“On Track” Indicator Development Study

November 2023

RAMBØLL

Bright ideas.
Sustainable change.

Table of contents

1. Executive summary

Project objectives and scope

The goal of the project is to enable VCMI to move forward with revisions to the Claims Code in a way that enables company adoption of the Strategy and Governance Foundational Criterion.

To achieve this goal, Ramboll was tasked with developing:

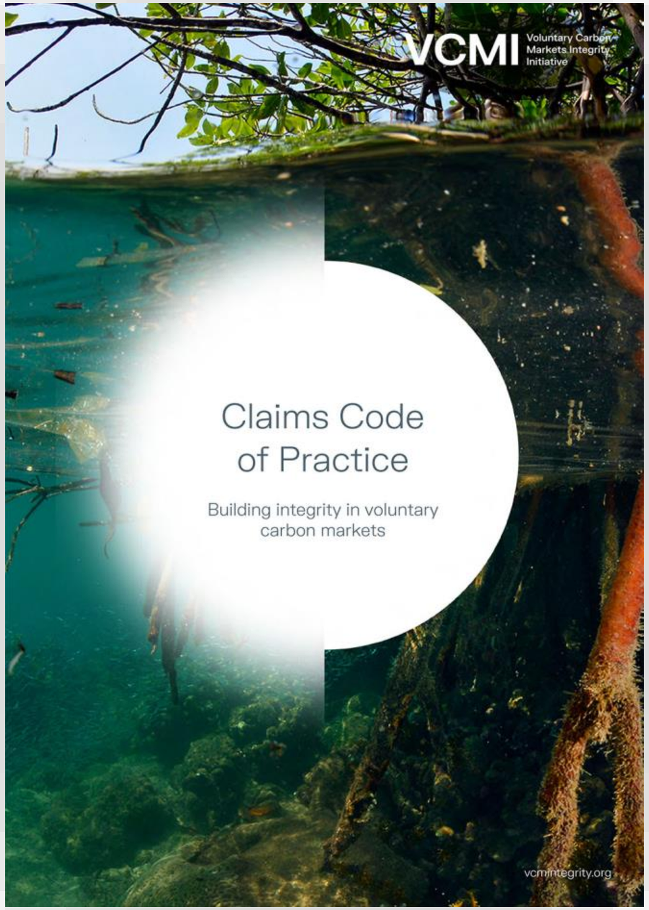
- A set of evidence-based indicators as well as benchmarks and minimum thresholds (where applicable) for the Strategy and Governance requirement under the Foundational Criterion 3
- Clear definitions for terms used to describe the Strategy and Governance requirements that align with associated indicators
- Transparent and clear descriptions of the methodology used to develop indicators, minimum thresholds and benchmarks

Combined, this set of project outcomes will enable VCMI to move forward with revisions to the Code in a way that enables company adoption.

VCMI requirements for Strategy and Governance*

VCMI Claims Code of Practice Foundational criteria no. 3 has following requirements

3. Publicly disclose the following information related to the company's governance structure for overseeing its progress in reaching near-term targets.
   - The board-level governance structure, policies and actions related to oversight and/or approval of the company's climate strategy. Companies shall disclose **at least one of these metrics**:
     i. Companies shall disclose whether their board-level compensation is linked to climate performance indicators. If yes, then companies shall disclose a description of the board-level compensation policy and indicators related to climate performance;
     ii. Companies shall disclose whether their Board members have capabilities or expertise on climate-related issues. If yes, then companies shall disclose a description of the climate-related capabilities and expertise held by board members;
     iii. Companies shall disclose whether they conduct board-level reviews on progress towards meeting near-term emissions reduction targets. If yes, then companies shall disclose the frequency of these board-level reviews.



*These requirements were assessed based on the June 2023 version of the Claims Code of Practice (accessed on October 10, 2023, when this analysis was kicked off). VCMI has since updated the Claims Code of Practice.

Executive summary

Key takeaway	Analysis of a diverse sample of companies reveals that the Foundational Criteria no. 3; Strategy and Governance of Claims Code (June 2023 version) may need revision to better align with evolving market standards.

Summary of indicator recommendations

Ramboll recommends a phased approach for immediate, medium, and long-term changes in VCMI's criteria, accounting for the upcoming reporting requirements of the CSRD in 2025 and the TPT in 2026:

- **Phase 1:** Immediate recommendations start with lower disclosure levels, focusing on simplicity in addressing current Claims Code of Practice questions
- **Phase 2:** Medium-term recommendations aim to expand the depth of disclosure, encouraging companies to respond to more detailed questions, and requiring substantial input and specific clarifications
- **Phase 3:** Long-term recommendations focus on integrating GHG strategy across the organization and value chain, with questions reflecting a high disclosure level

Ramboll recommends the following indicators for **Phase 1** disclosure:

- **Compensation:** Is the company's board-level remuneration linked to sustainability performance indicators?
- **Capabilities and expertise in climate-related issues:** Does the company's board utilize the internal capabilities and expertise of both 1) a dedicated role for sustainability efforts and 2) a sustainability/ESG committee for climate-related issues?
- **Reviews on progress towards meeting goals:** Does the company conduct board-level reviews on an annual basis towards progress on sustainability strategy and targets?

Summary of rationale

- Recommended changes in criteria are feasible for at least 61% of companies in analyzed data sample, in comparison to an estimated 18% of companies in the sample meeting VCMI's current criteria.
- All companies analyzed in the sample have set SBTi targets and represent a mature sample of companies on sustainability matters. As a result, the recommended criteria are expected to continue supporting market transformation.
- The criteria are also already reported by most companies, minimizing the reporting burden.
- The criteria are aligned with CSRD and TPT recommendations.

2. Methodology and data sample

Ramboll collected data across 100 companies and conducted a literature review to develop indicators

Methodology

- Ramboll embarked on a structured methodology that encompassed the following key steps:
  - **Literature review**: The primary goal of this review was to gain a deep understanding of how various methodologies available in the market e.g., CDP, SBTi, TPT, We mean Business, Race to Zero define the term 'on track' concerning strategy and governance.
  - **Data Collection Framework Development**: Ramboll selected companies with SBT-approved near-term reduction targets up to 2030. The collected data points were chosen based on the literature review and their relevance to the "Claims Code of Practice" in evaluating strategy and governance. This framework was then used to analyze the selected companies *(refer to slides 9-10 for collected data details).*
  - **Data collection:** Ramboll collected data for a diverse range of companies, which served as the basis for the assessment, allowing for a comprehensive and well-informed analysis.
  - **Data analysis**: Ramboll conducted data analysis to identify market trends, behaviors, and correlations between sustainability capabilities, expertise, and CDP scores.

Data sources and limitations

- The sampled database represents a broad spectrum of:
  - geographical locations: Africa, Asia, Europe, Latin America, North America, Oceania
  - analyzed sectors: Energy, Financial Services, FMCG, IT, Mining, Pharmaceuticals, Retail, Transport, Water and Utilities
  - a wide revenue range from $1.5M - $610B
  - varied sizes, from small and medium enterprises (SMEs) to large corporations
- The assessment is based on publicly available data sourced from annual reports, CDP responses, as well as sustainability/ESG/CSR reports for the reporting year 2022, with the aim of comprehensively encompassing the 100 companies under scrutiny.

Data analysis covers nine sectors and six geographical locations

Region	Energy	Financial services	FMCG	IT	Mining	Pharmace -uticals	Retail	Transport	Water and Utilities	Total
Africa					2		2			4
Asia	2	2	3	3	1	4	1	3	2	21
Europe	3	5	6	4	2	5	4	3	3	35
Latin America	1		2				1			4
North America	2	2	6	4	2	3	4	1	2	26
Oceania	1	1	3				1	1	3	10

Sample of 100 analyzed organizations include: 76 companies represent large entities, 10 companies represent financial institutions, 14 companies represent small & medium enterprises.

Analyzed companies are mature in terms of sustainability reporting and target-setting

SBTi Near-term targets

Companies with Scope 1 or Scope 2 near term reduction targets set **100%**

Companies with Scope 3 reduction targets set **66%**

Companies with publicly-disclosed progress on Scope 1 & 2 emissions reduction towards target **71%**

CDP response

Score A or A-
(score A: 26, score A-: 26) **53%**

Score B **16%**

Score C or below **8%**

ESG reporting

TCFD or ISSB framework used in reporting **79%**

Global Reporting Initiative standards used in reporting **70%**

3. Summary of recommendations and guiding principles

Ramboll used a set of guiding principles to make recommendations on indicators

Indicators need to balance being ambitious enough to support market transformation and progress on GHG emission reductions while being accessible enough for companies to make a claim

To achieve this objective, Ramboll developed indicators that are:

- **Feasible** for at least 61% of companies in our data sample to meet, thus balancing ambition of indicators with accessibility
  - This threshold was selected given the general sustainability progress and maturity of companies in our data sample *(see slide 9 for more details on sample breakdown)*.
- **Simple** to report on based on data currently collected and reported on by most companies, minimizing reporting burden
  - Ramboll utilized the CSRD and Transition Plan Taskforce guidance to align reporting requirements with existing guidance and therefore minimize additional reporting burden.
  - This complements VCMI’s support of the UK TPT's approach and further draws key disclosure elements into Claims Code, particularly for the third Foundational Criterion.

