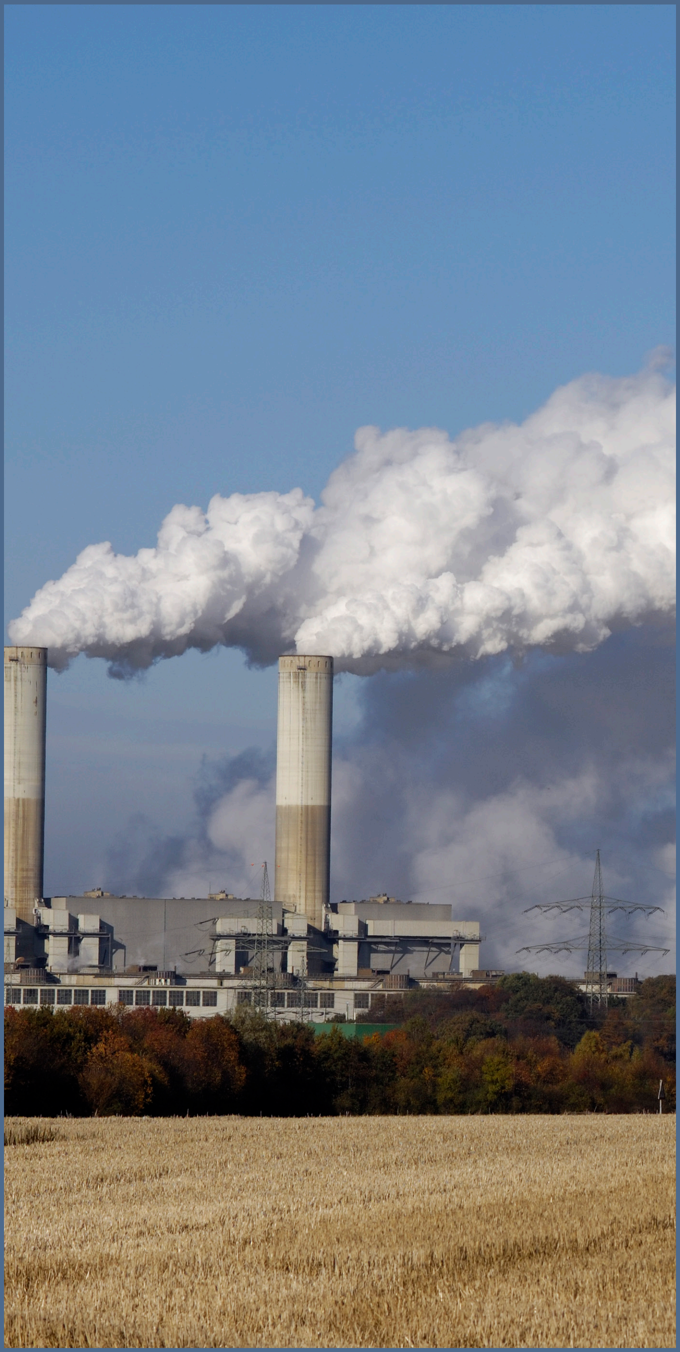

PERSPECTIVES

Crosscurrents: Boards of Directors & Greenhouse Gas Verification-- Working Toward Sustainability Compliance

Our perspectives feature the viewpoints of our subject matter experts on current topics and emerging trends.

BOARDS OF DIRECTORS, COMPLIANCE RESPONSIBILITIES, AND HOW THEY CONTRIBUTE TO OVERALL SUCCESS

Boards of Directors are the lynchpin to effective sustainability programs. Effective sustainability programs can only be created and maintained when there is consistent support from the management team. Without an open and apparent management team, including the Board of Directors, the rank-and-file employees will not buy into the sustainability program and therefore the program will struggle to be successful. Not only does the Board need to establish the appropriate sustainability program for the company but it also needs to ensure that monitoring and verification procedures are in place to track the progress of the company along the sustainability journey.

WHY SHOULD THE BOARD OF DIRECTORS CARE?

Individual board members have several fiduciary responsibilities related to sustainability that they owe to the organization and its stakeholders, including:

1. Duty of Care: Board members have a duty to exercise reasonable care and diligence in overseeing the affairs of the organization. This includes staying informed about the organization's operations and making informed decisions.

2. Duty of Obedience: Board members have a duty to ensure that the organization complies with its legal and regulatory obligations.

3. Duty to Monitor: Board members have a duty to monitor the organization's operations, including its financial performance and risk management practices.

4. Duty to Plan: Board members have a duty to develop and implement a strategic plan that ensures the long-term success of the organization.

These fiduciary duties are designed to ensure that board members act in the best interests of the organization and its stakeholders. By fulfilling these duties, board members can help to ensure long-term success of the organization and protect the interests of stakeholders.

If a board member fails to meet his or her fiduciary duty, they may individually face legal and regulatory risks, reputational risk, and financial/liability risk. A board member who fails to meet these duties may be held personally liable for damages resulting from their actions or inaction. Breach may include failing to exercise reasonable care in overseeing the organization's activities, such as by failing to monitor financial performance or risk management practices. Board members should also seek legal and professional advice when necessary to ensure that they are meeting their fiduciary duties appropriately.

To ensure that corporate actions are appropriate, board members should follow good management practices. Board members should have a thorough understanding of the organization's business operations, strategy, risks, and opportunities. This understanding will enable board members to make informed decisions and provide effective oversight.

Board members should establish effective governance structures, including clear roles and responsibilities, decision-making processes, and accountability mechanisms. This will enable the board to oversee the organization's activities effectively. Tracking processes allow board members to monitor the organization's performance against its strategic objectives. By regularly reviewing financial and non-financial information board members can ensure that the organization is operating effectively and in line with its mission and values.

