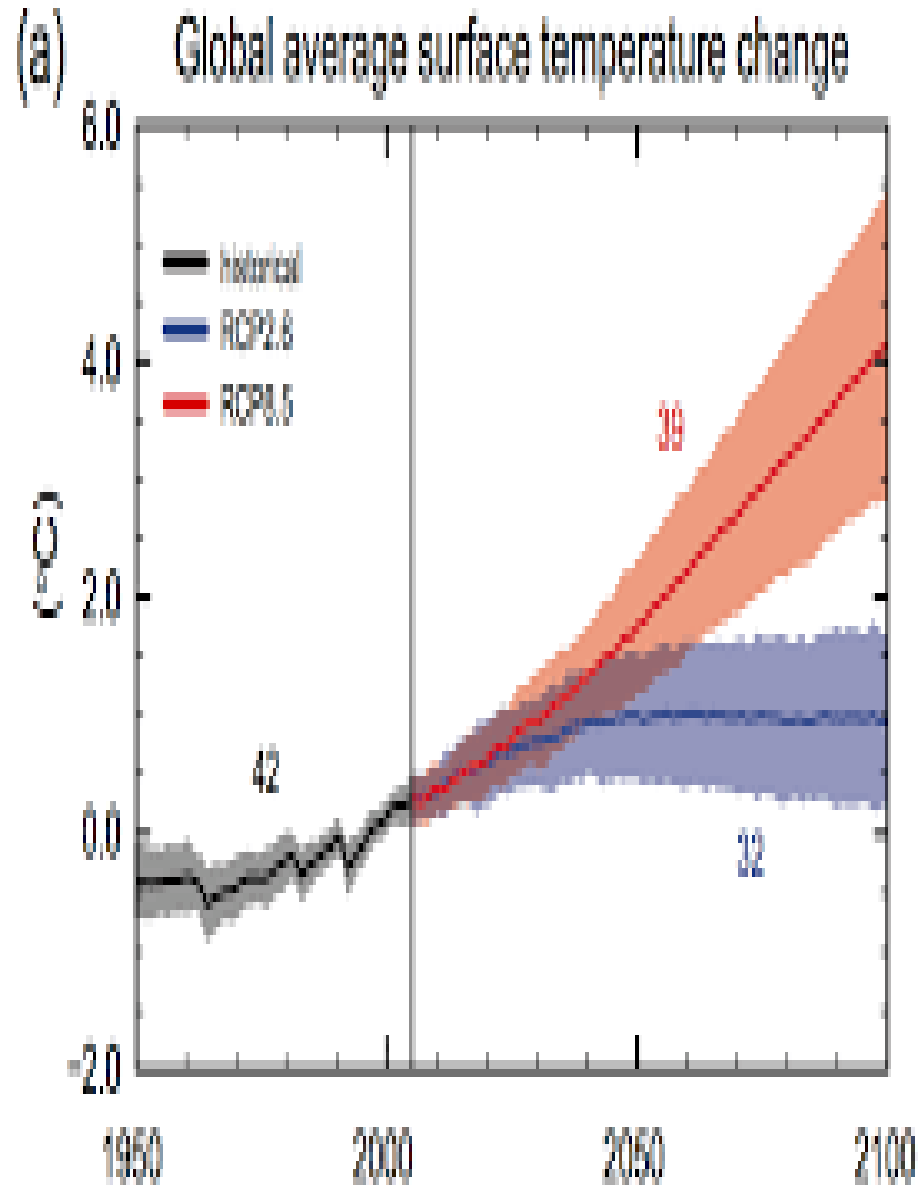




Corporate Governance and Climate Change: short-termism, risk horizons and temporal dissonance

Lisa Benjamin and
Stelios Andreadakis

Smoothing temporal dissonance



A phased approach?

