extreme weather events—and the impacts of the transition to a low-carbon economy—such as the government and new technologies—will affect business models and financial performance.

Back then, climate was largely viewed as a corporate social responsibility (CSR) issue. Now it belongs in the C-suite. As this report shows, the corporate sector is feeling pressure to act on climate change: from customers and employees, and from across the financial sector, including investors, lenders, auditors and credit rating agencies. As but one example, Climate Action 100+ (an investor group of 500 firms with over US\$47 trillion AUM) recently wrote to the world’s 160 largest companies, representing 80 percent of industrial emissions, to demand they publish strategies to reduce emissions by 45 percent by 2030 and reach net zero by 2050.

In response, more and more companies are looking to disclose their climate risks and to develop credible strategies for a net-zero world. This isn’t always easy, as this report lays bare. The transition to net zero will require a massive reallocation of capital, creating unprecedented risks and opportunities. This report is welcome in highlighting the challenges for the corporate sector while identifying the imperatives for companies to tackle in their transition.

The good news is there exists a deep pool of support for corporates embarking on this journey. The Taskforce for Climate Related Disclosures (TCFD) provides a ready framework of recommendations on the disclosures that investors are seeking. The TCFD also provides technical guidance on these disclosures and has set up industry working groups. Every major systemic bank, the world’s largest insurers, its biggest pension funds and top asset managers are calling for the disclosure of climate-related financial risks in line with TCFD. The Network for Greening the Financial System (NGFS), a group of central banks and supervisors, has provided freely available, business-relevant scenarios to help any company, in any sector, assess its strategic resilience to different climate outcomes. And initiatives such as the Race to Zero, the Science Based Targets Initiative (SBTi) and the Transition Pathway Initiative (TPI) are on hand to support companies to develop credible, science-based targets and plans that will help the world achieve its climate targets.

So, I would urge company boards to: have a robust conversation around the risks and opportunities that climate change poses to their business; to seek out this available help; and act early to mitigate climate change risks and turn them into commercial opportunities. Your focus will help break the tragedy of the horizon, creating sustainable business models that society is increasingly demanding and which future generations deserve.



¹ Mark Carney, “Breaking the tragedy of the horizon—climate change and financial stability,” Speech at Lloyd’s of London, September 29, 2015



Dr. Mark Carney

United Nations Special Envoy for Climate Action Finance and Trustee of the World Economic Forum

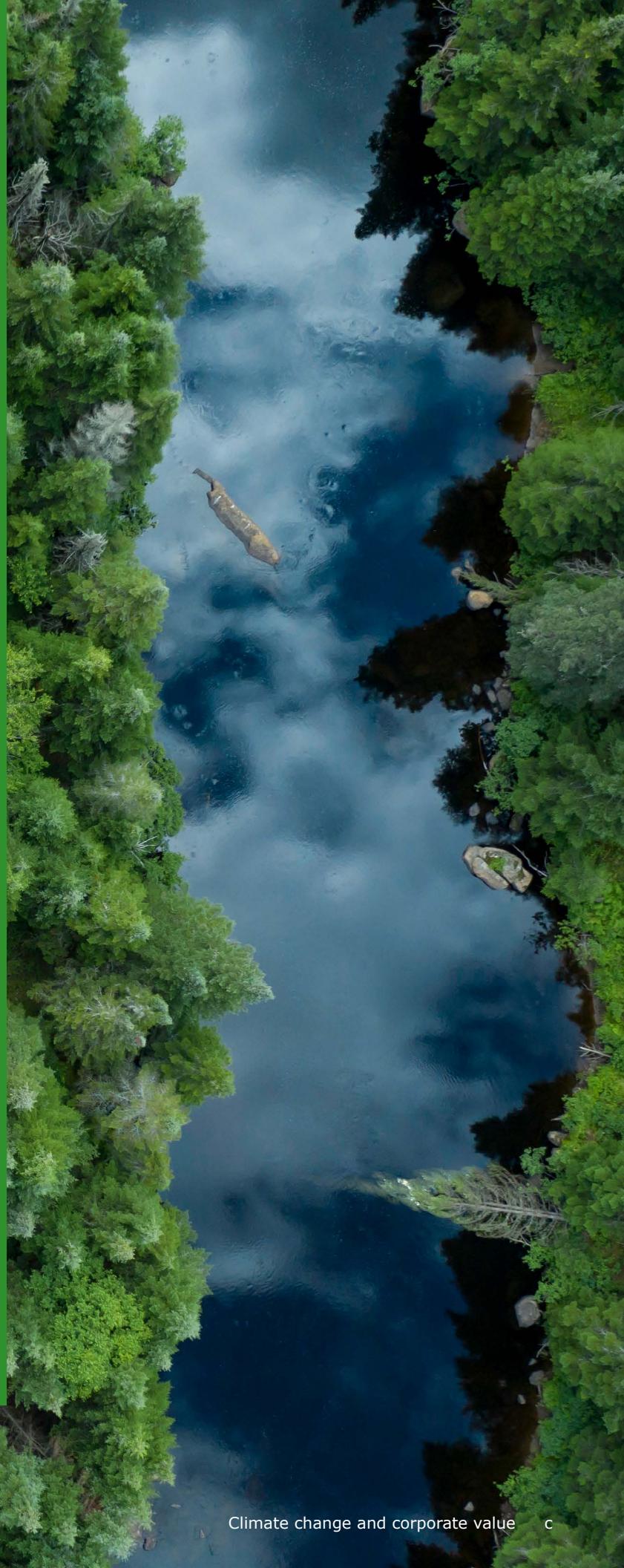
Mark Carney is currently the UN Special Envoy for Climate Action and Finance and UK Prime Minister Boris Johnson's Finance Adviser for COP26.

Mark was previously Governor of the Bank of England (from 2013–2020), and Governor of the Bank of Canada (from 2008–2013). Internationally, Mark was Chair of the Financial Stability Board (from 2011–2018), he chaired the Global Economy Meeting and Economic Consultative Committee of the Bank for International Settlements (from 2018–2020) and was First Vice-Chair of the European Systemic Risk Board (from 2013–2020).

He is a member of the Group of Thirty, the Foundation Board of the World Economic Forum, as well as the boards of Bloomberg Philanthropies, the Peterson Institute for International Economics, and the Hoffman Institute for Global Business and Society at INSEAD.

Mark was born in Fort Smith, Northwest Territories, Canada, in 1965. After growing up in Edmonton, Alberta, he obtained a bachelor's degree in economics from Harvard and masters and doctorate degrees in Economics from Oxford.

After a 13-year career with Goldman Sachs, Mark was appointed Deputy Governor of the Bank of Canada in 2003. In 2004, he became Senior Associate Deputy Minister of Finance. He held this position until his appointment as Governor of the Bank of Canada in February 2008.



About the lead authors



Michelle T Davies

*International Head of Climate Change and Energy Transition,
Eversheds Sutherland*

Michelle is a UK and NY qualified lawyer and leads the firm's international climate change team which advises clients across the entire energy transition. The team focuses on climate investment and solutions working across the climate sector with innovators and climate solution providers as well as those funding and financing the transition. The team has worked on some of the largest and most innovative projects and transactions of their kind in mature and emerging markets. Increasingly, the team is helping companies create climate road maps aligned with reporting compliance and procuring and implementing zero carbon solutions.

Michelle and her team also work closely with governments helping create climate programs capable of attracting global capital and actively contributes to policy. Michelle is dedicated to helping clients secure a value enhancing and sustainable transition to net zero.



Mike Hayes

*Global Head of Renewables for KPMG International and Global Head of Climate Change and Decarbonization,
KPMG IMPACT*

Mike has been involved in the renewables business for the past 20 years and over the last eight years he has also been focusing on climate change and decarbonization for clients around the world. He leads the KPMG IMPACT climate change and decarbonization practice, which includes KPMG firms providing services such as climate risk management, net zero pathways, corporate PPAs, carbon accounting, and green finance. Mike advises numerous international asset managers, developers, companies, and utilities.

In addition, Mike is passionately committed to sustainable energy and climate innovation and leads a KPMG team collaborating with the World Economic Forum on this agenda. As part of this work, Mike and the Forum have worked on some unique propositions on innovation financing.



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Introduction

During our many conversations over the past year at conferences and while working together, we would often find ourselves coming back to discuss a familiar theme: the ticking time bomb that is climate risk, and significantly, what this risk really means for our corporate clients.

We were both concerned that, while some attention had been given to climate reporting and the need for financial institutions to better understand the risks and opportunities of their underlying investments, and rightly so, not so much attention had been given to the companies themselves—those companies whom the financial institutions invest in or provide finance to. There was a sense that, while climate risk, in particular transition risk, was broadly understood among company executives, in the vast majority of cases, transition risk and the full financial impact of both this and the physical impact of climate change, was not. In addition, the solutions and the opportunities around decarbonization and adapting to climate risk, as well as how to finance these efforts, were at best generally understood concepts rather than strategies capable of being successfully implemented.

What do we mean by this? In addition to understanding the direct transition to net zero and the physical impacts of climate change, companies also need to prepare for those impacts that are purely economic—in other words, factors that could have a financial impact on a company even if the company is physically resilient. A company's failure to build resilience and adapt in a sustainable and careful way could ultimately impact its value if stakeholders, such as investors and customers, cease to engage. While there are sectors which understand this well, it was clear to us that there are several others where there is some confusion about what climate risk really means. Coupled with this is a concern about what precisely needs to be done in order to transition to a net zero economy.

In particular, we noticed a misalignment between what non-financial companies needed and what was available from financial institutions. While there is a significant amount of liquidity for financing and funding many aspects of the low carbon transition and reducing climate risk within companies, the companies themselves are not necessarily aware of the solutions available or how to access.

As our discussions progressed, we thought it might be helpful to test some of our shared conclusions with a survey in order to highlight the current level of corporate understanding and, importantly, the gaps which need to be filled if the underlying strategic intent of climate risk reporting and mitigation are to be achieved. It was important for the survey to be global and to test the base position across different jurisdictions and sectors.

In addition, we wanted to interview some of the world's leading fund managers and CEOs to better understand some of the more nuanced dynamics they are facing in the transition to net zero and the reality of climate risk.

This report confirms some of our conclusions, but it also sheds light on others we had not considered and gives further depth to our current understanding.

We are extremely grateful to Dr. Mark Carney for his Foreword, to all of those who gave their time to be interviewed, and importantly, to the 500-plus companies who participated in the survey.

We hope you will enjoy reading this report and find its results encouraging for your own journey to zero carbon and reduced climate risk.

We would be delighted to discuss the detailed survey findings and sector analysis in more detail; please let us know if you would like to schedule a call.

The journey has begun. There is no going back.

Michelle T Davies
Michelle

Mike Hyss
Mike



Importantly, this is about a transition. We are at point 'A' and we will not be at point 'B' tomorrow. Nonetheless, a corporate strategy that is capable of being implemented to achieve decarbonization and resilience to climate risk needs to be in place now.



—Michelle T Davies

International Head of Climate Change and Energy Transition, Eversheds Sutherland

Key takeaways

This is a report from Eversheds Sutherland and KPMG on the results of interviews with directors and C-suite executives from more than 500 of the world's leading companies. This survey will be repeated in 2021 in advance of COP26 to measure progress.



The pace of the energy transition will be quicker this time because the need is more immediate—it won't be like the renewables revolution in terms of timing. This is the fastest pace of change I have experienced in my 20 years in this sector.

