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Governance: ISS Publishes Report on Corporate Governance

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Governance

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On October 27, Institutional Shareholder Services (ISS) published a **report** intended to “provide an overview of the different changes taking place in the corporate governance landscape in light of increasing awareness of sustainability issues.” This builds on ISS’ **earlier report** published on October 3 addressing global sustainable finance regulatory developments in 2022. The latest report states that investors across the globe increasingly are placing a greater importance on sustainability issues and this development is contributing to a change in issuers’ corporate governance structures. Among other things, ISS pointed to an increase in the use of board-level sustainability committees, which in the U.S. is becoming “standard market practice,” and that approximately 60% of S&P 500 companies had at least one director with ESG skills. However, only 7% of these companies had climate-specific expertise at the board level. The report also cited growth in the use of ESG metrics in calculating executive compensation.

The report concludes by stressing “the importance of traditional corporate governance dimensions such as shareholder rights and board attributes to address [environmental and social] issues.”

Taking the Temperature: It would be difficult to overstate the importance of climate-related governance or the level of scrutiny it will continue to attract. In discharging their fiduciary duties, directors need to assess material physical asset and transition risks and opportunities associated with climate change and potential financial statement and operational impacts resulting from climate change, and then make appropriate disclosure on those governance efforts and potential impacts on the corporation. The SEC’s proposed climate-change disclosure rule, for instance, would require disclosure of an issuer’s oversight and governance of climate-related risks by the board and management and a description of how any climate-related risks identified by the company have had or are likely to have a material impact on its business and financial statements over the short-, medium-, or long-term. Likewise, the EU’s Corporate

Sustainability Reporting Directive (CSRD) requires companies to disclose information about the potential financial impacts resulting from climate change, their business strategy in light of climate risks, and the resilience of the business model and strategy to sustainability-related risks. Boards should consider whether existing monitoring and evaluation processes are sufficient in light of developing regulatory requirements and investor scrutiny, and whether the board and management have the appropriate level of climate-related expertise given the company's business operations.