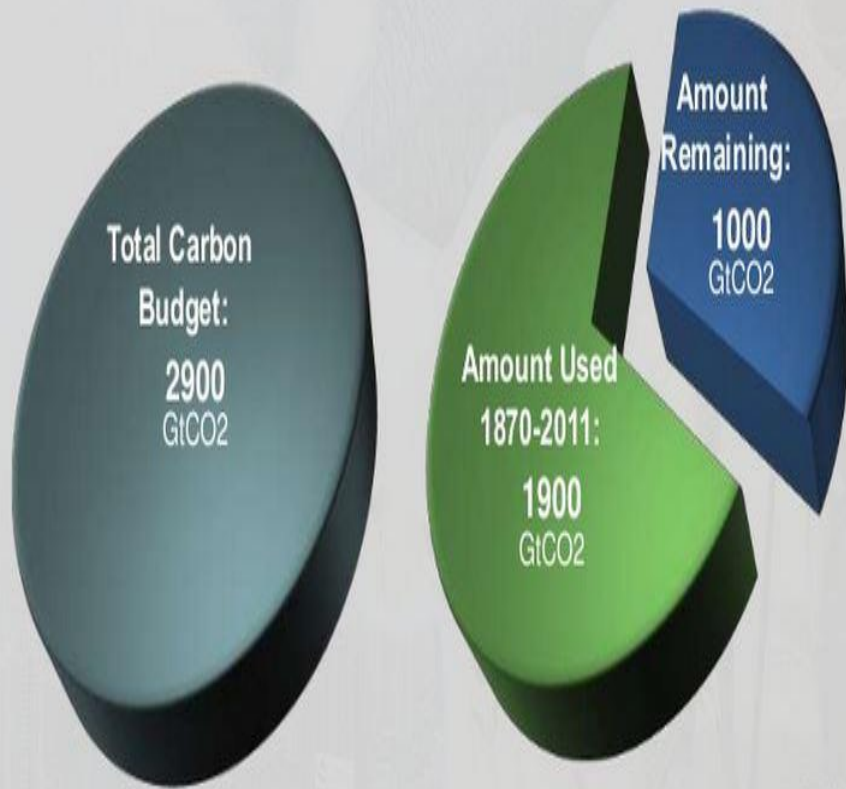




super wicked problems

The window for action is rapidly closing

65% of our carbon budget compatible with a 2° C goal already used

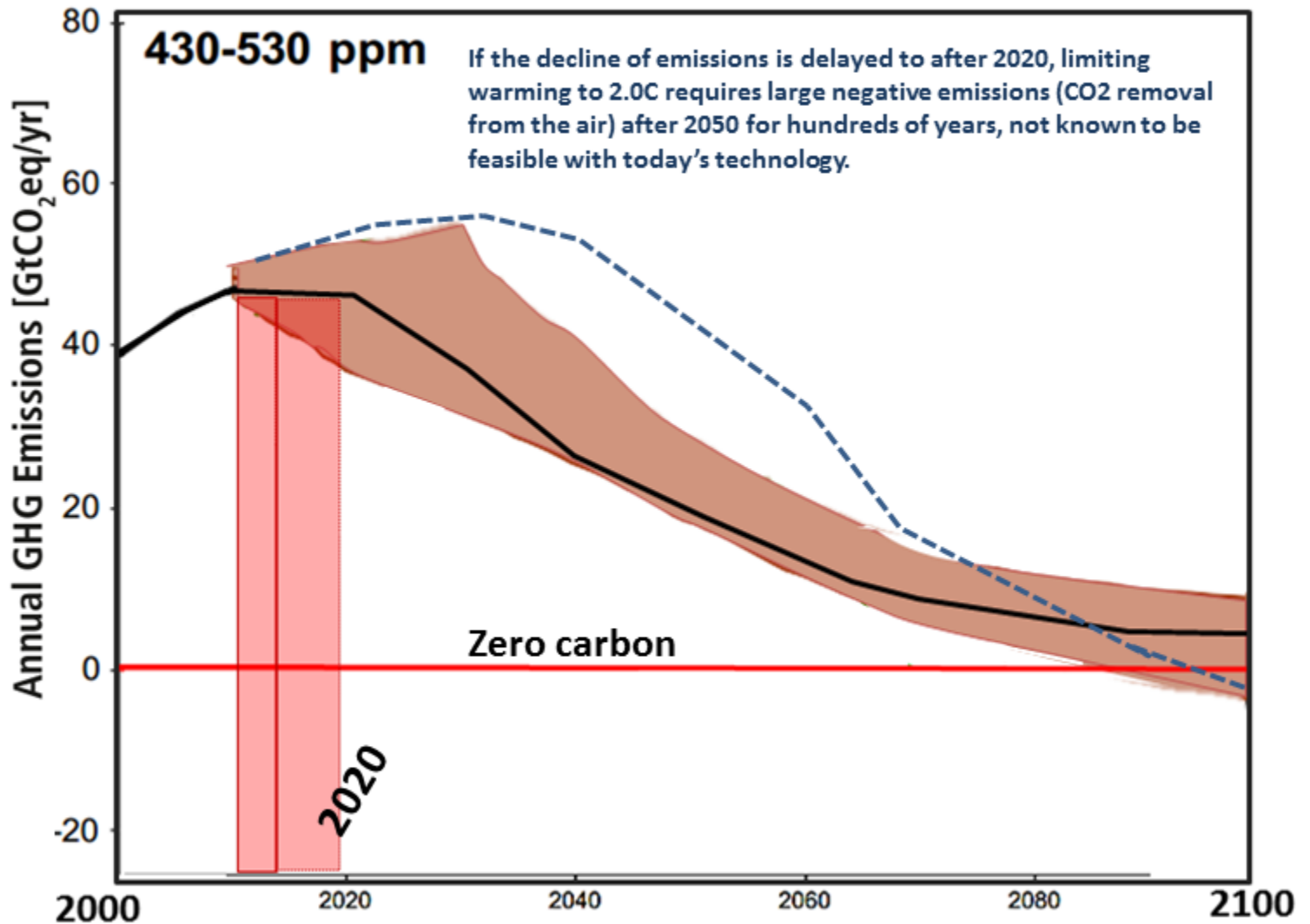


AR5 WGI SPM

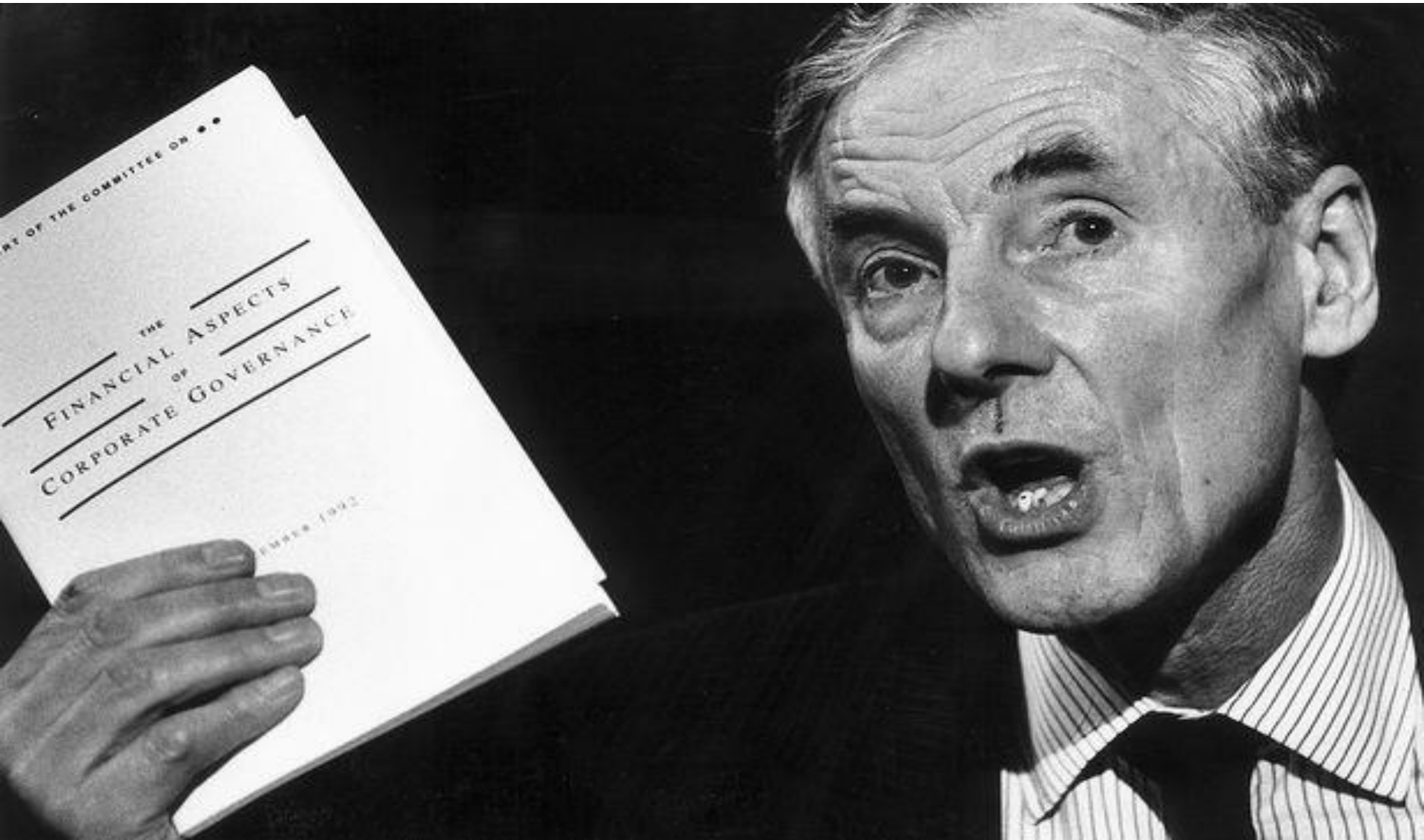


IPCC AR5 best-case emissions scenario (RCP2.6)

The best case RCP2.6 scenario requires emissions to immediately slow and to decline from 2020, reaching virtual zero carbon by 2100



Corporate Governance



Principles and guidance

- Cadbury Report 1992
- Greenbury Review 1995
- Hampel Review 1998 – denounces short-termism
- Combined Code of Corporate Governance 1998 –
- “Good governance should facilitate efficient, effective and entrepreneurial management that can deliver shareholder value over the longer term”