—**Jim Barry**

Managing Director and Chief Investment Officer of BlackRock Alternatives Investors (BAI) and Global Head of BlackRock Real Assets

1

Climate risk and decarbonization have become a significant boardroom issue requiring action

- Climate risk and climate resilience is now being led from the top by CEOs
- COVID-19 is not halting the momentum around climate action in the corporate world although it may slow it down in the short-term
- There is growing recognition among businesses that climate change may very likely result in substantial transformation of their business
- A substantial knowledge gap exists about what is required to create a net zero carbon business
- Recognition that the climate agenda can also bring opportunities to companies

2

Most companies treat climate risk as a very serious business issue

- Clear recognition that climate risk equates to financial risk
- Companies are now much more focused on becoming climate resilient
- Companies are recognizing the importance of climate risk to the success of their business strategies

3

External and internal pressures on companies to implement decarbonization strategies

- Investors are key influencers and have become very focused on climate issues when evaluating investment and divestment decisions
- Regulators and employees have also become an important factor
- Increasingly companies have become convinced that climate action is critical to that company's own future performance
- Upstream supply chain pressure from large corporate customers has become a reality in 2020 and many suppliers will see their businesses impacted if they do not adopt appropriate climate and carbon strategies
- Also, the ever-increasing size of the consumer demographic that has put climate change at the top of their priorities cannot be ignored

4

This new focus on decarbonization and climate risk is already manifesting itself on the People Agenda for companies

- The importance of having directors who are knowledgeable on climate risk on corporate boards is starting to be recognized
- Most senior executives believe their job security will be impacted to some extent by their ability to manage climate risk over the next five years
- Climate action is increasingly becoming a key driver of executive remuneration via long-term incentive planning
- Talent attraction and retention has become a common enterprise risk across major companies in recent years and as the war for talent heats up, the rapid polarization of younger generations on the topic of climate change has become a concern across the corporate landscape

5

Finally, critical barriers to decarbonizing business remain

The most critical barriers include:

- Costs of decarbonization perceived to be high
- Inability to source technology solutions
- Skills and expertise
- Lack of awareness of potential solutions to finance climate resilience and decarbonization strategies

6

Sectoral analysis

- There was some clear divergence among sectors, and the automotive, consumer and retail and financial services sectors show the greatest divergence in the responses
- In particular, the financial services sector stood out where there appears to be much less concern around climate reporting, implementing decarbonization strategies, or linking climate to executive remuneration

7

Regional analysis

- Broad consensus in the responses across the four geographies surveyed—United Kingdom, U.S., Europe and Asia. There was strong global consistency on key questions such as pressure points, barriers to decarbonization and the implementation of remuneration incentives for directors
- U.S. companies are more focused and more concerned about climate risk than their counterparts in other geographies
- Corporate reporting on climate-related risks is noticeably lower in Asia than in the rest of the world



Global corporations are facing an era of unprecedented business disruption and transformation as a direct result of climate change. Given the increased investor and societal pressure, corporate leaders recognize it would be perilous to ignore this. However, what stands out is a lack of alignment between the companies themselves and those providing and financing climate transition solutions. This is an area where policy makers must focus now if we want companies to successfully achieve decarbonization and mitigate climate risk.

The message is clear: In addition to disclosure, investors and other stakeholders want to see information on company climate change plans.





The Rt. Hon John Gummer, Lord Deben

Chairman of the Committee on Climate Change

Lord Deben set up and now runs Sancroft, a corporate responsibility consultancy working with blue-chip companies around the world on environmental, social and ethical issues. He is Chairman of the UK Government Committee on Climate Change and was the longest serving Secretary of State for the Environment the UK has ever had (1993–97). Lord Deben's 16 years of top-level ministerial experience also include Minister for Agriculture, Fisheries & Food, Minister for London, Employment Minister and Paymaster General in HM Treasury, experience which helps him to champion an identity between environmental concerns and business sense.

The NGO community described Lord Deben as "the best Environment Secretary we ever had." He is a veteran of the interface between business, governments and activism. Understanding how these relationships have changed and where they might go next naturally emerged as the starting point for our conversation. He explained how in his work with leading companies he has observed a shift in the dynamic when it comes to ESG related advice. *"In order to get people to talk about sustainability, I used to have to bang on doors. I would need to explain why sustainability was important, how it was material in businesses being bought and how it was also about management systems. This has fundamentally changed. Now they come to me."*

Turning our attention to the themes being explored in this report, Lord Deben explained the magnitude of the impact that a convergence of trends is creating. The rapid development of technology, public opinion, and political will is changing the way we live and work in a fundamental way. The big questions about how we treat the planet and each other, ubiquitous during the early stages of environmental activism are resurfacing. Lord Deben told us that this mix of visionary and morality with day-to-day problem solving is creating a new trajectory for corporate strategy making "*The whole way of looking at the world and what we have done to the world has changed.*" He is equally dauntless in his assessment of how leaders should be interpreting the impact created by the COVID-19 crisis. His request is for boardrooms to use some time (although not too much!) to understand climate risk and what risk management truly means in 2020/21. *"You can't now talk about these risks as being far into the future or mention them in an off-hand way. That just doesn't happen now."*

Lord Deben ends with a positive assessment of the good work he is witnessing inside boardrooms. A reassuring number of boards are using the pandemic as a powerful prompt for intensive action on decarbonization. *"You might think that companies would be inclined to go back to their old ways because of COVID-19. But it has not had that effect. They are more aware now. COVID-19 has brought home to people the dangers of ignoring big future risks."*

"The whole way of looking at the world and what we have done to the world has changed."

Climate resilience: From concept to boardroom reality

Corporate leaders are coming to a reckoning about climate change and climate risk. Based on today's limited scope climate risk assessments, the world's 215 largest companies estimate the financial impact of climate risks to total at least US\$1 trillion, the majority of which are expected to hit in the next 5 years,² with the IPCC estimating costs could be up to \$63 trillion by the end of the century in a 2 degrees world.

Climate risks fall into two broad categories:

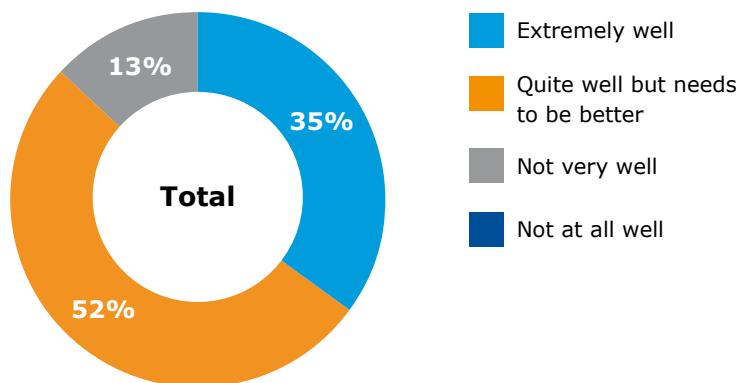
- 1 **Physical risk**, such as extreme weather events caused by changes in the physical environment that present a threat to a business's physical assets, operational resilience, and supply chains; and
- 2 **Transitional risk**, caused by those who engage with a company and who are key for its continued success deciding to disengage, such as investors, lenders, regulators, business partners, customers, and employees.

Faced with these massive monetary estimates, business leaders largely acknowledge that climate risk is something to be addressed, even if organizations may not yet have the skills to begin a decarbonization effort or even have a formal strategy to do so.

Perhaps the best indication of this growing awareness of climate change and its inherent risks is that corporate leaders are beginning to see that they have real financial impacts.

Most executives surveyed currently believe they understand the climate-related risks their companies face

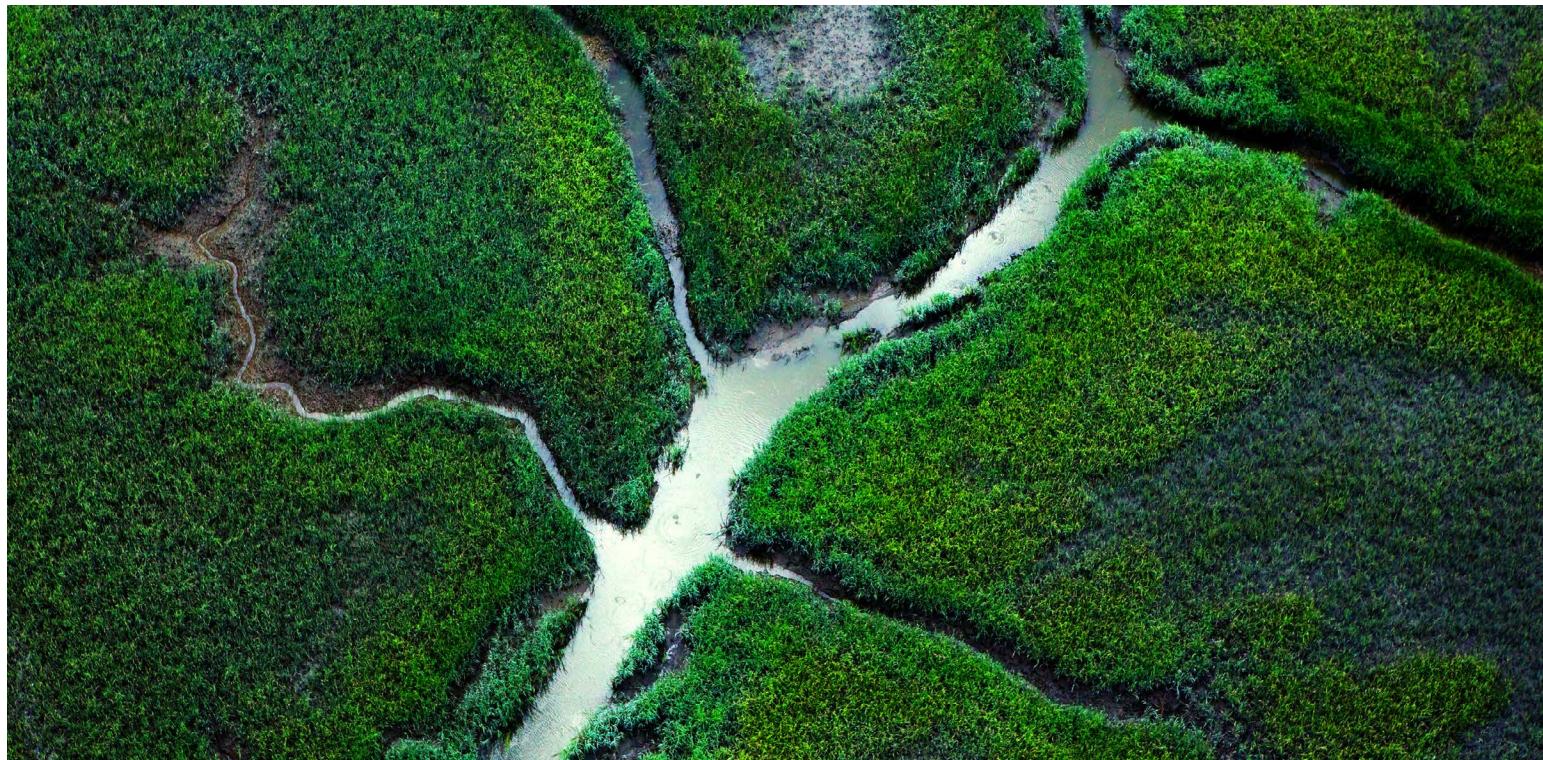
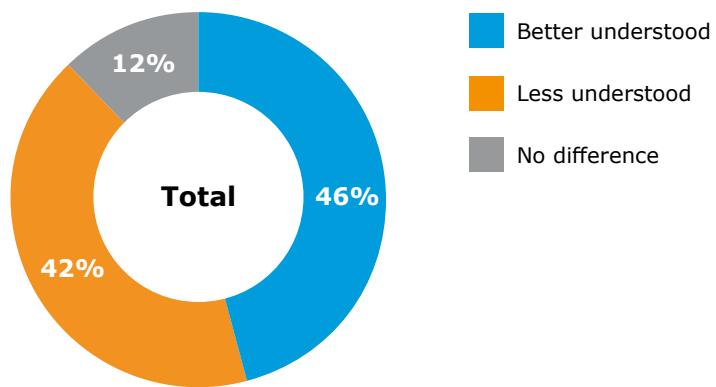
Global results



² CDP Global, "World's biggest companies face \$1 trillion in climate change risks," CDP website, June 4, 2019

COVID-19 has led to a better understanding of what it means to be climate resilient

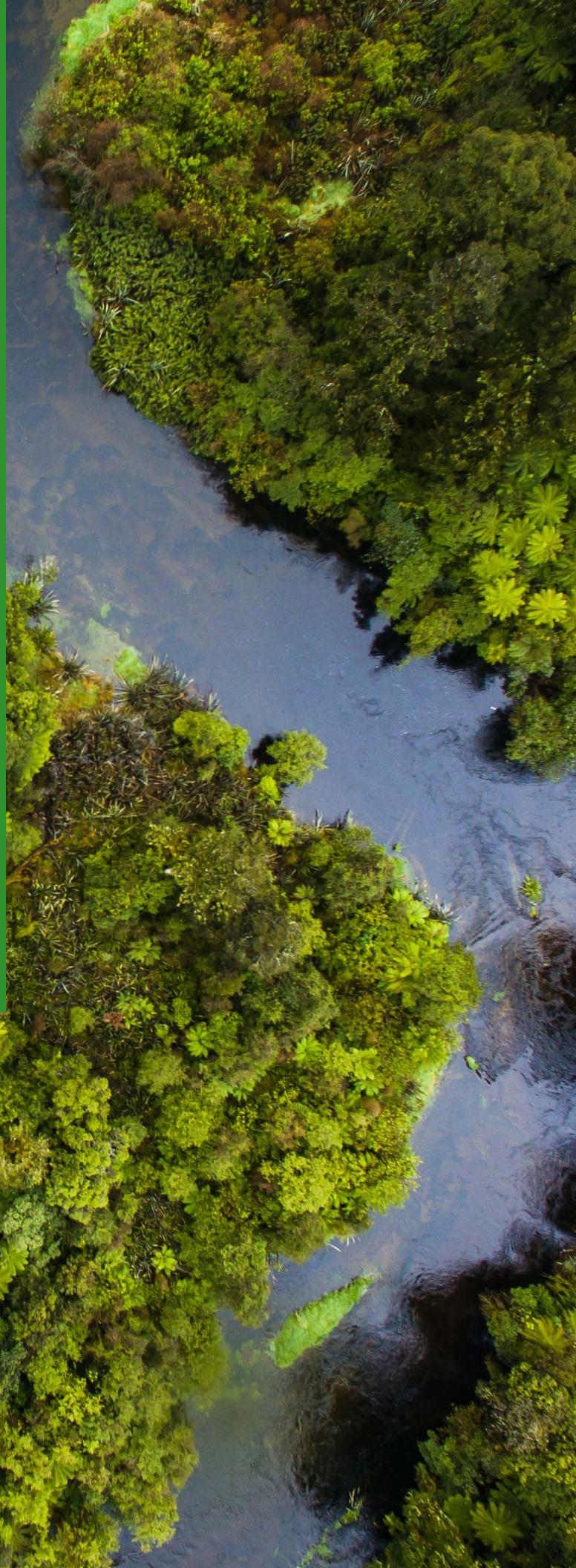
Global results



The Eversheds Sutherland and KPMG Viewpoint

While boards and management believe they understand the climate-related risks their companies face, the real challenge is going to be about quantifying these climate risks and also developing appropriate strategies. As will be demonstrated throughout this report, there are clear barriers to implementing decarbonization strategies and also there is a view that the necessary skills and expertise are not available to the extent required. On a more positive note, the fact that the corporate world is clearly responding to the climate change challenge is to be welcomed.

