

Canada: A Pragmatic Approach To Climate Risk



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As we [reported](#) last year, investors are increasingly pushing for more detailed disclosure on climate change-related issues. According to the [Wall Street Journal](#), companies are expected to face 75 climate-related shareholder proposals this AGM season. Generally, the questions investors are asking can be divided into two categories:

1. What corporate social responsibility initiatives are you adopting to mitigate your company's contribution to climate change'
2. Is your company particularly exposed to any risks that climate change is expected to exacerbate'

Corporate social responsibility initiatives

The first question should not be taking issuers off-guard, as the call to action is obvious and potential mitigative strategies are known, or at least knowable. This risk is principally addressed by engaging with your shareholders which is generally [good governance](#) and not necessarily specific to climate risk. Last year, there were reports of significant groups of shareholders pushing their respective companies to

release detailed plans on efforts to cut down on waste from single-use packaging and plastics. Although a corporation may well determine that adopting this proposal is not, on balance, in the interests of the corporation, it would be an unambiguous case of mismanagement if the company failed to address the issue altogether.

The best approach to addressing these types of climate related initiatives is to engage with your shareholders. You should know how sensitive your shareholders are to these types of initiatives and have a good understanding of your shareholders' expectations. Larger firms should keep in mind that both ISS and Glass Lewis are generally in favour of proposals that enhance disclosure of climate related initiatives.¹ If your shareholders rely on these firms for advice, you may want to make sure your investors are satisfied with your disclosure.

Climate change as a risk to the business

Climate change as a business risk doesn't have the same headline-grabbing potential as CSR initiatives, but knowing how the changing world is affecting your business is certainly no less important. While some securities regulators are [considering](#) adding specific climate-related disclosure requirements, these risks should already be on the radar. By proposing climate-specific disclosure rules, regulators are suggesting that managers are not adequately recognizing potential threats to the business. If that suggestion is true, the implication could be that market values do not accurately reflect the 'true value' of a business. Fundamentally understanding what makes the business valuable is management's core job. Clearly, understanding specific impacts that climate change can have on the business is much more difficult than responding to a shareholder proposal, but whether a business is public or private, managers who understand risks facing a business are in a better position to deliver value for shareholders.

Increasingly, the impact of climate change is being measured on the financial markets. Investors who trade in weather-linked derivatives are trading broadly in line with climate predictions. As [Bloomberg](#) notes, this means that investors are taking climate predictions at face value, or they are independently coming to the same conclusions as climate scientists. All of that is to say, it appears as though the smart money is looking for managers who have a cogent and comprehensive approach to evaluating the impact of climate change on their business. Only time will tell what the right answers are, but managers who are proactively asking the right questions about climate risk will be more likely to come to the right conclusions.

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Footnote

¹ Based on its 2019 Shareholder Initiatives Guidelines, Glass Lewis “will generally recommend in favor of shareholder resolutions requesting that companies in certain extractive or energy-intensive industries that have increased exposure to climate change-related risks provide information to shareholders concerning their climate change scenario analyses and other climate change-related Considerations” but otherwise will review proposals on a case-by-bases basis. ISS recommends that investors “[v]ote for shareholder proposals seeking information on the financial, physical, or regulatory risks it faces related to climate change- on its operations and investments, or on how the company identifies, measures, and manage such risks” in its 2019 Policy Recommendations.

About the Author: Ahad Ahmed practises corporate and commercial law, with a particular emphasis on mergers and acquisitions, banking and project finance, corporate finance, private equity and corporate reorganizations. He also advises clients on matters related to corporate governance, regulatory compliance, capital markets and commercial contracts.

Ahad regularly advises lenders, developers, early-stage start-up companies, venture capital funds, project authorities and established businesses through a wide variety of industries. He has considerable experience in domestic and cross-border transactions. Currently, he is an editor of and frequent contributor to our M&A blog, [Deal Law Wire](#).

Prior to joining us, Ahad worked for several years as a consultant in the infrastructure and development space, where he gained valuable experience with and exposure to projects across Canada.



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