Q&A:

Climate risk & board conflicts at Standard Bank

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On 8 June 2020, 14 climate justice NGOs led by Just Share wrote to asset managers with shares in Standard Bank Group Limited (Standard Bank), calling on them to vote against the election of five climate-conflicted directors at the bank's AGM on 26 June.

Seven of Standard Bank's 18 board members have close ties to the fossil fuel industry. Of those, the following five are up for election:

- **Trix Kennealy**: Standard Bank lead independent non-executive director (INED); also an INED at **Sasol**.
- **Nomgando Matyumza**: INED at **Sasol**.
- **Priscillah Mabelane**: recently appointed to join **Sasol** as executive VP for energy; previously CEO of **BP Southern Africa**.
- **Nonkululeko Nyembezi**: CEO of **Ichor Coal N.V**.
- **Jacko Maree**: INED of the **Phembani Group**, which has holdings in **Umcebo Mining (coal), Izimbiwa Coal, South32** and **Engen**.

We have received numerous questions about our call from investors and the media. We set out responses to the most frequently asked questions below.

Why are Standard Bank directors with ties to fossil fuel companies conflicted?

Almost half of Standard Bank's board, which is already bigger than each of the boards of its South African peers, have significant ties (executive or non-executive directorships) to coal, oil and gas companies, the worst culprits in contributing to the climate emergency.

These companies clearly do not want financial institutions to phase out their lending to the fossil fuel industry. However, achieving the goals of the Paris Agreement requires banks to do exactly that.

The goals of the Paris Agreement are:

1. To hold the increase in the global average temperature to "well below 2 degrees Celsius above pre-industrial levels";
2. To increase our ability to adapt to climate change and "foster climate resilience and low greenhouse gas emissions development"; and
3. To "make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development".

Standard Bank admits that climate change is a material risk to its business, and has committed to take climate action in line with the Paris Agreement and the Sustainable Development Goals by virtue of its commitments to initiatives like the UN Principles for Responsible Banking.
The number and concentration of Standard Bank board members with ties to the fossil fuel industry may well hamper the board's ability to interrogate the financial wisdom and social responsibility of continued lending to fossil fuel companies in the coming decade, the most crucial we have ever faced for tackling climate change.

In these circumstances, responsible investors holding Standard Bank shares are faced with no good options: either these board members will recuse themselves, creating a corporate governance void when the board considers some of its most important strategic issues, as climate-related matters are; or they will not, compromising the ability of the board to provide climate-competent leadership.

Why do you call for shareholders to vote against all five directors with fossil fuel ties?

Having identified the conflict, it would not have made sense to call on shareholders to vote only against certain conflicted directors.

We accept the issue, but can't vote against all five. What else can we do?

Shareholders must assess the extent and nature of the conflict in relation to each director in making their voting decisions. They should also engage with the bank on setting parameters to manage conflicts of interest, and encourage a transition to a less fossil fuel-tied board.

Institutional investors who do not wish to vote against these directors should at the very least consider whether it is appropriate for Standard Bank's lead independent director, Trix Kennealy, to also sit on the board of Sasol.

Shareholders should also take note that all seven of these fossil fuel-tied directors sit on the Standard Bank Group Risk and Capital Management Committee, which "provides independent and objective oversight of risk and capital management" and "sets risk appetite and considers reputational risk associated with the allocation of capital". This means that the majority of the committee is made up of conflicted directors.

Did you consider the potential implications for the stability of the board?

Of course. However, Standard Bank must take responsibility for selecting such a large group of members from one sector, and thus exposing itself to this risk.

Standard Bank already has a larger board than the other three major South African banks, and these banks have shown that it is possible to appoint qualified directors without existing links to the fossil fuel sector.

Why did you not raise the conflict issue before?

The conflict only became apparent to us when reviewing Standard Bank's 2020 notice of AGM. Standard Bank had recently refused to table a climate risk shareholder resolution filed by Just Share and the RAITH Foundation. This was the opposite of its position in 2019, when it did table climate related shareholder resolutions. The bank's reasons for suddenly refusing to do so were identical to those used by Sasol to block shareholder proposed resolutions. Therefore, when the bank released its notice of AGM, we immediately noticed that two of its directors were also directors of Sasol. Further scrutiny revealed the fossil fuel links of other directors.

Are you looking to take over the board?

Of course not! No activist has been nominated to the board. Shareholders will have the final say. The resolutions on election of directors are ordinary resolutions which require 50% of votes to pass.

Standard Bank says that the measures proposed in the climate change resolutions that you proposed were "impractical and could hurt its businesses". What is your response?

We do not understand how requests for greater transparency and disclosure are impractical when dealing with a material financial risk to the business. We also do not understand how better climate risk disclosure can hurt the bank's business, unless the disclosure would reveal information that it does not want shareholders to know.

The resolutions that Standard Bank tabled in 2019 received strong support from shareholders. Almost identical resolutions tabled at three other banks have received over 99% of shareholder support, which they would not have done if they were impractical and damaging to the banks' business.

Standard Bank acknowledges that climate change poses a material risk to its business. It is not unreasonable or impractical for shareholders to ask for disclosure on the nature and extent of that risk. In fact, institutional investors should be asking for this disclosure as a matter of course in order to fulfil their fiduciary duties.

Standard Bank's refusal to table a resolution which would give shareholders a say on climate risk disclosure is a concerning indication of the board's willingness and ability to represent shareholder interests.

Interestingly, despite arguing in 2019 that a "multiyear process needs to be followed to develop credible metrics and targets for financial-related climate risks", Standard Bank announced in June 2020 that it "will be able disclose its climate-related financial exposures and should be able to announce its position by the end this year" although it still does not provide clarity on what those disclosures might include.

Why do shareholder activists feel the need to table these climate risk-related shareholder resolutions? Shouldn’t you leave climate engagement and action to be agreed between companies and institutional investors?

We have, and would, welcome more public engagement between institutional investors and companies around climate change, including the filing of more shareholder resolutions. At the moment, however, the practice of behind closed doors engagement is simply not resulting in fast enough progress on climate action. Institutional investors should also be concerned that certain boards believe that climate change is not an issue on which shareholders are entitled to vote.

As the International Energy Agency (IEA) recently made clear, the window of opportunity to help mitigate the impacts of catastrophic climate change is tiny, and closing all the time. We need collaboration across sectors, and strong voices holding the financial sector accountable for its commitments to taking climate action, in order to dramatically speed up the pace in planning for a just transition to a low carbon economy.

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