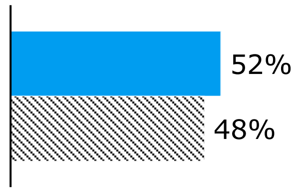
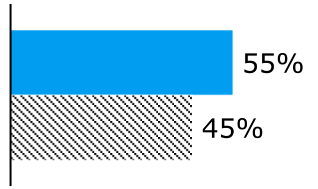
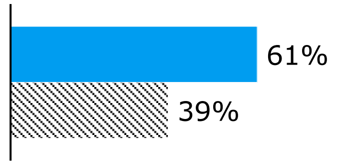
Ramboll proposes phased disclosure to simplify reporting requirements and engage a broader group of companies

Phase	Level of disclosure	Approach	Phase trigger	Timing
Immediate recommendations: Awareness and Initiation	Low – High	**Yes/No** Immediate recommendations start with lower disclosure levels, focusing on simplicity in addressing current Claims Code of Practice questions.	**Internal triggers:** • Review of the current sustainability reporting practices and data availability **External triggers:** • Emerging regulations or industry standards requiring more detailed sustainability reporting in the future	**today**
Medium-term recommendations: Expansion and Refinement	Low – High	**Detailed questions** Medium-term recommendations aim to expand the depth of disclosure, encouraging companies to respond to more detailed questions, and requiring substantial input and specific clarifications.	**Internal triggers:** • Gradual updates of the Claims Code of Practice in line with approaching reporting standards **External triggers:** • Emerging regulations or industry standards requiring more detailed sustainability reporting in the future	**1-2 years** **2025**
Long-term recommendations: Strategic Alignment	Low – High	**Detailed questions** Long-term recommendations focus on integrating GHG strategy across the organization and value chain, with questions reflecting a high disclosure level and a deeper examination of the GHG emissions link.	**Internal triggers:** • Gradual updates of the Claims Code of Practice in line with approaching reporting standards **External triggers:** • New sustainability reporting regulations such as CSRD and TPT • Evolving competitive landscape favoring companies with strong sustainability practices	**2-3 years** **2026+**

Proposed timeline accounts for the upcoming reporting requirements, CSRD – 2025* for 2024 data, and TPT – 2026 for 2025 data.

*First year of reporting for Group 1 companies - large entities

Summary of immediate recommendations

Criteria	Immediate recommendations	Rationale	Companies in analyzed sample
Compensation disclosure	Is the company's board-level remuneration linked to **sustainability performance indicators**?	• Use sustainability indicators over climate indicators to make it a more accessible choice	
Capabilities and expertise in climate-related issues	Does the company's board employ and utilize the internal capabilities and expertise of both a dedicated role for **sustainability efforts and a sustainability/ESG committee** for climate-related issues?	• Ensure the board is utilizing internal subject matter expertise pertinent to their company's unique climate related-issues	
Reviews on progress towards meeting the goals	Does the company conduct board-level reviews on an **annual basis** towards progress on **sustainability strategy and targets**?	• Provide a specific list of numerical options to avoid confusion	

Companies meeting the criteria
Companies not meeting the criteria

Summary of recommendations

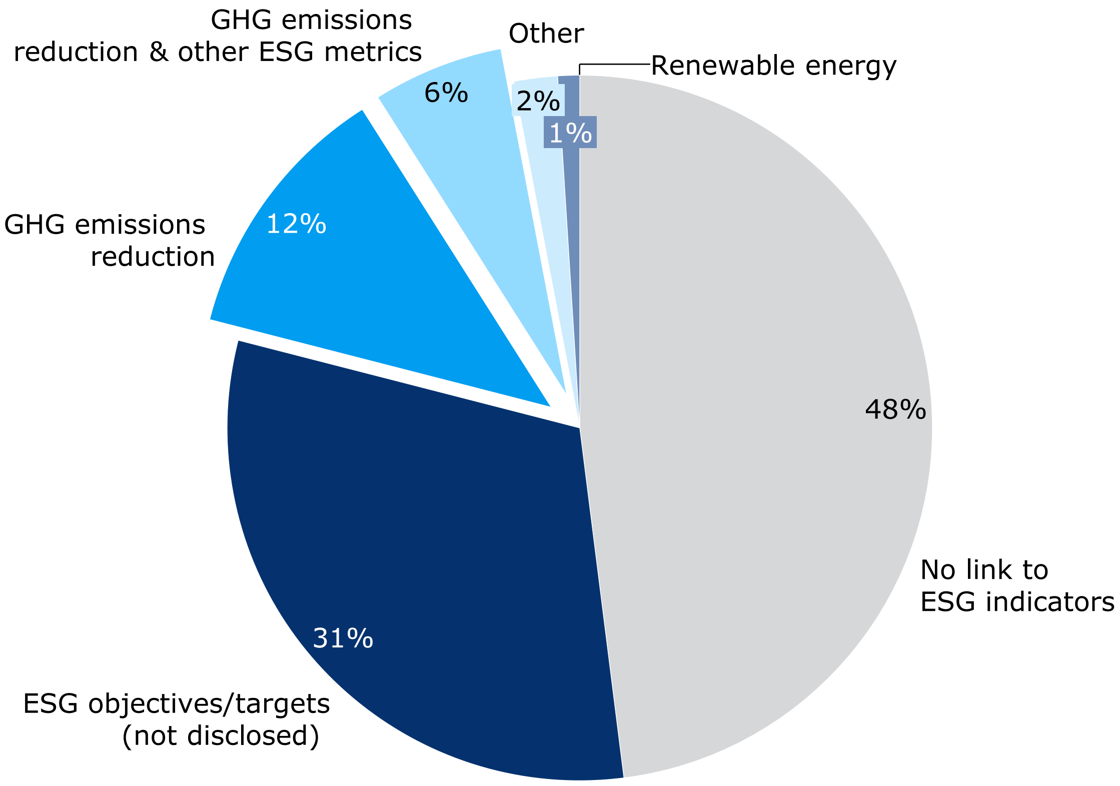
Criteria	Immediate recommendations	Mid-term recommendations	Long-term recommendations
Compensation disclosure	Is the company's board-level remuneration linked to **sustainability performance indicators**?	•Is the board-level compensation linked to **climate performance indicators**? •What **climate performance indicators** are in use, and how are these metrics applied? •Are there **remuneration policies** related to them and publicly available?	Mid-term recommendations, and: • To **what extent** is climate performance integrated into the organization's remuneration strategy? • What **types of incentives** are offered, and what percentage of the overall compensation do they represent?
Capabilities and expertise in climate-related issues	Does the company's board employ and utilize the internal capabilities and expertise of both a dedicated role for **sustainability efforts and a sustainability/ESG committee** for climate-related issues?	*Same as immediate recommendations*	Immediate recommendations, and: • Does the company have a board member with **capabilities and expertise** in sustainability that is directly responsible for overseeing progress toward climate-related issues?
Reviews on progress towards meeting the goals	Does the company conduct board-level reviews on an **annual basis** towards progress on **sustainability strategy and targets**?	Does the company conduct board-level reviews on a **semi-annual basis** on progress towards sustainability targets, including **greenhouse gas emissions reduction near-term targets**?	*Same as mid-term recommendations*

4. Compensation analysis and recommendation

Compensation | Data analysis

Sustainability indicators linked to compensation

% of analyzed companies



Insights

Link to ESG indicators:

- Roughly half of the examined companies do not disclose the connection between compensation and ESG indicators in their public reports.
- Some companies have stated their intention to incorporate ESG indicators into remuneration moving forward.
- A prevalent trend is that companies emphasize policy implementation and consideration of ESG in compensation practices, while specific compensation figures are often omitted.

ESG objectives/targets:

- One-third of the companies we examined express the connection between ESG performance and board or executive compensation using general terms like "ESG objectives" or "sustainability targets."

GHG emissions reduction targets:

- In their sustainability reports, 18% of the analyzed companies mentioned compensation tied to GHG emissions reduction targets, often integrated into short-term, one-year performance-based compensation.

Renewable energy:

- A single company made a reference to compensation linked to a climate metric, specifically regarding the proportion of renewable electricity utilized across its global offices. This company also intends to establish a connection between the temperature alignment of assets under management and the net-zero pathway.

Other environmental targets:

- Only a small number of companies provided specific environmental targets associated with executive-level compensation, such as goals related to deforestation, recyclable plastic packaging, and reducing water usage in factories.

