# Boardroom wake-up call

## Climate change is closer than you think

**Board Leadership Center (India)**

**KPMG. Make the Difference.**

**The climate crisis is no longer a distant concern for future generations—it is a pressing issue that demands immediate and decisive action from India Inc. Climate change is a silent disruptor, slowly but surely infiltrating every aspect of business operations. While some may still perceive climate change as primarily an ESG agenda, this view couldn't be farther from reality. It has become a pivotal issue affecting the core operations and financial health of businesses globally.**

**Today, climate change leads to significant supply chain disruptions, affecting cost of goods and services and causing notable financial impacts, leading to erosion of shareholders' value. It influences employee productivity and drives workforce migration, presenting substantial operational challenges. Needless to say, with government pushing this agenda more aggressively than ever, there are various legal and compliance ramifications as well. As one of the most critical risks facing organisations, climate change has far-reaching implications for board committees, including the audit committee, nomination and remuneration committee, risk committee and of course the ESG committee.**

**It is imperative that boards integrate climate considerations into their strategic planning and oversight responsibilities to navigate this complex and evolving landscape effectively.**

## Why boards feel the heat?

Directors have a fiduciary duty to act in the best interests of the company and its shareholders, which includes identifying and mitigating material risks, such as those posed by climate change. Risk such as climate change not only pose financial and operational risks but can also have many other far-reaching implications in the form of legal repercussions, damage to the company's reputation, and company's long-term sustainability. In an era of heightened transparency and accountability, reputational risk is a significant concern for boards. Companies that fail to address climate change risk lose trust with consumers, investors, and other stakeholders.

Boards must ensure their companies are resilient in the face of these challenges. The regulatory landscape is evolving rapidly, with governments worldwide enacting stricter climate-related regulations. Boards must ensure their companies comply with these regulations to avoid legal penalties and safeguard their license to operate.

Proactively addressing climate risks can also provide a strategic advantage, as companies that lead in sustainability are better positioned to capitalise on emerging opportunities, such as the growing demand for green technologies and sustainable products. Sustainable practices also contribute to long-term value creation by enhancing resilience and reducing costs.

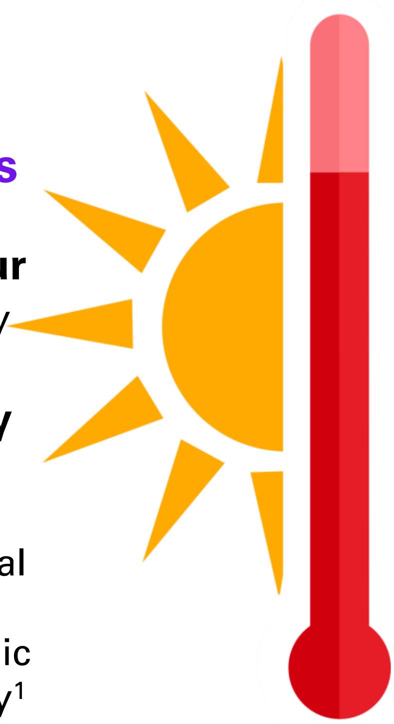
# Understanding the urgency

India's vulnerability to climate change is complex, with diverse geography leading to varied temperatures and precipitation patterns, increasing the risk of extreme weather events. India today, stands at a critical juncture, facing environmental threats driven by climate change. Ranked seventh on the Global Climate Risk Index, the country has witnessed a greater rise in average temperatures during the last vicennial (twenty years) than during any other 20-year time interval since 1901[1]. The southwest monsoon, crucial for agriculture, has become increasingly erratic, with recent years marked by intense dry spells and floods. While average annual rainfall saw a temporary rise during 2000–2020 compared to earlier decades, the overall trend since 1901 reveals a gradual decline.[1]

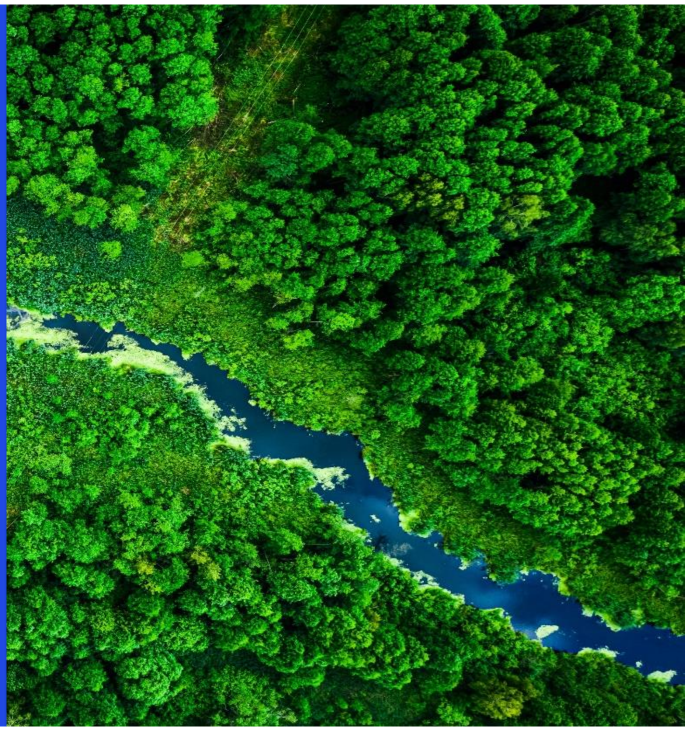
These climatic shifts have heightened India's vulnerability to natural disasters like floods and storms, raising concerns for agricultural production and food security. Air pollution remains a significant public health concern, with India's average PM2.5 concentration exceeding ten times the WHO's recommended level[2].