There is no doubt that COVID-19 has acted as a dress rehearsal for climate change and it is very clear that it has helped to accelerate focus on the climate agenda across the corporate landscape. There are many different reasons for this but the similarities between COVID-19 and climate change have become very apparent – both constitute major health risks and both crises have the ability to undermine the global financial system. Therefore while the world was not prepared for the COVID-19 pandemic, there is now a sense of real determination to face up to and prepare for the threat of climate change.





Jim Barry

Managing Director and Chief Investment Officer of BlackRock Alternatives Investors (BAI) and Global Head of BlackRock Real Assets

Jim Barry is Managing Director and Chief Investment Officer of BlackRock Alternatives Investors (BAI) and Global Head of BlackRock Real Assets. BAI manages over \$195 billion in total assets and client commitments with a team of over 1,000. As CIO, Mr. Barry is responsible for providing oversight and leadership to the alternative investment teams globally across the Real Estate, Infrastructure, Hedge Funds, Private Equity and Credit businesses. BlackRock Real Assets comprises BlackRock's Infrastructure and Real Estate businesses, which have approximately 400 professionals across 27 cities globally.

Our conversation began with Jim's reflection on the pace and nature of the change happening now after over 20 years of investing in ESG. He sees a "*material shift in the last two to three years.*" Jim explains that part of the reason for this is the increased frequency of extreme weather events in developed markets. This has shifted the overall policy context because as Mr. Barry pronounces "*the reality has been brought home.*" He describes hitting an inflection point in the last 18 months with the regulatory and policy environment around climate change. Jim's perspective is that this is being driven by policy makers and politicians responding to "*people prioritizing climate for the first time.*"

As an investor, Jim points out that this is critical to a new approach when it comes to understanding both opportunity and risk. He asserts that "*the decarbonization of our economic system is going to create huge opportunity. Not just for renewables but for the whole ecosystem as it relates to how we consume and absorb energy in all value chains. That is going to have a limitless set of investment*

opportunities for the investor today. Consequently, there is going to be associated risk where anything which has exposure to carbon is going to require change. As investors we must position ourselves for both the opportunities and the risks." Jim explains his outlook in more detail by stating that "*we still see 10 to 15 years of cash flows from carbon assets but the challenge is will you still be able to sell these assets in 10 years? And it is this point which is driving capital allocation. Companies really run a very serious risk of becoming a stranded asset if they do not transition – if you have to sell something in five to 10 years which is carbon intensive you may be inclined to take an earlier view. The energy transition comes in different risk buckets and BlackRock has to think of it in these terms. In energy transition there is a huge amount of technology risk and you need capital which is right for the risk. You have to match the capital to the risk.*"

Jim is not shy about highlighting the practical challenges of collaboration. He points out that one of the inevitable challenges of securing climate agreements between so many countries is that policy design has adopted a lowest common denominator approach. Jim boldly explains that "*executives need to change their mindset and not to confuse climate impact as being the start of a straight line.*" He challenges leaders to accept that we are now past the tipping point and to expect exponential change. The key boardroom constraints, in Jim's mind, will be different to traditional ways of thinking about capital and costs. According to Jim, the way we all think about risk is going to change rapidly. Risk management is about to get more concentrated on technology and the fundamental capability of companies to change.

“Executives need to change their mindset and not to confuse climate impact as being the start of a straight line.”

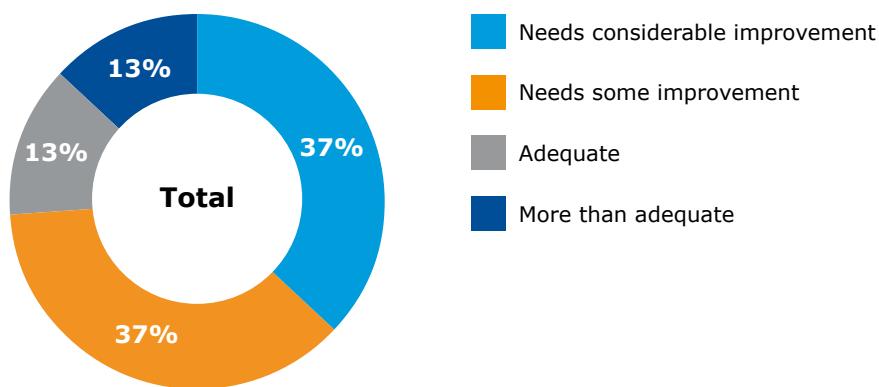
Corporate leaders need to ramp up their climate risk skills

Understanding climate risk in the wider sense and how to address this is a brand-new area for many companies, and it presents its own set of fresh challenges. Our survey found that many leaders don't yet feel equipped to deal with them.

While recognizing climate risk is one thing, having a clear strategy capable of being implemented to the satisfaction of stakeholders is another and requires a solid understanding of the issues and how to address them, from the top down. However, almost three-quarters of all respondents said they believed that their board and management needed the necessary skills to be able to assess and respond to the risks and opportunities of climate change.

Of the executives surveyed, a majority understand they need to improve their skills to deal with the risks of climate change

Global results

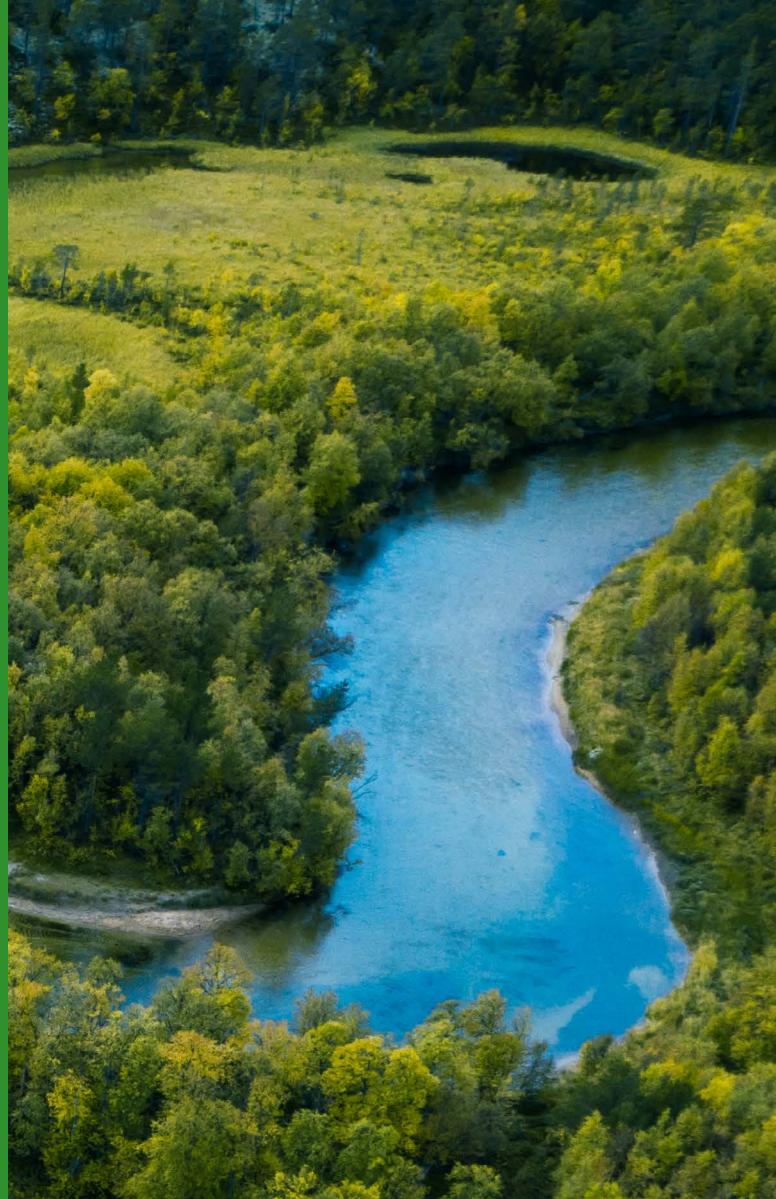


This result shouldn't be surprising, since boards are still getting up to speed on climate change as they had to with the cybersecurity agenda five years ago, although climate change does require a more holistic wholesale business review. But the results also emphasize a need for speed. Corporate leaders will need to step up their game to create a strategy around how to drive resilience to climate risk and decarbonize, how to finance their activities, and how to do so quickly.

The Eversheds Sutherland and KPMG Viewpoint

While we are at the beginning of the transition to a more proactive approach to managing climate risk and decarbonization, a significant amount of knowledge, solutions, and financing options for decarbonization and resilience building is already available. However, much work needs to be done to inform and educate companies about the different types of solutions and expertise that are needed to (a) identify and measure climate risk, (b) decarbonize a company's business and its wider supply chain, and (c) build resilience and adaptivity into its core business model to mitigate climate risks and capitalize on climate opportunities.

It is essential that large corporations build their own internal capabilities in these areas given the significance of the business transformation that will be required. We expect companies to establish climate transition teams for the purpose of seeking to meet decarbonization and climate risk mitigation goals.



Climate change and corporate culture

As boards and management become more proactive in addressing climate change and decarbonization, the rest of the organization—at all employee levels—is also expressing a greater awareness of these issues. According to our survey, that includes a recognition that climate will become increasingly important to evaluating management performance.

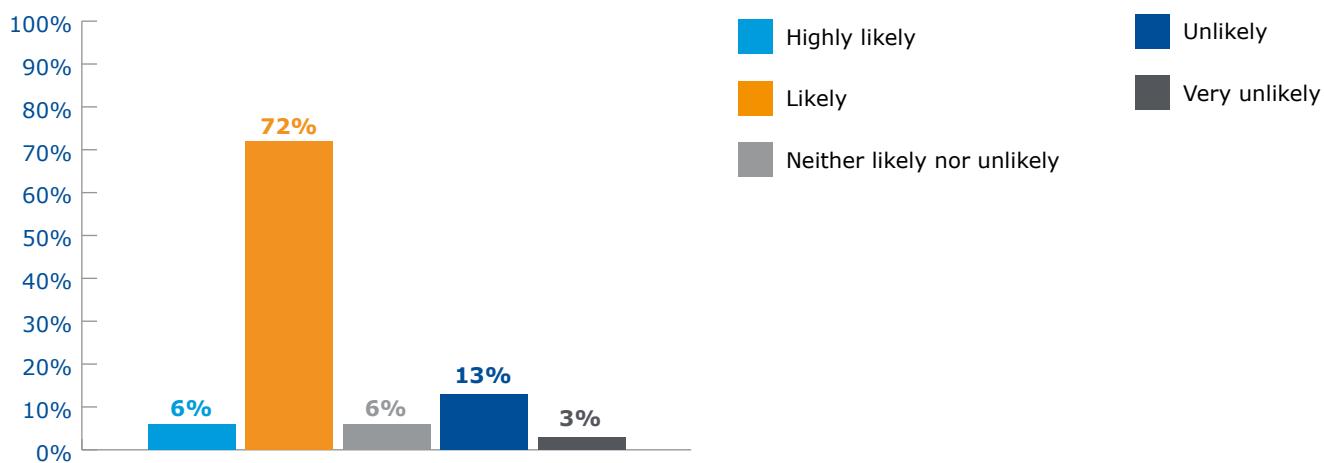
A solid 78 percent of executives surveyed said that managing climate-related risks will likely or highly likely be an important factor in keeping their job over the next five years. This was consistent across most sectors except financial services where, it does not appear to be judged as a critical issue despite the importance of climate risk to the financial services industry and their regulators.