Source: Ramboll analysis, Sustainability reports, Annual reports, CDP responses (2022)
Note: Other environmental targets include deforestation, water consumption and recycling

How diverse companies connect compensation to sustainability indicators | Examples

Raiffeisen Bank IAG

ESG KPIs are part of the Board of Management's performance and compensation at RBI AG and its CEE subsidiary banks.

AB Inbev

Annual bonuses linked to ESG targets are distributed from the company's top level to its business and operating units.

Sanofi

Since 2020, 15% of the CEO's annual variable compensation has been based on a specific CSR performance measure.

Colgate Palmolive

The CSO's incentive pay depends on Company’s progress in reaching sustainability goals, including climate-related initiatives.

Innolux Corporation

ESG performance is used to evaluate and reward directors, CEOs, and senior officers for promoting sustainable business development, using non-financial KPIs.

Wheaton Precious Metals Corp.

Environmental, Health, Safety, and Sustainability goals account for about 7.5% of each executive officer's overall performance assessment.

Source: Ramboll analysis, Sustainability reports, Annual reports, CDP responses (2022)

How diverse companies connect compensation to GHG reduction goals | Examples

Arla Foods

ESG metrics are considered as a part of remuneration. Starting in 2023, reducing Scope 1 and 2 carbon emissions will be included in short-term incentives.

McCain Foods Limited

Executive pay incorporates goals for reducing carbon emissions and promoting gender diversity. The CEO and other top executives' compensation is tied to their performance in alignment with McCain's Global Sustainability Strategy.

Pfizer Inc.

The Compensation Committee includes three ESG metrics in compensation, which are: (1) percentage of women in Vice President and higher roles, (2) percentage of minorities in Vice President and higher roles, (3) GHG emissions.

SAP SE

Short-term annual compensation is determined by a combination of financial and sustainability targets. These sustainability indicators, such as GHG emissions, account for 20% of the overall assessment.

Klöckner & Co

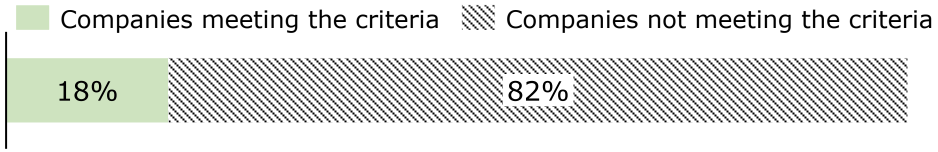
Reducing carbon emissions is a non-financial goal used to determine variable compensation for the Management Board, the top management level below the Board, and executives at levels two and three.

Daiseki Co., Ltd.

To meet SBTi goals, the Company set internal emission reduction targets for each business unit using ISO 1400. Directors and executives who meet these targets receive stock-based compensation.

Source: Ramboll analysis, Sustainability reports, Annual reports, CDP responses (2022)

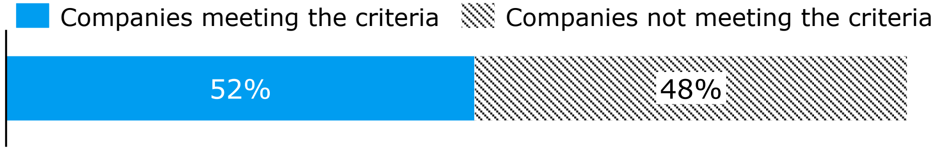
Compensation | Current Claims Code

Category	Current Claims Code
Claims Code of Practice	*3.1.1 Companies shall disclose whether their board-level compensation is linked to climate performance indicators.* *If yes, then companies shall disclose a description of the board-level compensation policy and indicators related.*
Disclosure Recommendation	N/A
Metrics	• Yes / No • Description of the board level compensation policy • Description of the indicators related to the compensation
% companies in our sample currently meeting the criteria	

Ramboll's comments

- The current criteria for evaluating companies' compensation linked to climate performance indicators are likely perceived by companies as overly strict, with only 18% of companies likely to meet them (based on an analyzed sample of companies).
- Requiring companies today to disclose detailed board-level compensation linked to climate performance indicators and compensation policy is more demanding than upcoming mandatory reporting regimes like:
  - CSRD (starting in 2025 for 2024 data) - ESRS 2: General Disclosure, paragraph 29: *Incentive schemes and remuneration policies linked to sustainability matters for members of administrative, management and supervisory bodies* and following 29a, 29b, 29c, 29d, 29e.
  - TPT framework (starting in 2026 for 2025 data): Sub-element 5.4. Incentives and remuneration: *A description of whether and how its executive incentive and remuneration structures are aligned with the Strategic Ambition of its transition plan*
- This additional reporting creates a significant burden for companies, making it challenging to fulfill the current criteria, which might need reconsideration to ensure it remains practical and realistic for businesses.

Compensation | Immediate recommendations

Category	Immediate recommendation
Claims Code of Practice	*3.1.1 Companies shall disclose whether their board-level compensation is linked to climate performance indicators.* *If yes, then companies shall disclose a description of the board-level compensation policy and indicators related.*
Disclosure Recommendation	Is the company’s board-level remuneration linked to **sustainability performance indicators**? *(based on CSRD and TPT framework)*
Metrics	Yes / No
% companies in our sample currently meeting the criteria	

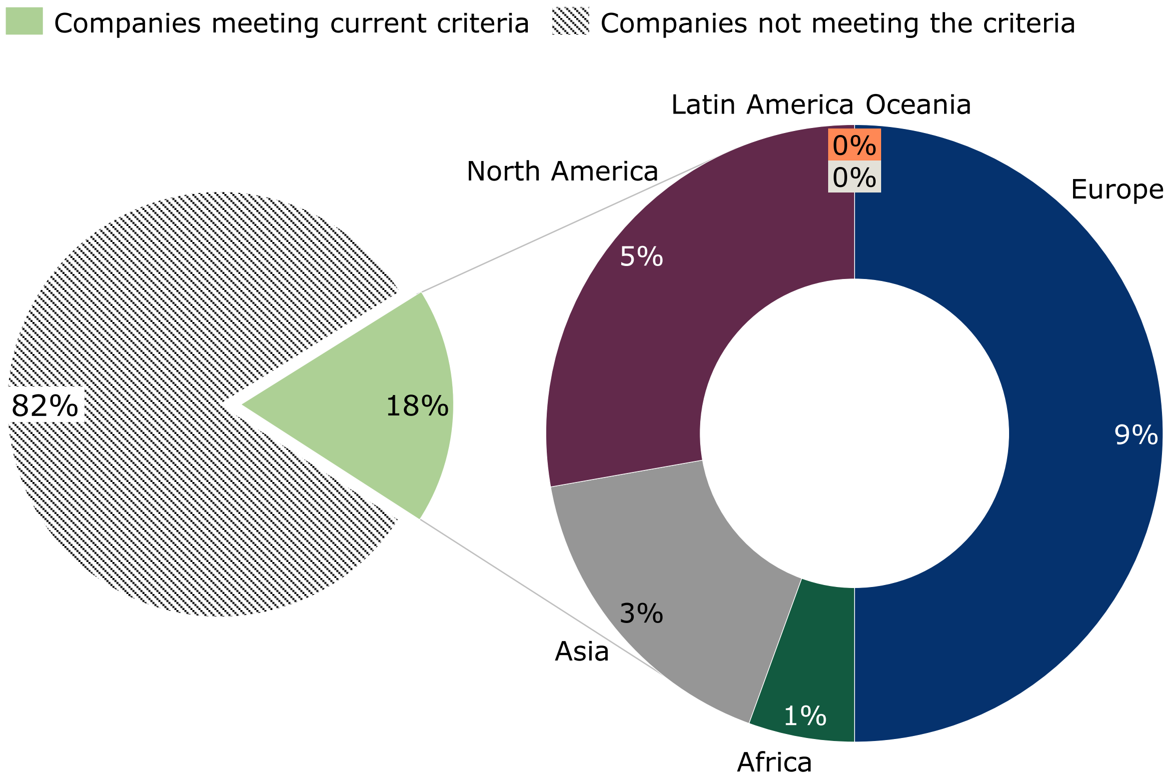
Rationale

- Recognizing the sensitivity of compensation data, Ramboll encourages gradual steps toward transparency to promote clarity and wider company participation. We suggest asking about compensation linked to the sustainability indicators over climate indicators, as our analysis found about half of companies already report on compensation link to sustainability metrics, making it a more accessible choice while still setting a high bar for disclosure.
- The TPT framework underscores the importance of considering the long-term impact of nature and society on businesses, extending beyond GHG emissions in net-zero targets and transition plans. This approach aligns with the broader sustainability concerns addressed by the CSRD criteria.
- Consequently, VCMI should expand its reporting to encompass GHG emissions reduction and a broader perspective on nature and just transition principles, providing a comprehensive view of its sustainability efforts. Additionally, the new reporting guidance, including the TNFD and Science-Based Targets Network, goes beyond climate-related risks and carbon emissions, making it prudent for VCMI to incorporate this broader perspective into its Claims of Code.