More guidance....

Turnbull Guidance to Directors on Certain Aspects of the Combined Code of Corporate Governance (1999) – assumed risk management governance.....



2016 UK Corporate Governance Code

“sustainable success of the entity over the longer term....”

No evidence of mandatory short-termism: normative and market-driven



April 2016

The UK Corporate Governance Code

Company law

Pre-2006

- Large amount of discretion provided to directors
- Slim line caselaw focuses on shareholders (*Greenhalgh v Arderne Cinemas*)

CLRS

- Clarify that short-termism not legal requirement
- Enlightened shareholder value (not pluralist approach)
- Strong contractarian influence

s172

- (1) Promote success of company for benefit of members as a whole in doing so have regard to:
- (1)(a) likely consequences of the decision in the long-term

S172 largely normative for long-term

- What is the long-term?
- No simple convergence of interests of shareholders, stakeholders and the company
- Entity-theory of companies = perpetual
- Managers less short-term oriented when have access to better and more accurate information on trade-offs between long/short term (Jackson & Petraki 2011)



Misalignment of capital/asset valuations with performance horizons



Task Force on Climate-Related Disclosures

The image shows the cover of the TCFD report. It features a blue background with a faint city skyline. The title 'TCFD Report: Final Recommendations' is centered in white text, flanked by two horizontal white lines. At the bottom left is the TCFD logo, and at the bottom right is the full name of the task force.