The overall message of these results is that climate is becoming an employee and human resource issue in most parts of the world. In some cases, this awareness is even producing a bottom-up effect, where employees are putting pressure on management to improve their company's climate performance.

To help move the needle internally, some companies are implementing remuneration incentives for directors to achieve decarbonization targets. Although only 34 percent of survey respondents have started to offer such incentives, the wider message here is that this trend is likely to accelerate over coming years.

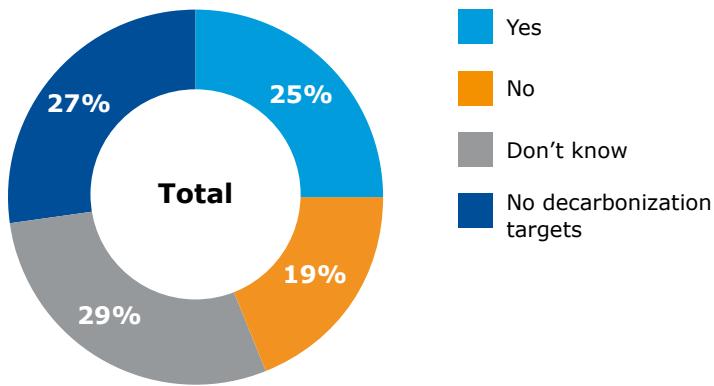
Will managing climate-related risks be a key factor in keeping your job over the next 5 years?

Global results



Does your company have remuneration incentives for directors to achieve decarbonization targets?

Global results



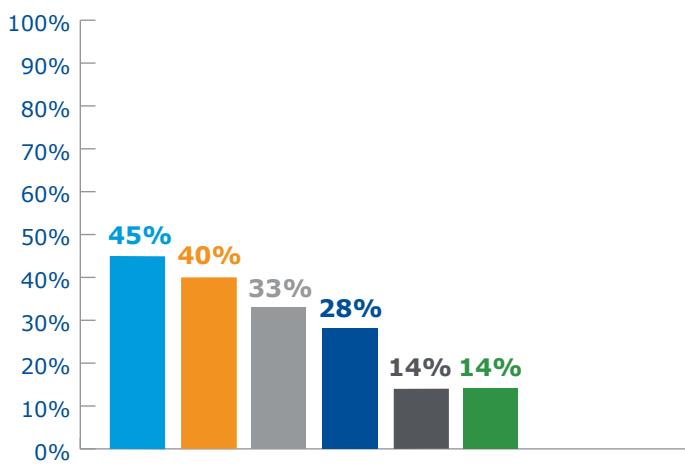
I am seeing a real alignment of incentives. It is pushing companies to be more green even as they deal with solvency and liquidity issues. The direction of travel is clear.

—**Rt. Hon Lord Mark Malloch-Brown KCMG**
Senior Adviser at Eurasia Group, Former United Nations Deputy Secretary General

Greater attention to climate issues among rank-and-file employees will also be present among potential hires. Therefore, companies' efforts around climate change should become a significant factor and even a differentiator in their recruiting efforts, particularly for young people.

Employees are becoming more vocal about climate change

Global results



- Climate change does not appear to be a significant issue for our employees
- More employees are leaving because they are unhappy about the company's climate impact
- Employees are expressing dissatisfaction with our company's climate impact
- Potential employees are asking about the company's climate impact in interviews
- It is getting more difficult to recruit young people because of our company's climate impact
- Employees are putting pressure on management to improve the company's climate impact

The Eversheds Sutherland and KPMG Viewpoint

Becoming climate resilient is no longer an issue solely for the head of sustainability with responsibility and ultimately accountability now very much a boardroom issue. Demonstrable ability to manage climate-related risks and set a wider climate strategy has become a boardroom necessity.³ This correlation of job security related to climate action shows just how much accountability executives believe they have and how much scrutiny they believe they are or will be under. This is not surprising. Once you accept that the value of your business is directly linked to climate risk in its widest sense, there is no choice left but to act.

Such activity is good news for the war on talent. Talent attraction and retention have been emerging concerns for many companies and have featured widely as a key corporate risk in recent years; climate change appears to be accelerating and exacerbating this issue. For many companies, we see this as a key driver of their activities. Also, a positive sign is the growing trend of implementing executive pay and incentive plans for decarbonization. However, creating robust incentives around climate risk is far from a straightforward task. One of the big challenges for remuneration/compensation committees will be how to drive the right behavior on climate risk and determining meaningful measures of success. Remuneration/compensation strategies centered on climate risk reduction and effective decarbonization targets are no doubt tools that will be used to drive through change at greater pace where required.

The financial services sector response to “keeping your job” was noteworthy. This could be because of the significant regulatory requirements in the financial services sector have led its executives to the view that regulatory compliance is enough to get them to where they need to be.



³ Penny Sukhraj, “Hedge fund billionaire Chris Hohn: ‘Asset management industry is a joke’ on climate change,” Financial News website, October 23, 2020.



Marco Settembri

Chief Executive Officer for Zone Europe, Middle East and North Africa (EMENA), Nestlé

Marco Settembri is Nestlé's Chief Executive Officer for Zone Europe, Middle East and North Africa (EMENA). He is a three-decade company veteran joining the business in Italy in 1987. Throughout his career Marco has developed a clear vision for how the world's biggest food & beverage company can combine serving customers and shareholders with an urgent need to protect the planet. Marco is acutely aware of his corporate and personal responsibility in this regard and this was the start of our conversation.

Marco is unashamedly bold about the weight of responsibility facing boardroom leaders. He begins by affirming that the global business community has arrived at a "*critical moment in history.*"

Marco's mission is ambitious yet essentially practical. He brings everything back to "*the need to balance feeding billions of people (including the billions who are underfed) with the need to stop damaging the environment.*" He explains that both sides of this mission are vast and complex with a multifarious set of component parts and interrelationships. There are issues of hunger, nutrition, and habitat. There are also problems with rising obesity and littered packaging waste. Marco highlights the gravity of the challenges faced by humanity and the urgent need for companies and their partners to work together more collaboratively towards more sustainable food systems. The supply chain takes on new significance here. Marco is sincere in his plea for more united and practical problem solving. This is obvious in his pronouncement that even the biggest brand in the sector cannot have much impact unless they are joined by partners, competitors, and suppliers.

He brings his point to life by shining a light on the disjointed and difficult realities of trying to drive efficiencies and sustainability across global value chains in the sphere of packaging recycling.

"An important part of our net zero GHG emissions commitment by 2050 pledge is around packaging. But each state around the world considers packaging materials in a different way when it comes to recycling. There is no standard, no harmonization – and yet to take action the value chain desperately needs understanding. We want and need to contribute to better recycling infrastructure."

Marco explains how the European Food and Drink sector is a particularly stark example of how these climate-related convolutions challenge boardrooms by shining a light onto the agriculture component. "*The agri sector is highly fragmented,*" Settembri explains. He highlights how working together with skill and accurate stakeholder intelligence has become a hygiene factor because each country protects and promotes their industry in different ways, via different mechanisms. Marco is calling for greater investment to help farmers play their part in tackling the alarming climate situation. He is proud of the positive impact that "*agripreneurs*" are having on the Food and Drink sector. Marco explained how this spirit of innovation, advances in technology and a genuine shift in consumer demand were converging to accelerate change across Europe.

“There is a need to balance feeding billions of people (including the billions who are underfed) with the need to stop damaging the environment.”

Climate resilience reporting: more work to be done

Companies that provide public reports on their climate resilience remain slightly outnumbered by a small majority of companies who don't report on this critical issue. This disparity is perhaps not a surprise given the difficulties in identifying and quantifying climate-related risks when most companies are still on a journey to address the reality of climate change.

In our survey, companies cited several different reasons why they report on climate-related risk (see below).

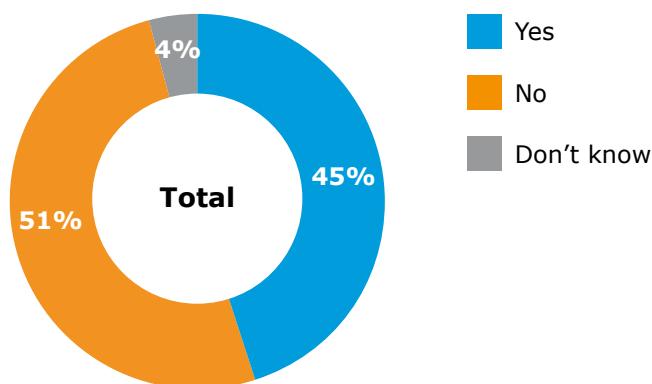
A recent TCFD status report published by the Financial Stability Board on climate-related reporting found that among those that reported on this issue, the nature of reporting was lacking, in particular, in relation to the quantification of climate-related risks.

 **We need bold leadership and collaboration to tackle the unprecedented challenges posed by the climate crisis. Working together, more intensively than ever before, is absolutely necessary when facing an ever-changing problem with unclear timing and without concrete clarity that shareholders will reward you for making sustainable choices. Decarbonization therefore requires courage and vision in the boardroom. It is positive that business leaders are increasingly looking for impactful solutions and the conversation is shifting from principles to actionable detail, but it is vital we maintain momentum as we don't have time to lose.**

—Dr Rhian-Mari Thomas OBE
Chief Executive, Green Finance Institute

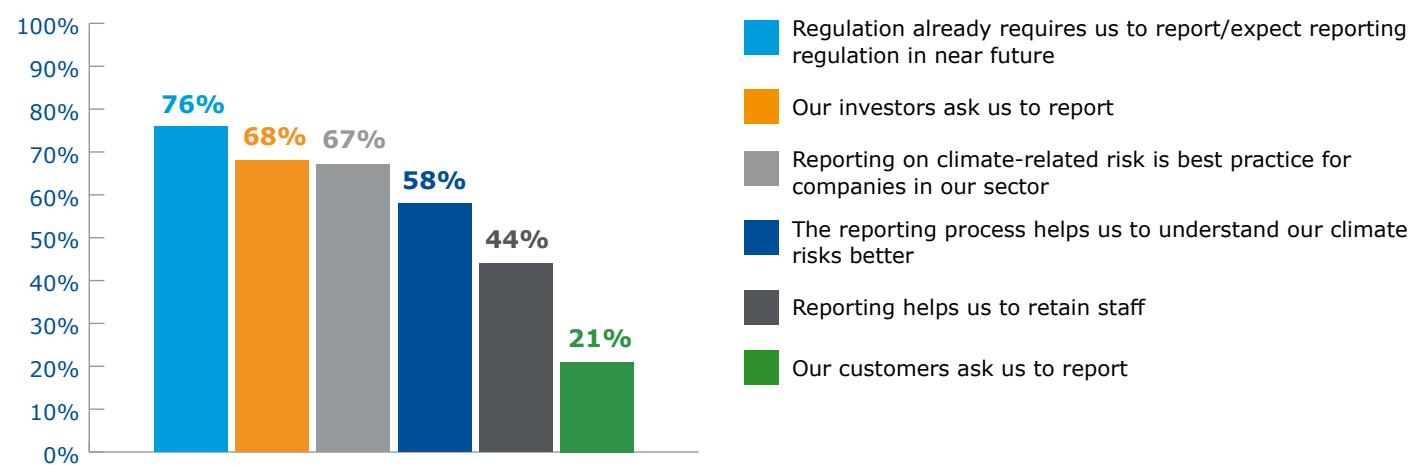
Does your company report publicly on the climate-related risks it faces?

Global results



What are the specific reasons why companies report on climate-related risk?