Geographical perspective: European companies lead in climate-linked board compensation disclosure

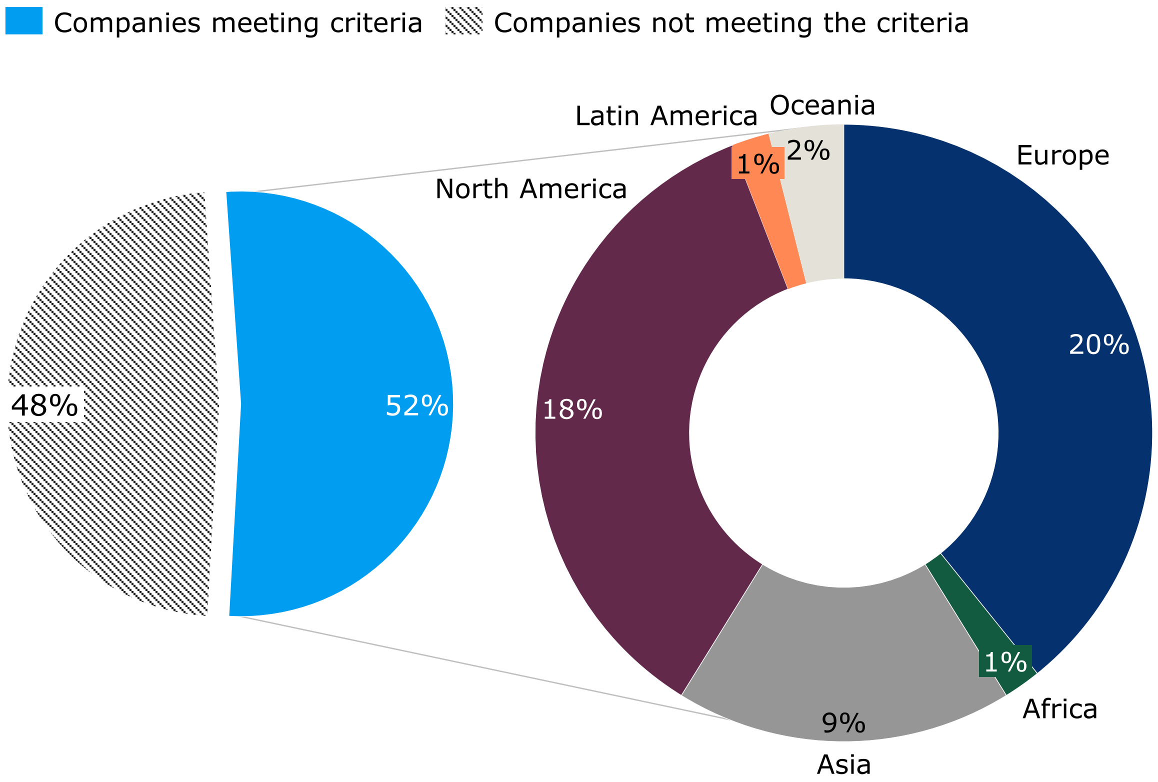
Geographical location-based results analysis (current Claims Code)

% of analyzed companies



Geographical location-based results analysis (recommended changes)

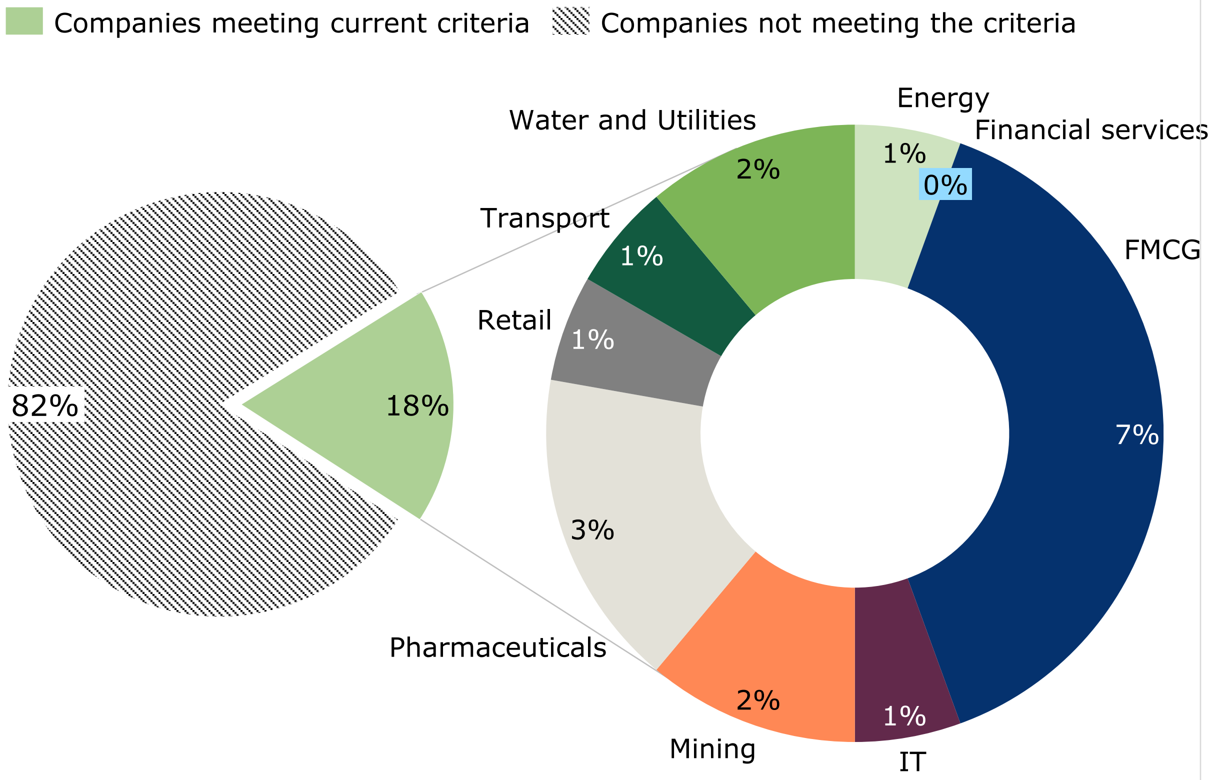
% of analyzed companies



Sector perspective: FMCG sector lead in climate-linked board compensation disclosure

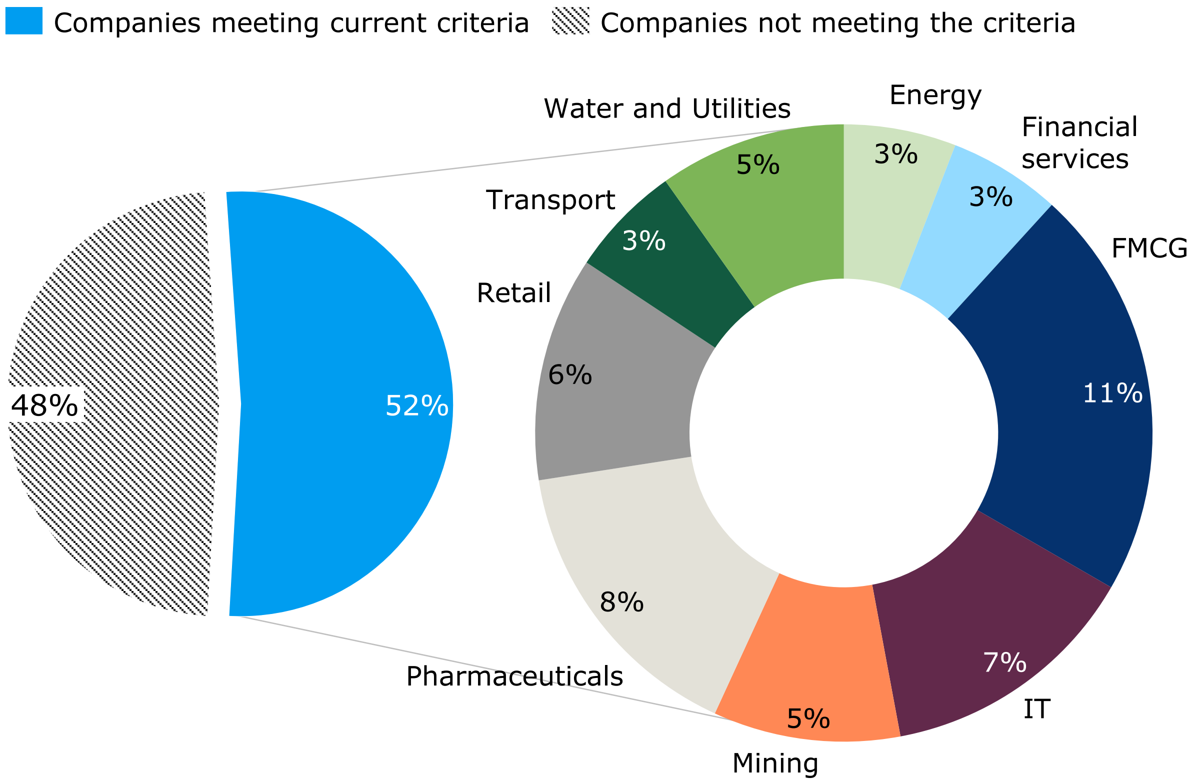
Sector-based results analysis (current Claims Code)