TCFD Report: Final Recommendations

TCFD TASK FORCE ON CLIMATE-RELATED
FINANCIAL DISCLOSURES



Meshing value creation timeframes with climate-related time periods

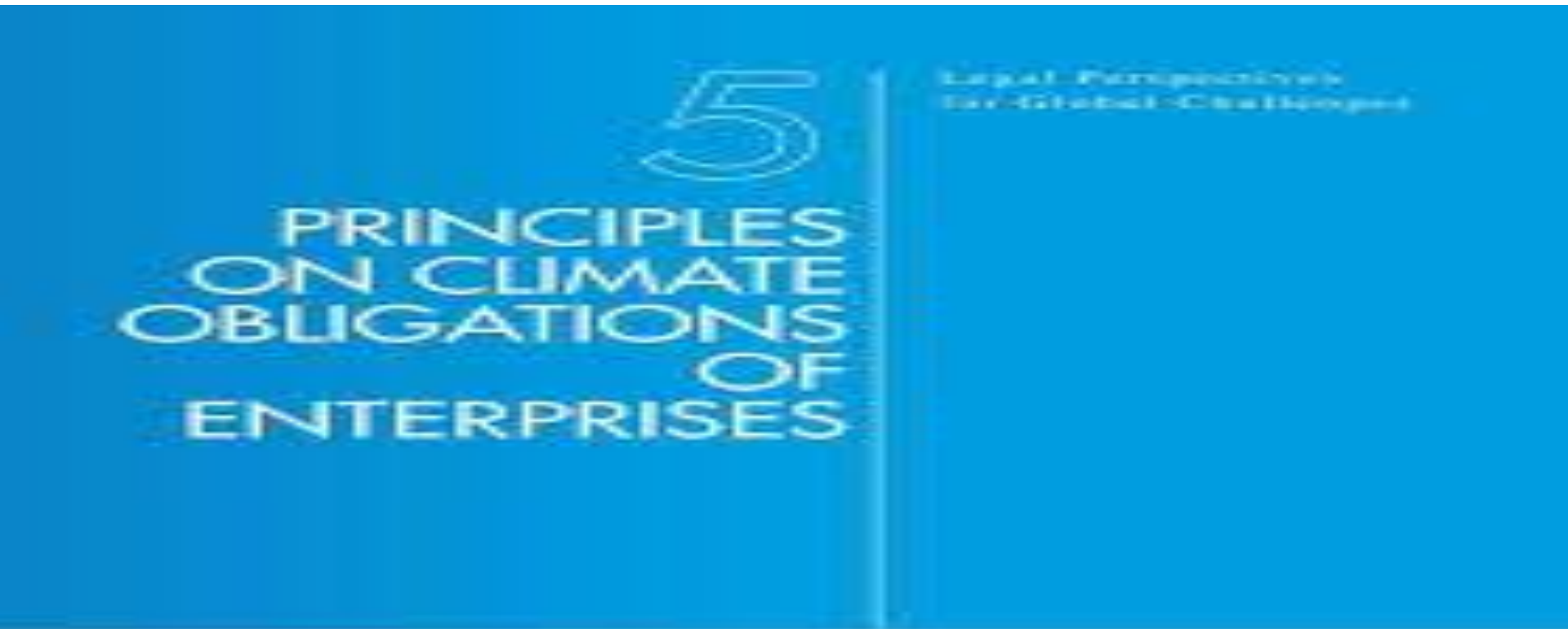
TCFD US Scenario Analysis Conference

FSB Task Force on Climate-related Financial Disclosures

Tuesday, 1st May 2018
Bloomberg LP Headquarters, New York
@FSB_TCFD | fsb-tcfd.org | #TCFDRecs | tcfda.org



Emerging tools



Expert Group on
Climate Obligations
of Enterprises



Greening Finance - June 2018

“We need to fix the incentives in our financial system that encourage short-term thinking. Long-term sustainability must be factored into financial decision making.”

Mary Creagh MP



From voluntary to mandatory?

“The Government should make climate-related financial disclosures mandatory on a ‘comply or explain’ basis by 2022.”

[Read our report](#)



Clarification of fiduciary duties for long term

“We want to see mandatory climate risk reporting and a clarification in law that pension trustees have a duty to consider long term sustainability, not just short-term returns.”

Mary Creagh MP



New decisional tools for a phased approach

Short-termism is pervasive

Temporal dissonance requires information

Scenario analysis can help companies 'chunk down' larger timescales make them firm-specific

Assist with temporal choices