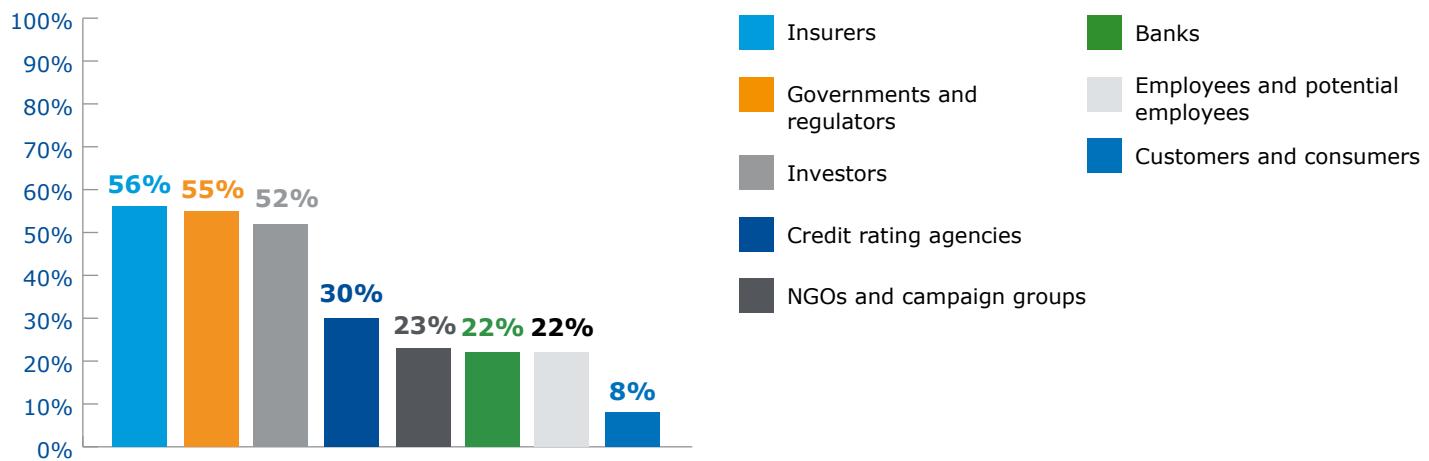
Global results



It's not surprising then that most of the companies surveyed say that they have a decarbonization strategy. However, our experience shows that these plans are at varying stages of development and execution, and companies and boards need to be careful to ask the right questions to ensure they understand how action will be taken on these strategies as set out below, the short, medium, and long-term.

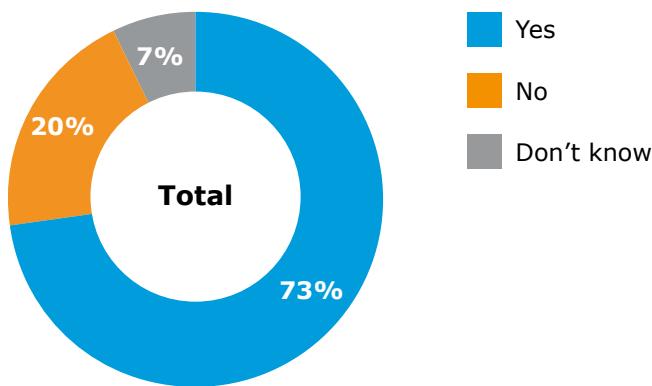
Groups likely to provide the most scrutiny on corporate climate policies

Global results



Does your company have a strategy and targets to decarbonize your business?

Global results



The Eversheds Sutherland and KPMG Viewpoint

Companies have come a long way in a short time, with the FSB reporting an 85 percent increase in climate risk reporting between 2019 and 2020.⁴ And, given the trajectory of investor and regulatory pressures, we'll likely see this metric shift considerably over the next 12 months.

However, it is not just about whether a company reports climate risk, but how it is reported and the details that back up future strategy. Simply presenting a front-end disclosure, rather than providing information that is holistically part of financial reporting, is unlikely to be enough to meet the ever increasing demands of investors and credit-rating agencies as the market matures.

In the months ahead, companies will come under increasing pressure to not only report on climate risk, but also quantify the climate risks and opportunities their business faces, and document their plans for climate action within the organization and across their supply chains in a proportionate way to the risks they face. Key stakeholders, such as investors, customers, and business partners, will want to see a defined strategy from companies with whom they engage in order to satisfy their own climate risk and decarbonization agenda including whether a particular investment or transaction should be made or whether to exit.

In addition, while companies are increasing their understanding of the environmental, social, and governance (ESG) and investor perspective, it is important that companies remember governments and regulators will also continue to pressure corporations to decarbonize. There is plenty of evidence of this, including the following:

- The EU Action Plan on Sustainable Finance, which is trying to reorient the flow of capital from unsustainable to sustainable businesses
- The Network for Greening the Financial System, a network of global central banks exerting increasing oversight on banks and other institutions under their supervision to adopt climate stress testing and other measures
- The EU proposals on a Carbon Border Adjustment Mechanism, designed to resolve the issue of carbon leakage on imports

This is only the beginning. We are likely to see much greater government intervention and focus on measures intended to accelerate decarbonization. Also, governments are starting to think more and more about the use of tax policy as a key influencer in driving the right type of climate change behavior.



⁴ Financial Stability Board press release, "FSB welcomes TCFD status report," FSB website, October 29, 2020.



Jaakko Eskola

President and CEO, Wärtsilä

Jaakko Eskola is now in his fifth year in charge of the global leader in smart technologies and sustainable solutions for the marine and energy markets. He is both an engineer and a sailor, so he is ideally placed to marshal the innovations developed by his 19,000 colleagues to create radical and lasting change in both sectors. Wärtsilä has locations in over 80 countries, and it has delivered technology to more than 180 countries across the globe. The company is included in several sustainability indices, including the Dow Jones Sustainability Indices, FTSE4Good Index, Ethibel Sustainability Index Excellence Europe, MSCI Global Sustainability Index Series and STOXX Global ESG Leaders Index.

Jaakko began our conversation by highlighting the growing importance of smart technologies to the decarbonization agenda. He explained how technology can enable more sustainable societies. Specifically, Jaakko is keen to emphasize how data-driven technical solutions working in concert with machine learning and human understanding can make a real and practical difference to decarbonization. He explained how Wärtsilä's range of Engine+ Hybrid energy solutions are helping Island grids and remote grid operations to modernize despite tight margins and therefore help more customers to reach a 100 percent renewable energy future. Jaakko emphasizes the fundamental conundrum that combining smart technologies can help to solve. *"Everybody needs energy. But it is also a major carbon contributor. So, we need to look at individual technologies and system innovation to help improve the situation."*

Unsurprisingly, the conversation turns to shipping where the Wärtsilä CEO is clearly engrossed in his work centered on technology as a force for good. He speaks with detail and passion about the way new innovations are solving problems in many different parts of the marine sector – particularly during a time of such unprecedented economic disruption. Technology as a means of delivering rapid and practical change is something of a passion for Jaakko. He explains that advances in smart technology now translate into the dramatically increased utilization of monitoring solutions, remote docking, and remote charging technologies to name just a few applications.

In the energy sector, Jaakko's focus is relentlessly on the system level—searching for opportunities to improve across countries. He highlights the complexities inherent in the energy sector today with customary realism by reinforcing that *"Energy systems need to look at both affordability and sustainability. That makes the whole thing very complicated."*

Jaakko emphasizes that the world is still a huge and complex place. He highlights the different characteristics of energy demand between the developing and developed world. Designing global systems to cope with such variations at a time of such volatility can help take the fight to climate change. Wärtsilä's GEMS energy management system is a useful example of this. The system automatically dispatches available assets by using spinning reserves that can dramatically cut energy intermittencies. Wärtsilä and its customers are using the latest data science, processes and automation to face up to this challenge and create new pathways of resilience in the face of an increasingly uncertain future.

“Energy systems need to look at both affordability and sustainability. That makes the whole thing very complicated.”



Dr. Rhian-Mari Thomas OBE

Chief Executive, Green Finance Institute

Dr. Rhian-Mari Thomas is Chief Executive of the Green Finance Institute, backed by the UK Government and City of London Corporation. Rhian spent 20 years in banking and was awarded an OBE for services to green banking. She is an Emeritus Member of TCFD and co-chair of TNFD, as well as a member of numerous advisory groups and boards across UK Government.

Dr. Thomas is a realist. Our conversation began with a frank admission that we do not and cannot know long-term future outcomes. As leaders, dealing with an inability to prescribe the future with the precision that we might desire or expect is an uncomfortable pursuit best done together, according to Rhian-Mari. She is calling for bold leadership to tackle the unprecedented challenges posed by the climate crisis. As might be expected from the person tasked with bringing such a diverse range of luminaries together, she is pushing for much greater degrees of collaboration. She sees working together, more intensively than ever before, as the logical and necessary solution when trying to tackle a situation with unclear timing and without concrete clarity that shareholders will definitely reward you for "*being that person*." So, despite the urgency, the commitments, the greater levels of detailed corporate planning around sustainability, Dr. Thomas believes that taking a leadership position on decarbonization still requires courage and vision in the boardroom.

This honest assessment continues with her analysis of the capital infrastructure supporting environmental efforts. She's cautions that "*we are still not yet seeing large scale reallocations of capital from the sustainability laggards to the leaders*," despite this being an intended consequence of initiatives like TCFD. Part of the problem, Rhian-Mari identifies, is the challenge that disclosures are not based on standardized metrics. Comparability is therefore not easy.

Her candid overview of the state of corporate collaboration on climate issues is encapsulated in her conclusion that, "*What we have are principles. We don't have the detail*." However, Dr. Thomas also sees opportunity in the uncertainty in the form of corporate leaders actively engaging with sustainability on a much more practical level. The whole character of the CEO enquiry has shifted, she explains. Leaders no longer have time either for catastrophising or vague long-term commitments. Encouragingly, the message she gets from corporate leaders most now is, "*I don't want to hear any more about how everything is going to fall off a cliff. I want to know what I can do*."

“We are still not yet seeing large scale reallocations of capital from the sustainability laggards to the leaders.”

Decarbonizing is good for business

As climate risks take a more prominent place on the corporate agenda, boards and management will necessarily take more aggressive steps to develop a decarbonization strategy. Not only will that be beneficial to the environment, but according to our survey, corporate leaders believe that decarbonizing is also good for business, saving costs and driving value for the long-term.

In fact, investors are increasingly seeking out sustainable assets. Funds held in sustainable investments totaled at least US\$31 trillion in 2018 rising 34 percent from 2016.⁵ Sustainable debt issuance in 2019 was US\$465 billion, a 78 percent increase from 2018.⁶

Decarbonization won't be an easy task, with 74 percent of respondents agreeing that decarbonizing their organizations requires significant changes to the business model. And, as this transformation takes place, companies expect substantial disruption will follow for several years.

However, the need to transition, coupled with the availability of green finance, is an alignment waiting to happen.

Companies are now able to:

-  Procure renewable heat and power
-  Procure energy efficiency solutions throughout their business processes
-  Utilize their own estate to generate clean energy solutions such as rooftops, land adjacent to buildings, and parking spaces
-  Convert their transport fleet to clean fuel with the advances made in e-mobility and the expected advances in hydrogen (with CCS and green)
-  Reconsider their approach to waste
-  Raise green finance
-  Invest themselves in energy transition assets
-  Form greener ventures or partnerships

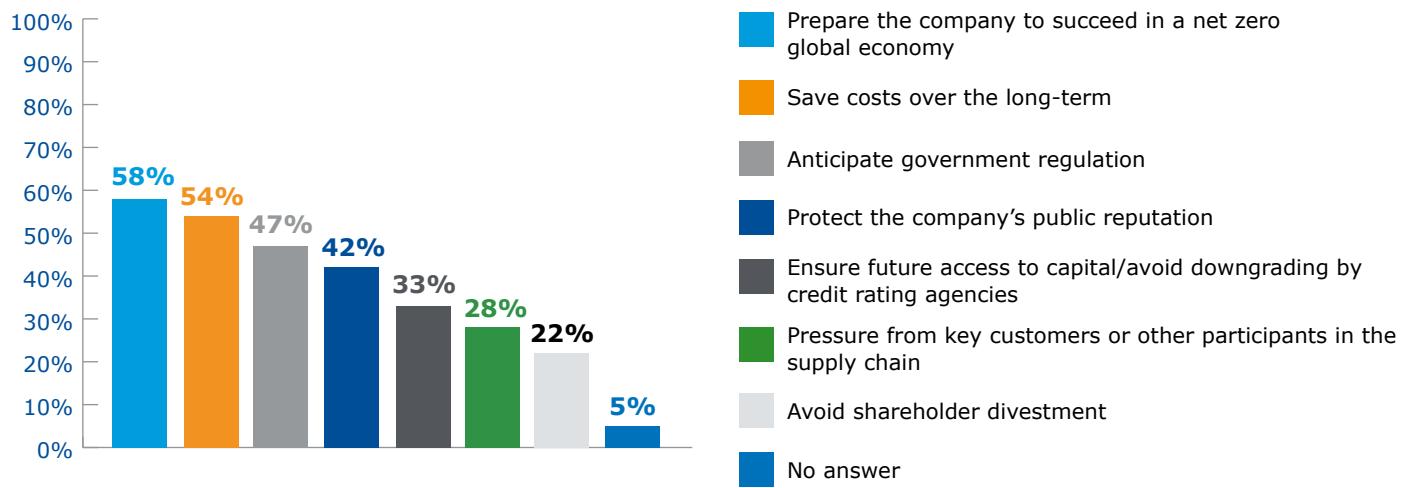
The World Business Council for Sustainable Development has issued a report and guidelines on how to create, and the benefits of, an integrated energy strategy which, rather than focusing only on energy-related financial and environmental objectives and being inward looking, shows a company how it can work cross-functionally internally and with upstream and downstream stakeholders externally so that it transitions from being a passive energy user to a proactive player.