% of analyzed companies

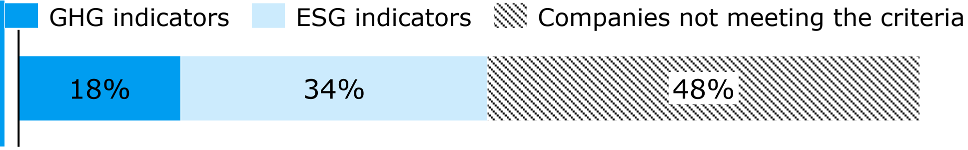


Sector-based results analysis (recommended changes)

% of analyzed companies



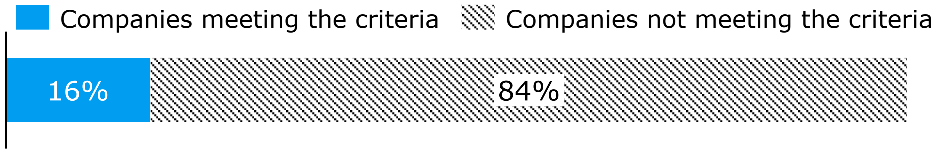
Compensation | Medium-term recommendations

Category	Medium-term recommendation
Claims Code of Practice	*3.1.1 Companies shall disclose whether their board-level compensation is linked to climate performance indicators.* *If yes, then companies shall disclose a description of the board-level compensation policy and indicators related.*
Disclosure Recommendation	Companies shall disclose whether their board-level compensation is linked to the **sustainability indicators, in particular to climate performance indicators:** • What indicators are in use, and how are these metrics applied? *(based on TPT framework)* • Are there remuneration policies related to them and publicly available?
Metrics	• Details about sustainability indicators used by the company • Details about climate performance indicators used: e.g., GHG emissions reduction, progress against SBTI near-term targets • Remuneration policies (link to publicly available policies or narrative provided)
% companies in our sample currently meeting the criteria	

Rationale

- Building upon the logic outlined in immediate recommendations, Ramboll suggests that in the second layer of disclosure companies should provide more detail whether their board-level compensation is linked to the sustainable indicators, with a particular focus on climate performance indicators.
- Introducing this recommendation as a medium-term goal for 2025 aligns with the CSRD and TPT's focus on remuneration policies related to sustainability matters. This approach allows large entities to have data in place for CSRD reporting in 2025 and prepare for TPT reporting in 2026.
- It is recommended that VCMI goes a step further by introducing an additional layer of specificity, delving into the company's use of climate-performance indicators. This approach provides a more detailed and comprehensive view of a company's commitment to the integration of climate-specific metrics into its compensation and reporting practices.
- Ramboll recommends clearly defining climate performance indicators in the questions – our suggestions is to inquire about compensation directly tied to GHG emissions reduction or progress against SBTI near-term targets (year-to-year or baseline comparison). Moreover, Ramboll suggest asking responders to confirm the inclusion of these indicators in their publicly available remuneration policies.

Compensation | Long-term recommendations

Category	Long-term recommendation
Claims Code of Practice	*3.1.1 Companies shall disclose whether their board-level compensation is linked to climate performance indicators.* *If yes, then companies shall disclose a description of the board-level compensation policy and indicators related.*
Disclosure Recommendation	Medium-term recommendations, and additionally: • To what extent is **sustainability and climate performance** integrated into the organization’s remuneration strategy? *(based on TPT framework and CSRD)* • What types of incentives are offered, and what percentage of the overall compensation do they represent? *(based on TPT framework and CSRD)*
Metrics	• Details about indicators used by the company, e.g., GHG emissions reduction, progress against SBTI near-term targets and remuneration policies.
% companies in our sample currently meeting the criteria	

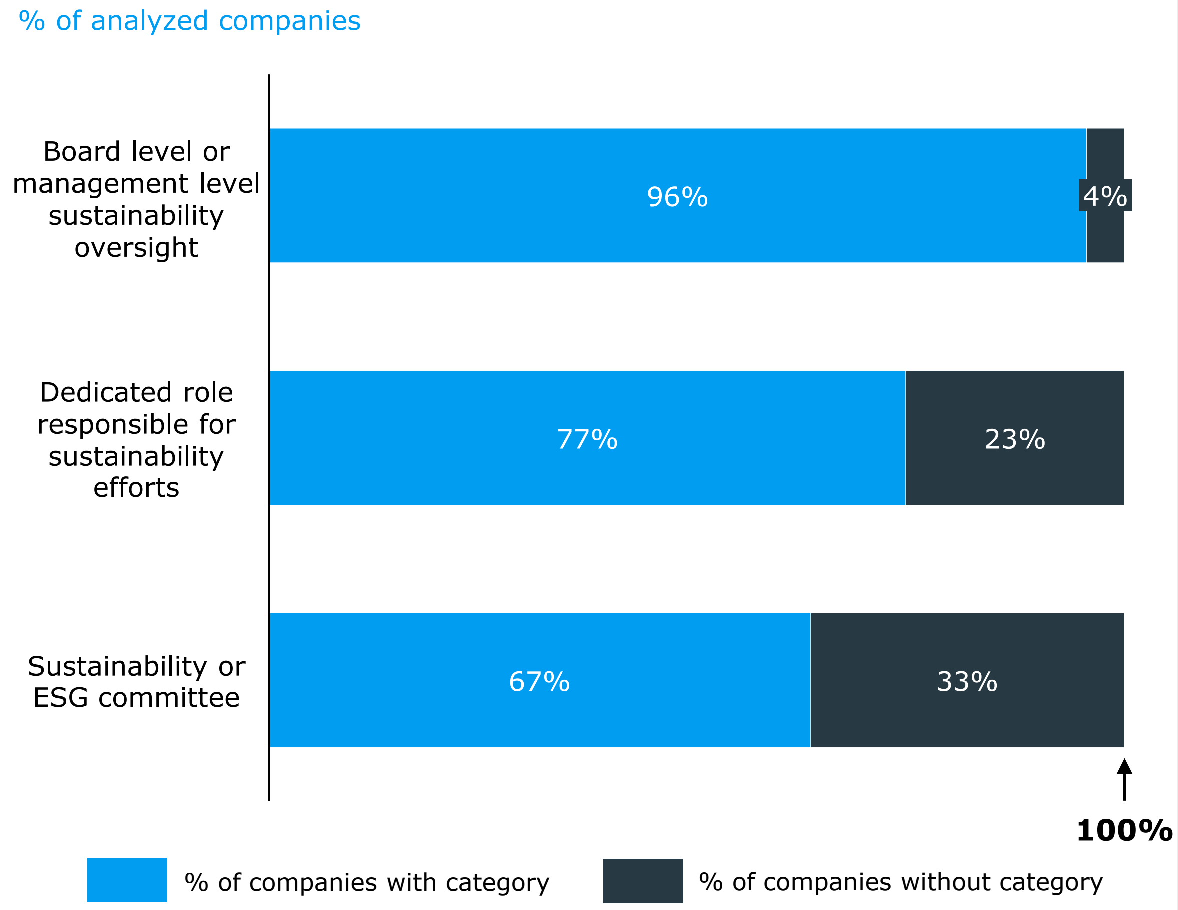
Rationale

- The third level of recommendations introduces a deeper layer of disclosure that is well-aligned with the timelines set forth by both the CSRD and TPT.
- Accordingly, Ramboll recommends a more detailed question regarding the extent to which sustainability and climate performance are integrated into the organization's remuneration strategy. This includes inquiring about the types of incentives offered and the percentage of overall compensation that they represent, which enhances transparency and provides stakeholders with a clearer view of the incentives driving employee behavior. Moreover, it underscores a commitment to GHG reduction by aligning compensation with sustainability goals, motivating employees to contribute to the organization's environmental objectives.
- This level of inquiry aligns with the CSRD, particularly in paragraph 29, which emphasizes the importance of reporting on incentives (with reporting starting in 2025 for 2024 data). Additionally, it is in line with the TPT framework's reporting timeline, set for 2026 with reference to data from 2025. Therefore, Ramboll advices implementing these recommendations starting in 2026 and onward to ensure that companies have ample time to align their practices with these enhanced disclosure requirements, promoting greater transparency and accountability in sustainability and climate performance within their organizations.