Risk management is a key function of the board. Board members should identify and manage financial, operational, and reputational risks. This includes establishing effective risk management programs, monitoring risk exposure, and taking appropriate actions to mitigate risks. Part of risk management includes compliance with legal and regulatory requirements, including financial reporting, environmental, social, and governance regulations.

While many board members do not consider the need to engage with stakeholders as a routine obligation, board members should engage with stakeholders, including employees, customers, investors, and community groups, to understand their perspectives and concerns and to ensure that the organization is operating in establishing appropriate corporate missions and values, then tracking those missions and values.

WHAT DOES THE BOARD DO?

To ensure compliance, board members should stay informed about the laws, regulations, and standards that apply to the organization either through direct knowledge of the industry or updates from corporate management. This includes seeking legal advice when necessary and staying up to date on changes to the legal and regulatory environment. Board members should work with management to establish policies and procedures that promote compliance with applicable laws, regulations, and standards. These policies and procedures should be reviewed and updated regularly to ensure that they remain effective. The board should monitor the organization's compliance with applicable laws, regulations, and standards. This includes reviewing reports from management and external auditors, conducting independent investigations when necessary, and taking appropriate actions to address compliance issues. Additionally, the board members should provide oversight of the organization's compliance function. This includes ensuring that the compliance function is appropriately staffed and resourced, has a clear reporting structure, and is empowered to identify and address compliance issues.

Governance is another area where the board has a good opportunity to provide positive direction to the company. Board members should define the roles and responsibilities of the board, management, and other stakeholders. This includes establishing clear lines of authority, decision-making processes, and accountability mechanisms. The board should develop policies and procedures that govern the board's operations, such as meeting schedules, board member selection and evaluation, and conflict of interest policies. Members should foster a culture of accountability throughout the organization. This includes establishing performance metrics and regularly evaluating the organization's performance against those metrics.

As you can see, most board functions are oversight of some type. However, board members should be prepared to take appropriate actions to address compliance issues that arise. This may include implementing corrective actions, conducting disciplinary actions, and reporting to regulatory authorities when necessary. The "action" steps are what truly ensure that the organization complies with applicable laws, regulations, and standards. The "action" steps are essentially what protects the organization's reputation, mitigates legal and financial risks, and ensures long-term success.

THE BOARD & GREENHOUSE GAS VERIFICATION

One issue that a board of directors should care about is greenhouse gas (GHG) verification. Many countries and jurisdictions have mandatory reporting requirements for GHG emissions. Ensuring compliance with these regulations is important to avoid legal and financial penalties. Environmental issues are becoming increasingly more important to investors and stakeholders. Negative reports can damage the reputation of the organization and lead to negative publicity.

GHG emissions represent a significant regulatory and financial risk for many organizations. Understanding and managing these risks is important for ensuring the long-term viability of the business. Regulatory compliance costs, energy costs, and other operational costs are all impacted by GHG emissions. Reducing GHG emissions can lead to cost savings and improved financial performance.

WHAT IS GHG VERIFICATION?

As a result, tracking and reporting GHG emissions are more and more important at the board level. GHG verification is exactly what it sounds like—a verification that the data and reporting are correct. GHG emission reporting verification helps to ensure the accuracy and credibility of the reported emissions data. This is important for making informed decisions about climate change mitigation strategies and for demonstrating the effectiveness of GHG reduction programs. Additionally, many jurisdictions have mandatory reporting requirements for GHG emissions, and verification may be required to ensure compliance with these regulations.

Verification of GHG emissions data can help build confidence in reported data and can demonstrate a commitment to transparency and accountability. Investors and stakeholders are increasingly interested in the environmental performance of companies and organizations. GHG emission reporting and associated verification can help to identify areas where improvements can be made to reduce emissions and can provide valuable feedback for refining GHG reduction strategies.

WHAT THE BOARD SHOULD EXPECT: A COMMON VERIFICATION PROTOCOL – ISO 14064-3

The International Organization for Standardization (ISO) is an independent, non-governmental organization that develops voluntary, consensus-based standards—across over 24,000 standards— covering management, manufacturing, and technology. ISO Standard No. 14064 is specific to GHG emissions and is the ISO standard for quantifying, monitoring, reporting, and verifying GHG emissions and removals. The standard includes three parts:

1. Specification with guidance at the organization level for quantification and reporting of GHG emissions and removals.

2. Specification with guidance at the project level for quantification, monitoring, and reporting of GHG emission reductions or removal enhancements.

3. Specification with guidance for the validation and verification of GHG assertions.

Part 3 of the standard outlines the requirements for third-party verification of GHG emissions and removals. The verification process involves an independent auditor evaluating the GHG inventory and reduction program to ensure that it complies with the requirements of the standard. The verification process includes:

1. Planning and scoping the verification.

2. Reviewing the GHG inventory and reduction program.

3. Conducting on-site visits and interviews.

4. Reviewing and verifying the data and calculations.

5. Issuing a verification statement.

The verification process provides assurance, which is defined as either limited or reasonable level of assurance depending on the scope, to stakeholders that the GHG reporting is accurate, complete, and reliable. It also identifies areas where improvements can be made to further reduce GHG emissions and improve the program's effectiveness.

CONCLUSION

Overall, using ISO 14064-3 for GHG verification provides a consistent and transparent process for evaluating GHG reporting. ISO 14064-3 is a widely recognized and respected standard for GHG verification, and it has been adopted by many organizations around the world. Some jurisdictions specify the reporting and verification protocols to be used and they may differ from ISO. Some jurisdictions have their own protocols. The Climate Registry General Verification Protocol is also widely used. Regardless of the type of verification protocol used, it provides an established process that board members can rely upon to return a result which in turn confirms that corporate GHG reporting is accurate, complete, and reliable—all critical to the board's needs.

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