⁵ Ceres press release, "Nearly 400 investors with \$32 trillion in assets step up action on climate changes," Ceres website, September 12, 2018.

⁶ Bloomberg NEF press release, "Sustainable Debt Sees Record Issuance at \$465 billion in 2019, up 27% from 2018," Bloomberg FEF website, January 8, 2020.

Why decarbonize? Success, savings, and long-term value

Global results



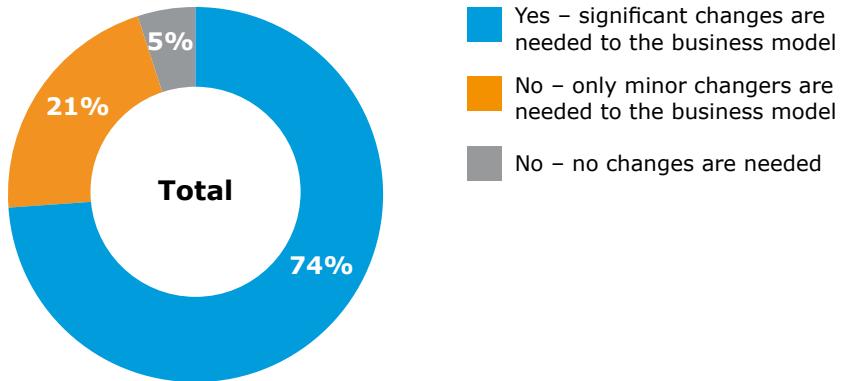
We have seen a shift from a protective stance to a promotive stance.

—Maura Hodge

Audit Partner, National ESG Assurance Leader for KPMG in the U.S.

Does decarbonizing the business require significant changes to the existing business model?

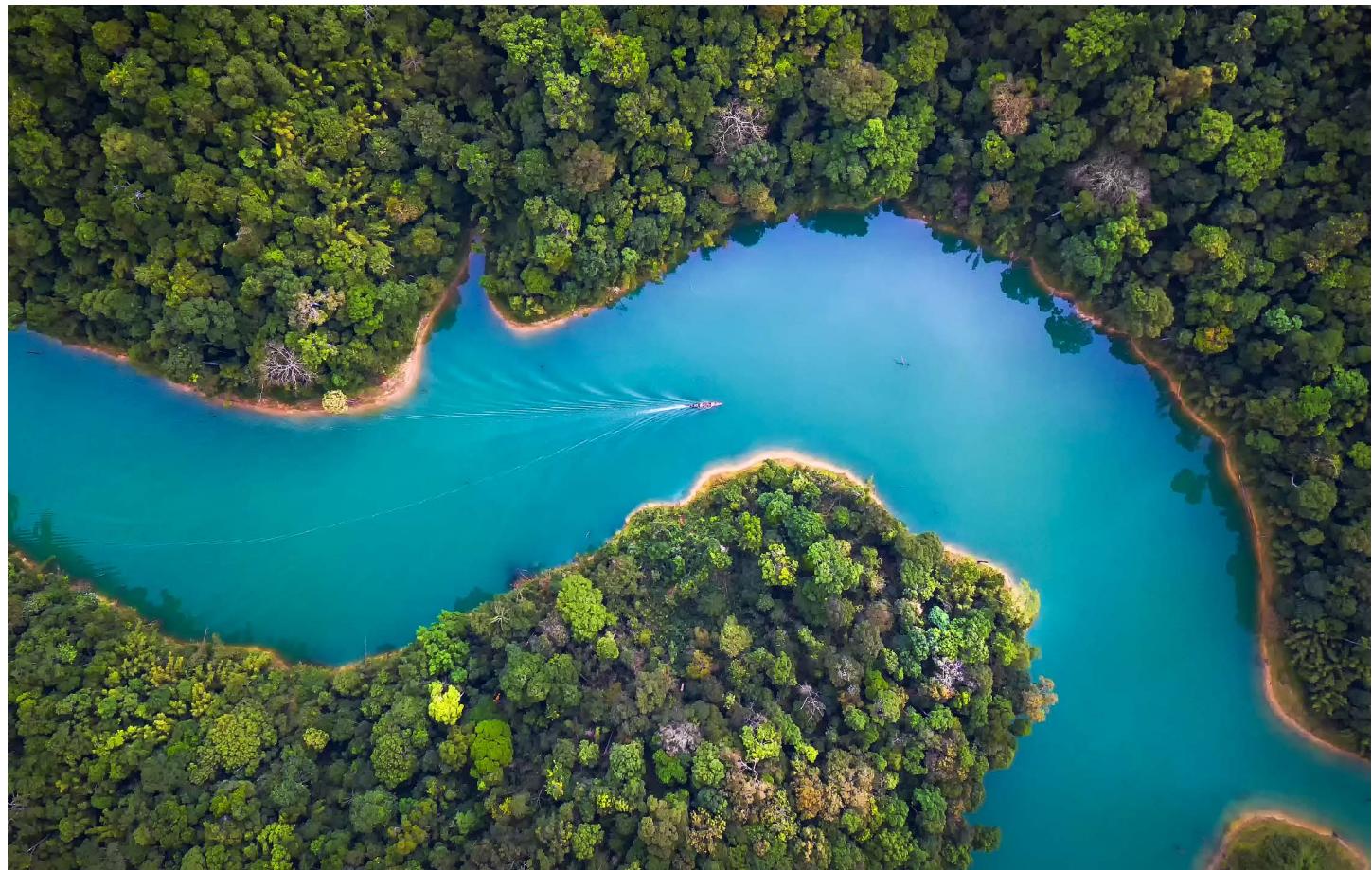
Global results



- Yes – significant changes are needed to the business model
- No – only minor changes are needed
- No – no changes are needed


If you don't think about climate change, you are not going to safeguard your supply chain.

—**The Rt. Hon John Gummer, Lord Deben**
Chairman of the Committee on Climate Change



The Eversheds Sutherland and KPMG Viewpoint

Many if not most businesses will go through some degree of transformation, and for some it will be radical. While this will present many new opportunities, there are real risks for many businesses.

A significant area of change will be in supply chains. One of the new realities facing companies across all supply chains today is the pressure coming from customers to implement meaningful decarbonization strategies. We see many large corporate customers looking to incentivize their upstream supply chain to encourage reduction of suppliers' carbon footprint as part of the company's own decarbonization strategy. This is manifesting itself in several different ways as follows:

- Obligations on supply chain participants to engage in continuous measurement and reporting on carbon performance. In some situations, customers are looking at the possibility of auditing supplier reporting on carbon
- Tenders from customers indicating the suppliers' carbon credentials will be a key part of the decision-making process in the awarding of contracts
- The actual setting of carbon targets by customers to members of their upstream supply chain
- Adopting incentive structures to reward the supply chain for making lower carbon choices

The evidence is clear that this trend is likely to continue significantly and will form a major part of the type of net zero commitments being made by major global corporations. As a result, it is critical for all suppliers to begin thinking about their own internal strategy to deal with this new reality.

As corporates, we tend to think of straight lines when we project revenues and costs. This is not going to be a straight line. Executives have very little time to be lost on this subject because it is going to bring about the most fundamental transformations of their business models they could ever have imagined.

—Jim Barry

Managing Director and Chief Investment Officer of BlackRock Alternatives Investors (BAI) and Global Head of BlackRock Real Assets



The most challenging barriers to decarbonizing

As we have described in the above sections, boards and management will face many challenges and obstacles managing climate risk and implementing a decarbonization strategy.

According to our survey, corporate leaders said that these were the top three challenges to decarbonization:

- Short-term costs
- Technology
- Internal skills shortage

Outside of these business challenges, there is also a significant social challenge: the scrutiny of companies has become increasingly multifarious. Activism now comes with scale and highly sophisticated levels of organization, and customers and employees can engage in ever more public debates about the plans and behaviors of companies. Consider that the United Nation's Principles for Responsible Investment (PRI) reported

in 2020 that investors with US\$103.4 trillion assets under management have committed to incorporate environmental, social, and governance (ESG) issues into their investment decisions.⁷

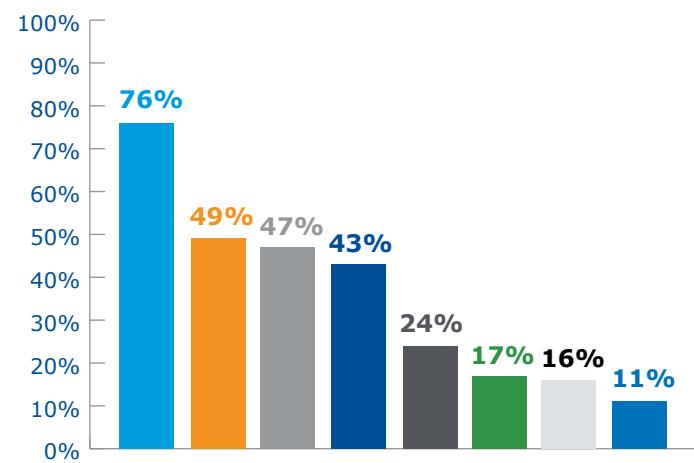
Established financial stakeholders still dominate boardroom worry lists, but when it comes to climate issues, the landscape of what and who needs to be closely watched is widening.

 **Energy systems now need to look at both affordability and sustainability. That makes the whole thing very complicated.**

—Jaakko Eskola
President and CEO, Wärtsilä

The most challenging barriers to decarbonizing a business

Global results



- The costs of decarbonization are unaffordable
- The necessary technology does not exist to enable us to decarbonize
- We don't have the right skills within the organization
- Government regulation is not tough enough to drive action
- Carbon prices are too low to be effective
- COVID-19
- Our Board and management are insufficiently engaged in the issue
- Our investors are not asking us to decarbonize

⁷ PRI Climate snapshot 2020, PRI website, July 17, 2020.

The Eversheds Sutherland and KPMG Viewpoint

Nobody should be under any illusion about the challenges to implementing a successful decarbonization strategy. The question of cost is interesting, and as we have noted elsewhere, there are financing solutions available. The longer-term economic benefits of decarbonizing need to be taken into account when considering the short-term costs.

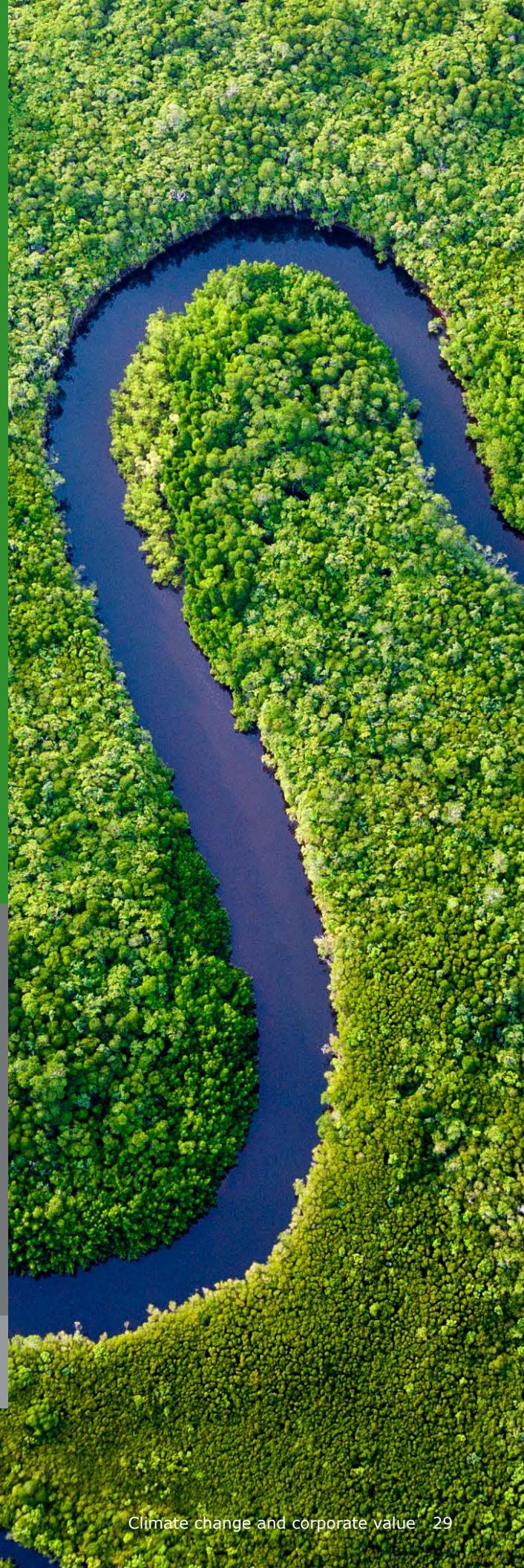
The technology question is even more interesting. There are differing views as to whether all of the necessary technologies are already available today to achieve full decarbonization by 2050. Our view is that innovation is critically important and that much needs to be done both in terms of developing new solutions but also improving and reducing the cost of existing solutions. Therefore, innovation must remain at the forefront of the fight against climate change and ultimately new solutions need to be disseminated to companies as quickly as possible.