5. Team capabilities analysis and recommendation

Strategy and governance | Team Capabilities

ESG team structure



Insights

Board level or management level sustainability oversight:

- Almost all companies' have established sustainability responsibilities at the board or management levels.

Dedicated role responsible for sustainability efforts:

- Over three-fourths of companies have a designate role for forwarding sustainability goals and actions.
- Titles vary across companies and may include Chief Sustainability Officer, Head of ESG, Head of Sustainability, Sustainability Director, etc.

Sustainability or ESG committee:

- Over two-thirds of companies are organized with a committees to for advancing and reporting on sustainability initiatives.
- Most companies' sustainability/ESG committees report directly to the dedicated sustainability role, however if the company does not have a designated role for sustainability efforts, most commonly the committee will report directly to the board.

Source: Ramboll analysis, Sustainability reports, Annual reports, CDP responses (2022)

Strategy and governance | Team capabilities examples

Keurig Dr. Pepper (KDP)

The full Board is responsible for oversight of KDP's overall ESG strategy, a committee of the Board, along with KDP's Executive Leadership Team (ELT), Sustainability Governance Committee, Chief Sustainability Officer and cross-functional teams that include leaders from all areas of the business, provide specific management, advisory, accountability and collaboration capabilities in support of ESG efforts.

Board of Directors
Provides primary board-level oversight of strategy, goals and policies

Executive Leadership Team
Ensures alignment of corporate responsibility platform and programs with long-term business objectives, provides advisory on programs and monitor's progress

Sustainability Governance Committee
Provides cross-functional decision-making and alignment with business strategy, oversees progress against commitments and reviews and monitors the preparation of CSR report and other key ESG disclosures

CSO and cross functional teams
Establishes robust ESG agenda and strategic priorities throughout the organization, identifies and addresses challenges, enhances disclosure and monitors emerging trends

AB InBev

The company's ESG governance structure involves the Board of Directors overseeing ESG strategies and performance, while committees like the Nomination, Remuneration, Finance, and Audit Committees have specific roles in governance. The Senior Leadership Team, Global Function Leads, and ESG Champions drive ESG initiatives.

Board of Directors
Ultimate decision-making body. The Board's ESG oversight includes approval of strategies and review of ESG performance. The Board received multiple updates on ESG matters in 2022, including on sustainability and DEI.

Nomination Committee
Reviews corporate governance matters (including DEI) as part of its role on nomination and retention of Directors and executives

Remuneration Committee
Reviews remuneration policies and packages as part of its role on remuneration and retention of Directors and executives

Finance Committee
Reviews sustainability matters as part of its assessment of funding requirements, financial risk, supply security and sourcing strategies

Audit Committee
Deals with environmental and social matters, including human rights and Smart Drinking, as part of its overall audit function

Chief Executive Officer, supported by the Executive Committee
Responsible for team's execution and management of ESG matters

Global Function Leads (Chiefs)
Responsible for driving the global agenda for ESG matters relevant to their business team

Regional CEOs
Responsible for driving the zone agenda for ESG matters relevant to their zones

ESG Champions and Target Owners
Embedded across the business and responsible for coordination and implementation of ESG matters and initiatives relevant to their specific team and/or zone

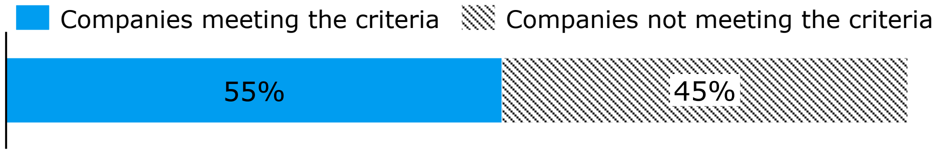
Team capabilities | Current Claims Code

Category	Current Claims Code
Claims Code of Practice	*3.1.2. Companies shall disclose whether their Board members have capabilities or expertise on climate-related issues.* *If yes, then companies shall disclose a description of the climate-related capabilities and expertise held by board members*
Disclosure Recommendation	N/A
Metrics	• Yes / No • Description of the board level capabilities or expertise on climate related policies
% companies in our sample currently meeting the criteria	Throughout our data collection, we found that companies are not reporting the capabilities or expertise on climate-related issues of their board members.

Ramboll's comment

- Requiring companies to disclose board-level sustainability experience and internal procedures is aligned with upcoming mandatory reporting regimes like:
  - CSRD (starting in 2025 for 2024 data) - ESRS 2: General Disclosure, paragraph 23: *Disclosure of how administrative, management and supervisory bodies determine whether appropriate skills and expertise are available or will be developed to oversee sustainability matters* and following 23a, 23b.
  - TPT framework (starting in 2026 for 2025 data): Sub-element 5.1. Board oversight and reporting: *An entity shall disclose information about the governance body(s) (which can include a board, committee, or equivalent body charged with governance) or individual(s) responsible for oversight of the transition plan.*
- CSRD and TPT will not begin mandating these requirements until 2026. The implementation of the criteria as it stands will create a significant reporting burden for companies and reconsideration may be needed to ensure it remains practical and realistic for businesses.
- For this reason and the lack of data regarding board-level capabilities/expertise on climate-related issues, we recommend integrating this requirement in VCMI's long-term strategy.

Team Capabilities | Immediate recommendations

Category	Immediate recommendation
Claims Code of Practice	*3.1.2. Companies shall disclose whether their Board members have capabilities or expertise on climate-related issues.* *If yes, then companies shall disclose a description of the climate-related capabilities and expertise held by board members*
Disclosure Recommendation	Does the company’s board **employ and utilize** the internal capabilities and expertise of **both a dedicated role for sustainability efforts and a sustainability/ESG committee** for climate-related issues?
Metrics	Yes / No
% companies in our sample currently meeting the criteria	

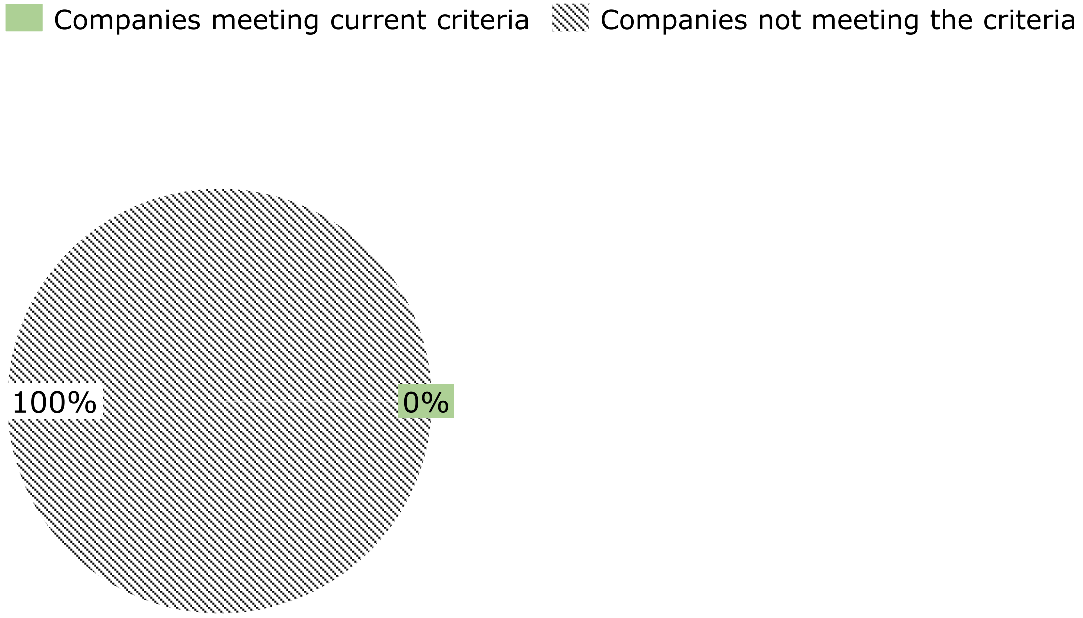
Rationale

- Establishing an effective organization surrounding sustainability within a company is critical for executing and reporting on climate-related initiatives. We assume that employees in dedicated sustainability roles and on sustainability/ESG committees can offer insights and guidance on climate-related issues that are aligned with the company's unique goals and initiatives. The combination can provide the resources to advise the board’s decision-making.
- Requiring companies today to disclose the presence and utilization of a dedicated role for sustainability efforts and a sustainability/ESG committee is aligned with upcoming mandatory reporting regimes like CSRD and TPT framework. However, both will not begin mandating these requirements until 2026.
- For this reason and the lack of data regarding board-level capabilities/expertise on climate-related issues, we recommend integrating this requirement in VCMI’s long-term strategy.