Despite a shift towards a service-based economy, high-emission sectors like metals, electricity generation, and transportation continue to significantly impact our Gross Value Added (GVA) and rely heavily on fossil fuels. This underscores the urgent need for a transition to sustainable energy sources.

These factors, coupled with **rising temperatures** that threaten to **diminish labour productivity** by up to **4.5 per cent of GDP by 2030** due to lost working hours, pose a substantial risk to our nation's economic growth trajectory[1]



**According to a report titled "State of India Environment 2024," by Centre for Science and Environment (CSE), India experienced extreme weather events on a staggering 318 out of 365 days in 2023, impacting all states and union territories (every single one of them).[3]**



1. Report on Currency and Finance, RBI, May 2023
2. World Air Quality Report 2023, IQAir, March 2024
3. India Experienced Extreme Weather Nearly Every Day in 2023, Shocking New Report Reveals!, The Weather Channel, February 2024

# Climate considerations for boards

Navigating the complexities of climate change requires proactive leadership from boards of directors. By prioritising sustainability and integrating climate considerations into corporate strategy, boards can not only mitigate risks but also potentially seize opportunities for innovation and market leadership.

## A few focus areas in this regard can be:

### Embedding climate changes and ESG goals in your corporate strategy

Long-term environmental goals can be integrated with corporate and financial strategies for sustained success. It is important to understand that ESG is not a cost and there is no trade-off between profits and planet

### Closing the action gap

Clear and actionable net-zero plans can be developed to enhance the effectiveness of climate governance. It is crucial to put a governance structure in place, both at board and management level, with clearly defined responsibilities and goals

### Climate-related risks and compliance

Boards should identify all climate-related risks and compliances that the company need to adhere to. Risks should be prioritised and quantified to understand the potential impact and mitigation/ management mechanisms

### Bridging climate expertise

Promote cross-disciplinary education and diversity on board to enhance the effectiveness of climate governance

### Enhancing transparency and accountability

Prioritise transparent, robust climate action reporting and monitoring mechanism to demonstrate progress, ensure accountability, and engage proactively with all stakeholders

### Addressing supply chain sustainability

Boards can consider implementing sustainable practices throughout the supply chain to drive comprehensive environmental improvements

# Key climate reporting guidelines for boards

## BRSR (Business responsibility and sustainability report)

Mandate sustainability reporting for Indian companies, focusing on comprehensive ESG aspects.[4]

## CSRD (Corporate sustainability reporting directive)

Enhances corporate sustainability reporting standards in the EU, requiring more detail and standardised ESG disclosures from organisation.[5]

## CSDDD (Corporate sustainability due diligence directive)

Establishes requirements for companies to conduct due diligence on human rights and environmental impacts within their operations and supply chain.[6]

## RBI draft guidelines

Address climate-related financial risks for banks and financial institutions in India, aiming to integrate these risks into their risk management frameworks.[7]

## Waste guidelines EPR (Extended producer responsibility)

Designed to boost the recycling rate of packaging materials, thereby supporting a circular economy.[8]

## EUDR (European union deforestation regulation)

Enforces due diligence on companies importing commodities to ensure they are not associated to deforestation.[9]

## Central consumer protection agency guidelines on Prevention of greenwashing

Aims to mitigate misleading environmental claims in advertising and marketing by ensuring transparency and accuracy in environmental assertions.[10]

4. An integrated guide to BRSR, NSE, August 2024
5. Directive (EU) 2022/2464 of the European parliament and of the council of 14 December 2022, EU-Lex, August 2024
6. Corporate sustainability due diligence, European Commission, August 2024
7. Disclosure framework on climate-related financial risks, 2024, RBI, August 2024
8. EPR portal for plastic packaging, Ministry of Environment, Forest and Climate (GOI), August 2024
9. Regulation on deforestation free products, European Commission, August 2024
10. The guidelines for prevention of misleading advertisements and endorsements for misleading advertisements, 2022,Department of Consumer Affairs (GOI), August 2024

# Questions for boards to consider

1. How are we developing strategic frameworks that seamlessly integrate our long-term business operations with ambitious climate goals, while enhancing our resilience against potential climate risks?

2. How are we exploring innovative financing mechanisms, such as green bonds or carbon offset programmes, to responsibly support our climate initiatives without compromising short-term financial performance?

3. How are we fostering a culture of climate literacy and awareness across all levels of the organisation, encouraging meaningful employee engagement and action in support of our climate goals?

4. How is the chair using effective communication strategies to articulate the compelling business case for climate action, ensuring robust support and commitment from all board members and executives?

5. How are we establishing key metrics and benchmarks to continuously monitor and evaluate the effectiveness of the board's climate strategies, promoting ongoing improvement and positive impact?

6. How are we leveraging partnerships with NGOs, industry leaders, and government agencies to accelerate progress towards achieving our ambitious climate goals, through joint research initiatives or collaborative advocacy efforts?

7. Is the company making sufficient investments in innovating new product designs to minimise environmental impact, focusing on durability, recyclability, and the use of sustainable materials?

8. Are we investing adequately in climate-resilient infrastructure (renewable sources, green buildings, etc.) and early warning systems that can bolster our preparedness and reduce environmental impact?

9. Are we leveraging advanced technologies and processes across operations to enhance energy efficiency, while also leading to significant cost savings and reduced emissions?

# KPMG in India contacts:


**Ritesh Tiwari**
Partner
Board Leadership Center
E: riteshtiwari@kpmg.com

**Namrata Rana**
Partner
National Head ESG
E: namratarana@kpmg.com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KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011 Phone: +91 22 3989 6000, Fax: +91 22 3983 6000.