In relation to skills shortage, this is a really important issue. Already significant efforts are being made around the world to introduce decarbonization and climate studies into the educational system as it is recognized that the skills shortage is indeed one of the critical barriers.

We need to balance the need to feed the world with the necessity to protect the climate/our planet. This is something that cannot be done in isolation by one actor. We will take our action but if the total end-to-end value chain doesn't follow then we will have a problem. The No.1 food and beverage company in the world—on its own—can still only impact in a tiny way.

—**Marco Settembri**

Chief Executive Officer for Zone Europe, Middle East and North Africa (EMENA), Nestlé



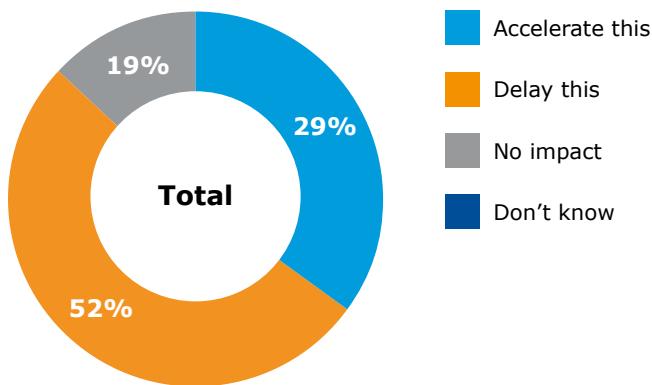
COVID-19's impact on decarbonization

The outbreak of COVID-19 has demonstrated what an immediate and systemic impact major risk events can have on society and business operations. It has highlighted the need for resilience and a dramatic shift in how organizations address risk management.

Climate change is the next high impact, high probability risk that requires urgent action. Meeting global decarbonization targets will require economic transformation, led by fundamental business model change.

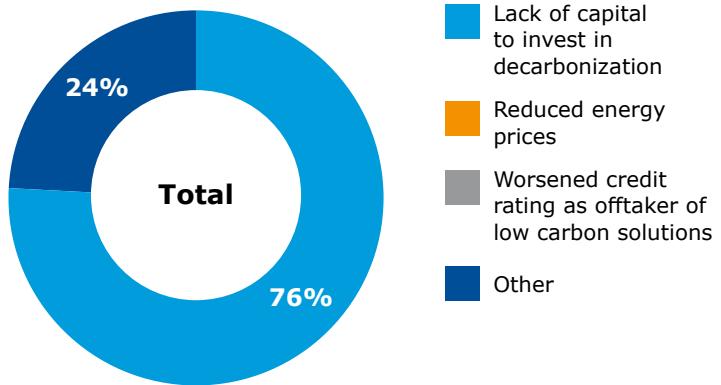
Has COVID-19 had an impact? COVID-19 tended to delay decarbonization strategies

Global results



COVID-19 created several barriers to business decarbonization

Global results



COVID-19 has kind of changed things a little – IT created an internalization of something existential to the financial economic system and climate falls squarely in this category.

—Jim Barry

Managing Director and Chief Investment Officer of BlackRock Alternatives Investors (BAI) and Global Head of BlackRock Real Assets

The Eversheds Sutherland and KPMG Viewpoint

In one sense, there is reliable market evidence of companies understanding the disruption of COVID-19 as a mere taste of what could come with climate change. However, the tough short-term realities of adapting to COVID-19 constraints have clearly impacted the time and resources available to develop decarbonization strategies.

COVID-19 has created a funding challenge, and solving the problem is not without its complexities. There is not so much a shortage of capital as a shortage of capital being mobilized for where it is really needed—not only to support the innovation agenda and climate transition development projects in emerging markets, but also climate transition within companies. We are seeing the emergence of a proper green finance market with new financial products (green loans, green securitization, etc.) and new pools of investors who are interested in these types of opportunities. Aligning the solutions and financing opportunities with corporate needs is now key. There is a different way to finance climate risk reduction and decarbonization solutions, just as there are different liquidity markets which should be considered.

 **There is no vaccine for climate change.**

—**Michelle T Davies**

International Head of Climate Change and Energy Transition,
Eversheds Sutherland

—**Mike Hayes**

Global Head of Renewables for KPMG International
Limited and Global Head of Climate Change and
Decarbonization, KPMG IMPACT

Sector perspectives

As is to be expected, there is clear divergence among the different sectors, and the automotive, consumer and retail, and financial services sectors show the greatest differences in the responses.

Some of the findings from the financial services sector stood apart from the sectors.

- Over 84 percent of respondents in the financial services sector said that improvement was needed in board and management skills to deal with the risk of climate change
- Most executives surveyed in the financial services sector did not think that managing climate-related risks would be a key factor in keeping their job
- Only 9 percent of financial services companies surveyed said that their company calculated the potential financial impact of climate-related risks. Equally, only 9 percent of financial services respondents said that their companies report publicly on climate-related risks
- Only 18 percent of financial services companies have developed a decarbonization strategy, while the overall percentage was 73 percent
- No financial services company surveyed said it has implemented remuneration incentives for directors to achieve decarbonization targets

These results are highly significant given the importance of climate risk to the financial services industry and the focus of regulators on the extent of climate risk sitting across equity and debt portfolios in financial institutions with vast implications for asset values.

Also, we note that the consumer and retail (C&R) sector significantly lags behind other sectors in facing up to climate risks relative to other sectors:

- C&R organizations surveyed are more concerned about groups such as NGOs than other financial influencers
- C&R organizations surveyed do not see the importance of decarbonization for future success and are less likely to have a decarbonization strategy
- C&R organizations surveyed are less likely to report on the financial impact, to report on climate risks, and do not tend to calculate the financial impact of climate risks



The energy transition provides a great opportunity to drive value from diversity and inspire more women and diverse leaders to be a part of the voice and face of the industry.

—Mike Hayes

Global Head of Renewables for KPMG
International Limited and Global Head of Climate Change and Decarbonization, KPMG IMPACT



Maura Hodge

Audit Partner, National ESG Assurance Leader for KPMG in the U.S.

Maura Hodge is an audit partner in the Boston office of KPMG in the U.S. who focuses on enabling understanding and dialogue between finance, accounting, and ESG professionals with a view to more reliable and transparent reporting. In 2010, Maura supported the creation of the KPMG Sustainability Services practice in the U.S. In that role, she developed the U.S. firm's approach to sustainability assurance and has led some of their largest ESG engagements, which include assurance of use of proceeds of green bonds, social impact of private equity funds, standalone greenhouse gas emissions reports, and full corporate responsibility reports.

In addition, Maura serves as the KPMG liaison to the Sustainability Accounting Standards Board (SASB) and regularly contributes to the KPMG views on ESG reporting and assurance through the AICPA Sustainability Task Force and other international reporting bodies focused on better business reporting. This provides a fascinating perspective into how organizations are dealing day-to-day with these relationships and the way the whole character and scope of reporting is changing. Maura explains that the primary change she has seen in U.S. companies over the last 10 years has been practical, structural, and cultural. She reports seeing a major shift in the way companies are organized away from "*one 'sustainability person' in charge of corraling the whole company*" to a new sense of boardroom ownership. Maura explains

that in the past the sustainability advocate was someone without huge power, budget, or influence, but now management is allocating resources behind its decarbonization strategies. She concurs with the widespread recognition that action is needed now rather than waiting to make progress against their targets, resulting in the need for radical action in the future. Hodge is clear that there has been a material difference to her day job emphasizing that "*there has been a drastic change in both the nature and frequency of the conversations we have been having.*" Perhaps expectedly for a technical expert, Maura cites a specific area of reporting to demonstrate the major mindset shift she has witnessed among U.S. companies over the last seven or eight years. She highlights the particular way the trend has manifested in the financial services sector where in 2011/12 there was a movement to adopt the Equator Principles Framework, and embed into investment decisions mitigation efforts on the environmental and social impact. Since then, there has been a trend to move beyond just mitigation to a more proactive way of managing risk.

In Maura's world, the whole landscape of corporate reporting is modifying itself at pace. There is now pressure in the boardroom to put climate at the heart of reporting. Maura is clear – "*We have seen a shift from a protective stance to a promotive stance.*"

“There has been a drastic change in both the nature and frequency of the conversations we have been having.”

Where are you on the journey to climate resilience and decarbonization?

Understanding and planning for the likely profound implications of climate change on your business is crucial. Your response will reflect increasing pressure from governments, consumers, employees, investors and lenders. Prior to COVID-19, pressure was already building. Now the imperative to act will only get stronger.

Climate resilience and decarbonization is not a one year journey – similar to a Formula E race – there will be many laps to take, but by approaching it in the right way, you can drive value creation rather than value destruction. What is needed now is an approach that:

4. Measuring progress and reporting

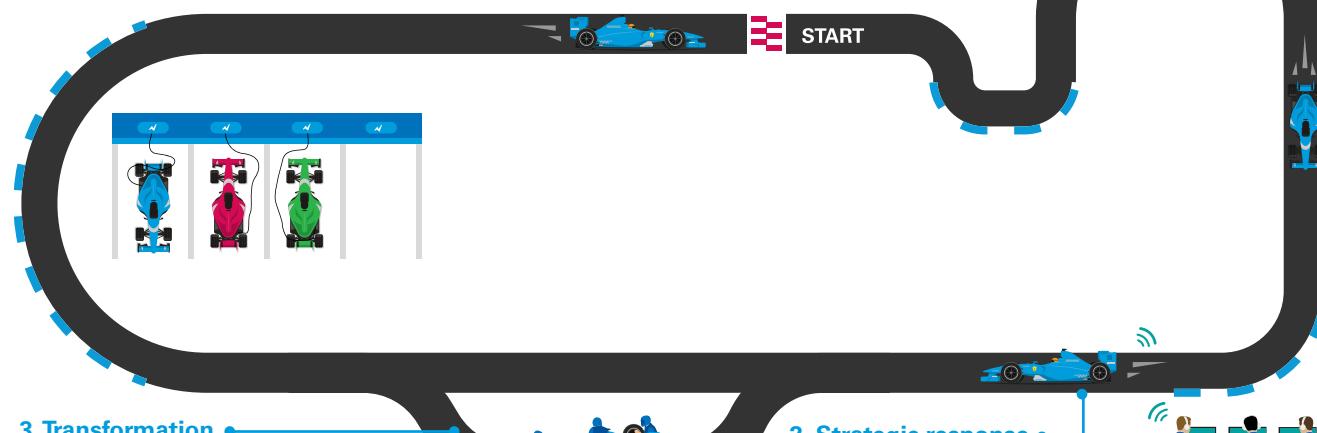
Effectively communicates with stakeholders by:

- Creating an external climate narrative
- Ensuring that climate-related disclosures are verifiable and meet mandatory reporting requirements
- Ensuring that the data reported is correct
- Benchmarking reporting against the relevant peer group and best practice

1. Risk and opportunity identification and qualification

Identifies climate risk and opportunities by:

- Breaking down the value chain
- Identifying climate risk and opportunities at each stage of the value chain
- Undertaking Dynamic Risk Assessment analysis to assess the interconnectedness, timing, and quantification of the risks and opportunities identified



3. Transformation

Makes the necessary changes to create a climate resilient business model by:

- Building out mitigation strategies for risks identified
- Identifying investments required to take advantage of the opportunities
- Setting metrics and targets to drive cultural change
- Setting and implementing metrics and targets
- Reviewing market disclosures

2. Strategic response

Plans for the future in an uncertain world through:

- Scenario analysis under both orderly and disorderly transitions
- Assessing Board risk appetite
- Defining the climate narrative
- Identifying quick wins



Rt. Hon Lord Mark Malloch-Brown KCMG

Senior Adviser at Eurasia Group, Former United Nations Deputy Secretary General

Mark Malloch-Brown has been engaged widely in government, international organizations, business and civil society during his career. In addition to his role at the Eurasia Group, he currently serves on several commercial public boards and on the advisory boards of two private equity funds. He serves on external advisory committees to the Managing Director of the IMF and the Executive Director of UNICEF. He served as Deputy Secretary-General and earlier Chief of Staff of the UN under Kofi Annan. He was later Minister of State in the Foreign Office, covering Africa and Asia, and sat in Prime Minister Gordon Brown's cabinet.