Geographical perspective: Europe and North America poised to lead in sustainable board structures disclosures

Geographical location-based results analysis (current Claims Code)

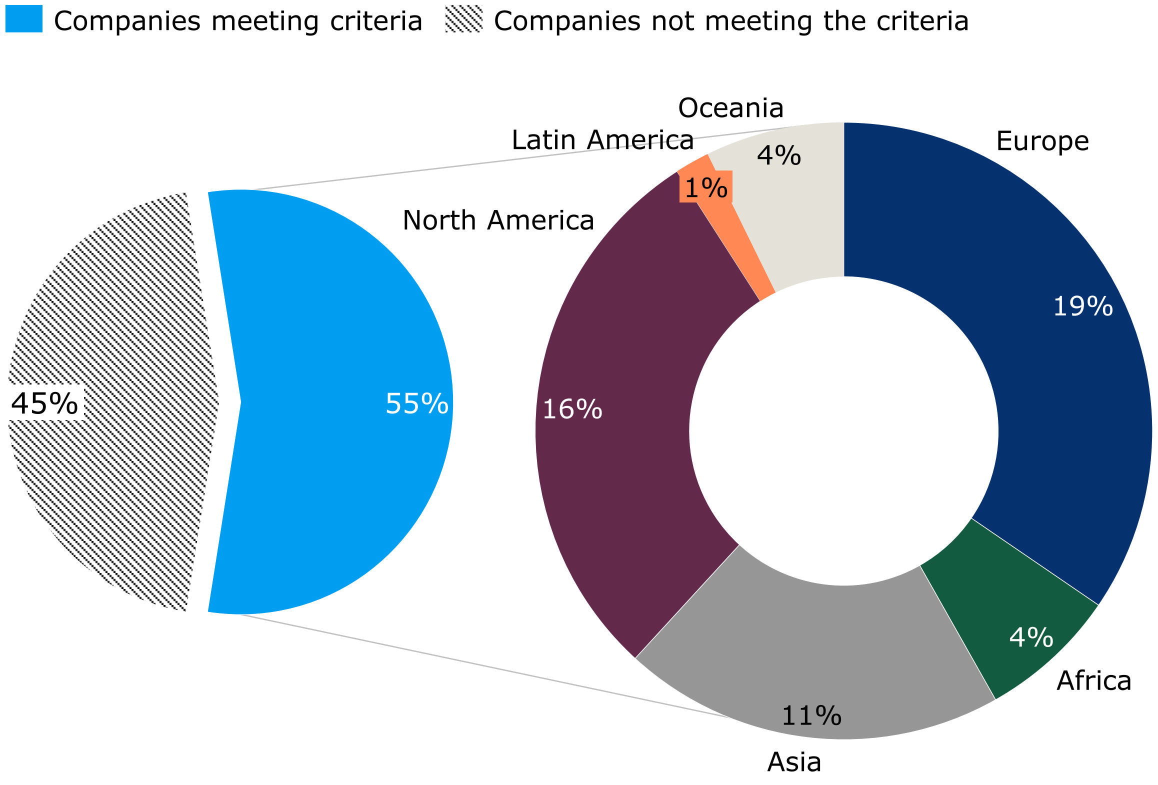
% of analyzed companies



Note: Analysis reveals that companies are currently not disclosing the climate-related expertise of their board members, resulting in a current 0% of companies meeting the claims code criteria.

Geographical location-based results analysis (recommended changes)

% of analyzed companies

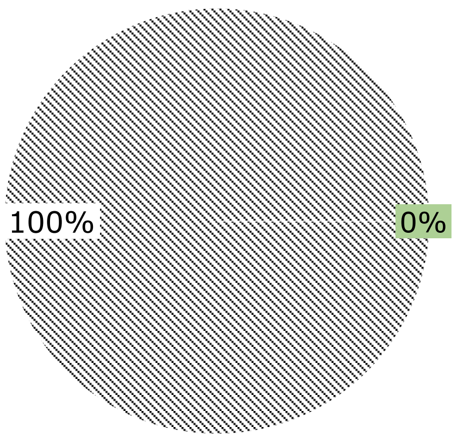


Sector perspective: FMCG, pharmaceutical, and retail sector likely to lead in sustainable board structures disclosures

Sector-based results analysis (current Claims Code)

% of analyzed companies

Companies meeting current criteria | Companies not meeting the criteria

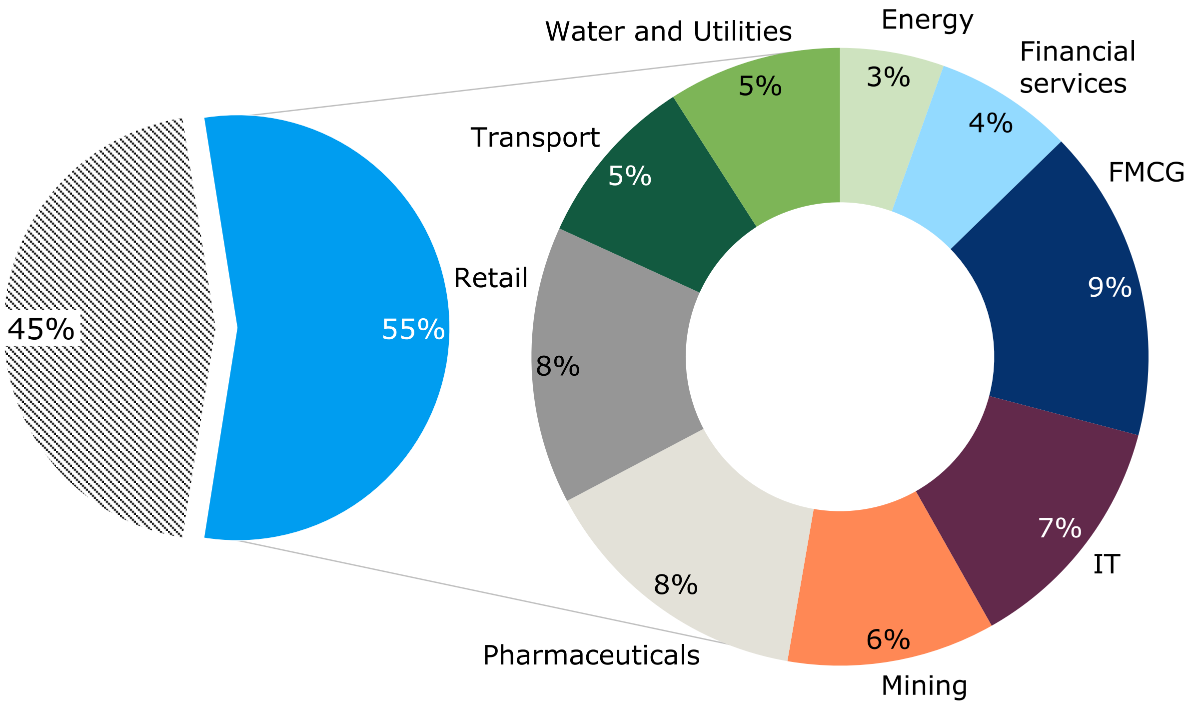


Note: Analysis reveals that companies are currently not disclosing the climate-related expertise of their board members, resulting in a current 0% of companies meeting the claims code criteria.

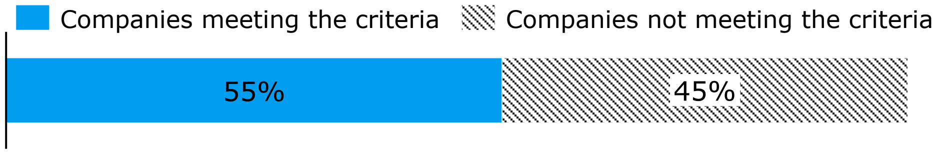
Sector-based results analysis (recommended changes)

% of analyzed companies

Companies meeting current criteria | Companies not meeting the criteria



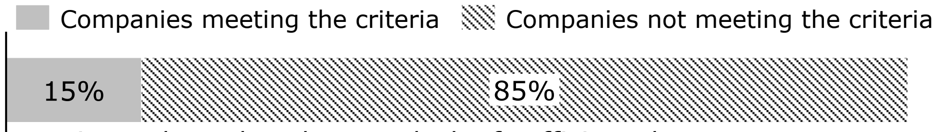
Team Capabilities | Medium-term recommendations

Category	Medium-term recommendation
Claims Code of Practice	*3.1.2. Companies shall disclose whether their Board members have capabilities or expertise on climate-related issues.* *If yes, then companies shall disclose a description of the climate-related capabilities and expertise held by board members*
Disclosure Recommendation	Same as Immediate recommendations: Does the company's board **employ and utilize** the internal capabilities and expertise of **both a dedicated role for sustainability efforts and a sustainability/ESG committee** for climate-related issues?
Metrics	Yes / No
% companies in our sample currently meeting the criteria	

Rationale

- For the 2025 medium-term recommendation, we advise maintaining the level of disclosure as in the immediate recommendations.
- Deeper disclosure will be introduced in layer 3 – long term recommendations, in line with CSRD and TPT reporting requirements.
- Recommended approach allows for a gradual adaptation to the changing landscape of reporting standards while ensuring that companies are not overwhelmed with a sudden shift in disclosure expectations.