The starting point for our conversation is practical—the reality of how climate is drastically changing life inside the boardroom. Lord Malloch-Brown explains he is seeing a growing awareness of sustainability at the top of the world's biggest businesses. He posits two key reasons for this: first, his attention turns to financial reality of following the money. "*The balance of government recovery finance is 2:1 Green over Brown,*" he explains. To access this, companies need to demonstrate a track record and solid plans on a decarbonization agenda. Secondly, Mark explains that companies are now dealing with a shift in public opinion and a recognition that COVID-19 is just one facet of a wider need to create business models with much greater resilience. Mark explains that structural and cultural barriers still hold us back. Factors such as the short tenures of CEO and chairman positions, the setting of targets far into the future and the rapidity of business change can all make radical transformation

difficult. However, he strikes a hopeful tone describing the corporate world as having been on a journey from a place of tokenistic and voluntary commitments to a new reality. A "here and now" where alignment of consumer demands, investment infrastructure and the focus of the big multilateral players is driving increasingly radical strategy development.

Lord Malloch-Brown illustrates the status of large companies as one of the critically important groups among other climate actors by explaining the convergence of financial risk and climate risk at the IMF. "*The IMF does an annual assessment of the financial risk of different economies and it is building that into climate risk. In the past it was a strictly fiscal assessment and now this is mirroring what is being done at a corporate level... it is required if countries want to get a clean bill of health from the IMF.... I also work with a lot of organizations at the grass route level around the world and I am seeing it there too.*"

The convergence of climate risk with financial risk is something Mark welcomes across a wide range of settings. A new reporting landscape is driving transformational action.

"The type of reporting required under TCFD creates more sophisticated scenario planning. This is an incredibly valuable discipline to be putting financial players through – to really make them understand that this is not altruism – it is fundamentally about the security and safety of their portfolio. It is transformational in the impact it is having."

“The balance of government recovery finance is 2:1 Green over Brown.”

Survey methodology and acknowledgments

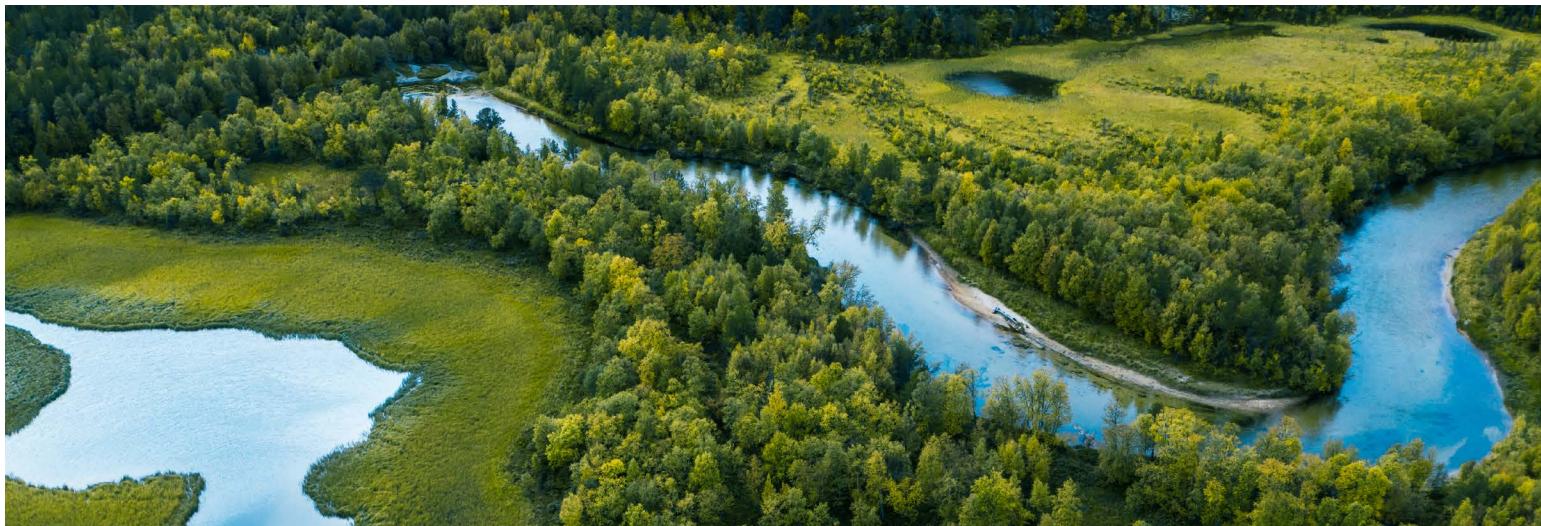
The research in this report was carried out on behalf of Eversheds Sutherland and KPMG IMPACT by the independent research agency Explain the Market Ltd. Director and C-Suite executives from 509 of the world's leading companies were interviewed via an online survey during August 2020. The survey included leaders from four key markets (Asia, Europe, United Kingdom and United States) and nine key industry sectors (automotive; consumer and retail; energy and natural resources; financial services; healthcare and life sciences; infrastructure and real estate; industrial manufacturing; technology, media, and telecommunications; and transport, travel and leisure).

All research has been carried out in accordance with MRS and ESOMAR codes of conduct. In addition to the survey, individual in-depth interviews were carried out with nine of the most prominent thought leaders in the areas of climate risk and sustainability.

With special thanks to Chloe Barrett, Luisa Deas, Lyndie Dragomir, Aleen Gulvanessian, Megan James, and Sarah Milsow-Guenther for their support of this work.

Eversheds Sutherland and KPMG would like to thank the following for their contributions:

- **Jim Barry**, Managing Director and Chief Investment Officer of BlackRock Alternatives Investors (BAI) and Global Head of BlackRock Real Assets
- **Dr. Mark Carney**, United Nations special envoy for climate action and finance and trustee of the World Economic Forum
- **Jaakko Eskola**, President and CEO, Wärtsilä
- **The Rt. Hon John Gummer, Lord Deben**, Chairman of the Committee on Climate Change
- **Maura Hodge**, ESG and Sustainability Assurance Leader for KPMG in the U.S.
- **Rt. Hon Lord George Mark Malloch-Brown**, Senior Adviser at Eurasia Group, Former United Nations Deputy Secretary General
- **Marco Settembri**, Chief Executive Officer for Zone Europe, Middle East and North Africa (EMENA), Nestlé
- **Dr. Rhian-Mari Thomas OBE**, Chief Executive, Green Finance Institute.



About us

About Eversheds Sutherland

As a global top 10 law practice, Eversheds Sutherland provides legal services to global clients acting for 75 of the Fortune 100, 68 of the FTSE 100 and 113 of the Fortune 200.

With more than 3,000 lawyers, Eversheds Sutherland operates in 68 offices in 32 jurisdictions across Africa, Asia, Europe, the Middle East and the United States. In addition, a network of more than 200 related law firms, including formalized alliances in Latin America, Asia Pacific and Africa, provide support around the globe.

Eversheds Sutherland has advised on climate change for over 20 years and has a team of over 150 lawyers globally dedicated to advising clients navigate the energy transition and remove climate risk. Eversheds Sutherland advises innovators and providers of decarbonisation solutions, companies transitioning to net zero and the banks and funds financing and funding climate solutions as well as on policy and regulation. The team is also helping clients meet their climate reporting obligations and develop the strategies which underpin their transition to net zero including stakeholder due diligence and revised legal models of stakeholder engagement.

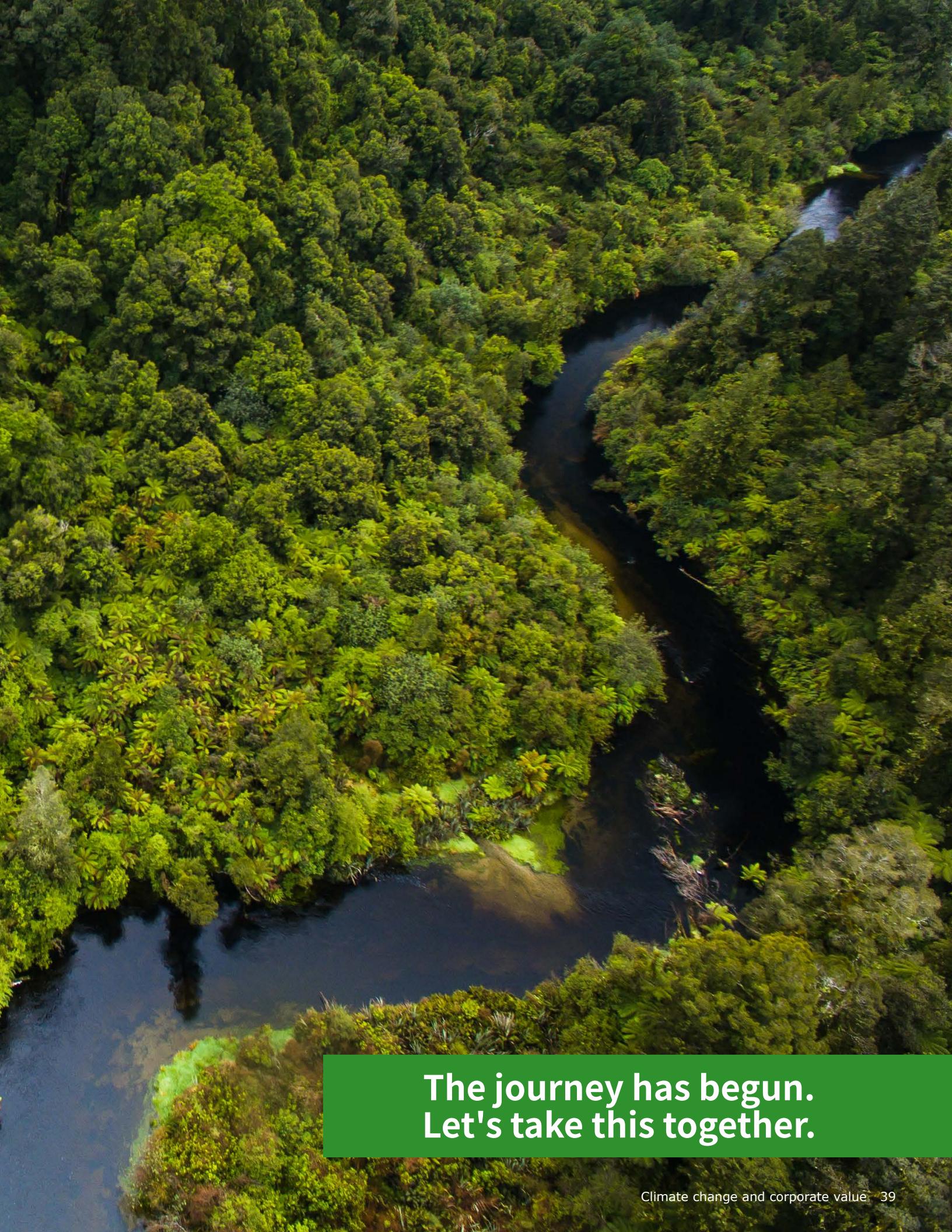
Eversheds Sutherland's objective is to help our clients achieve theirs in the most valuable and impactful way possible.

About KPMG

KPMG is a global organization of independent professional services firms providing Audit, Tax and Advisory services. We operate in 147 countries and territories and have more than 219,000 people working in member firms around the world.

KPMG IMPACT brings together an experienced network of professionals from across the globe offering clients industry leading practices, research and trusted technology solutions which seek to address some of the biggest issues facing our planet, having a real and positive impact today and for our collective future. Through KPMG IMPACT, we aim to deliver growth with purpose. Uniting the best of KPMG firms to help clients fulfill their purpose and deliver against the Sustainable Development Goals (SDGs), so all our communities can thrive and prosper.

Climate risk is not just a regulatory issue but a board-level strategic issue – failure to take appropriate steps now is likely to leave an organization exposed to material business risks. KPMG professionals have extensive experience in assisting major companies in their decarbonization ambitions, working close with them from strategy inception to execution and integration.



**The journey has begun.
Let's take this together.**

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