Team Capabilities | Long-term recommendations

Category	Long-term recommendation
Claims Code of Practice	*3.1.2. Companies shall disclose whether their Board members have capabilities or expertise on climate-related issues.* *If yes, then companies shall disclose a description of the climate-related capabilities and expertise held by board members*
Disclosure Recommendation	Immediate and medium-term recommendations, and additionally: • Does the company have a board member with capabilities and expertise in sustainability that is directly responsible for overseeing progress toward climate-related issues?
Metrics	Immediate and medium-term recommendations, and additionally: • Details regarding the level of experience board member has in sustainability related field • Details regarding procedures used by board member to monitor, manage, and oversee progress climate-related issues
% companies in our sample currently meeting the criteria	 *Estimated number due to a lack of sufficient data*

Rationale

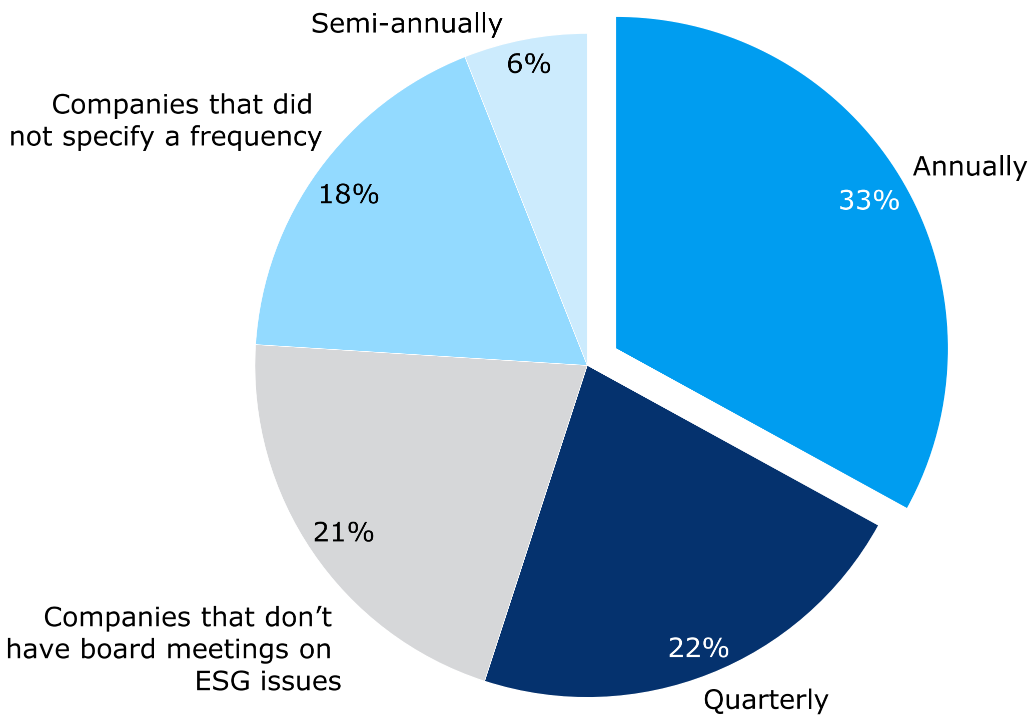
- Experience in climate-related issues is vital for oversight of company’s strategic plan and supporting long-term climate goals. The responsible board member should understand environmental challenges and solutions, aid in strategic decision-making, and help manage climate-related risks. Current data disclosure by companies indicated that it would be a significant burden to report on this today, so we suggest phasing this in as a long-term recommendation.
- Requiring companies today to disclose board-level sustainability experience and internal procedures is aligned with upcoming mandatory reporting regimes like:
  - CSRD (starting in 2025 for 2024 data) - ESRS 2: General Disclosure, paragraph 23: *Disclosure of how administrative, management and supervisory bodies determine whether appropriate skills and expertise are available or will be developed to oversee sustainability matters* and following 23a, 23b.
  - TPT framework (starting in 2026 for 2025 data): Sub-element 5.1. Board oversight and reporting: *An entity shall disclose information about the governance body(s) (which can include a board, committee, or equivalent body charged with governance) or individual(s) responsible for oversight of the transition plan.*

6. Board-level reviews and recommendation

Strategy and governance | Board level reviews

Frequency of board level reviews of sustainability matters

% of analyzed companies



Insights

Board level reviews

- Roughly two-thirds of the examined companies disclose that board level reviews occur regarding the progress towards ESG strategy and targets.
- Companies typically do not disclose whether a board-level review encompasses GHG reduction targets.

Frequency of reviews

- The most common review frequency for sustainability metrics at the board level is *Annually*.
- One-fourth of the companies conduct quarterly reviews within their company.
- 18% of companies reported that they conduct board level meetings but did not specify the frequency of reviews.

Source: Ramboll analysis, Sustainability reports, Annual reports, CDP responses (2022)

How diverse companies perform the reviews of sustainability strategy and targets | Examples

E. ON

Quarterly, eight experts from the Management Board, central functions, regional, and national companies meet to assess climate targets, address challenges, and decide on critical sustainability issues on behalf of the Management Board.

Teva Pharmaceutical

The Compliance Committee periodically reviews emerging ESG best practices, trends, and key issues. They also oversee the ESG strategy and receive quarterly updates from the ESG team.

Ford Motor Company

The Sustainability, Innovation, and Policy Committee meets three times a year to assess progress on key issues, advise on innovative policies and technologies, and review sustainability-related reports and initiatives.

Celestica

The Senior VP for Sustainability and Chief Legal Officer provides annual ESG reports and quarterly risk updates to the Board. They also review the Sustainability Report to ensure it aligns with the corporate strategy. Quarterly sustainability updates, discussing strategy and progress, are shared with the CEO, COO, and CFO.

Bayer AG

The Sustainability Council meets biannually to review performance, guide research and development for sustainability, and significantly influence strategic planning. The Chairman and other Board members actively participate, and the council collaborates with experts in additional sessions.

GSK

The Board conducts regular reviews, including climate matters and risk management. In 2022, the committee met four times. The Corporate Responsibility Committee, oversees ESG performance, including climate risks and environmental targets, with frequent updates and regular CEO and COO attendance.

Source: Ramboll analysis, Sustainability reports, Annual reports, CDP responses (2022)

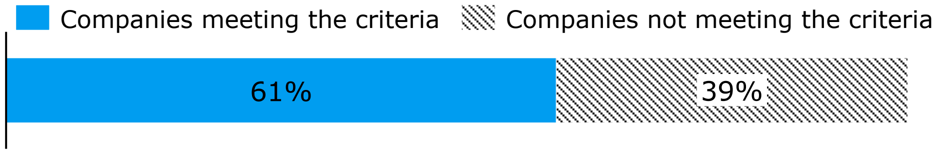
Board level reviews | Current Claims Code

Category	Current Claims Code
Claims Code of Practice	*3.1.3 Companies shall disclose whether they conduct board-level reviews on progress towards meeting near-term emissions reduction targets* *If yes, then companies shall disclose the frequency of these board-level reviews*
Disclosure Recommendation	N/A
Metrics	• Yes / No • Description of frequency of reviews
% companies in our sample currently meeting the criteria	Throughout our data collection, we found that companies are not reporting whether they conduct board-level reviews on progress towards meeting near-term emissions reduction targets.

Rationale

- The current requirement by VCMI for companies to disclose board-level oversight and the review frequency of near-term targets may appear stringent given that many companies tend to report their ESG strategies more generally.
- However, looking ahead, both the CSRD and the TPT underscore the increasing importance of board-level engagement in sustainability matters:
  - CSRD - ESRS 2: General Disclosure, paragraph 45a-d: *Description of stakeholder engagement* places significant emphasis on board-level oversight, particularly regarding stakeholder engagement and sustainability impacts.
  - TPT - Sub-element 5.1. *Board oversight and reporting* outlines specific requirements for entities to identify those responsible for reviewing and approving transition plans and their strategic ambitions, emphasizing transparency in how these entities oversee changes, updates, and targets.
- These requirements reflect the growing focus on board-level engagement in sustainability-related decisions and actions. while VCMI’s current requirements may seem strict, they align with the evolving trends in sustainability reporting, where more detailed and board-level oversight is expected to take center stage in the upcoming years.

Board level reviews | Immediate recommendations

Category	Immediate recommendation
Claims Code of Practice	*3.1.3 Companies shall disclose whether they conduct board-level reviews on progress towards meeting near-term emissions reduction targets* *If yes, then companies shall disclose the frequency of these board-level reviews*
Disclosure Recommendation	Does the company conduct board-level reviews on an **annual basis** towards progress on sustainability strategy and targets?
Metrics	Yes / No
% companies in our sample currently meeting the criteria	

Rationale

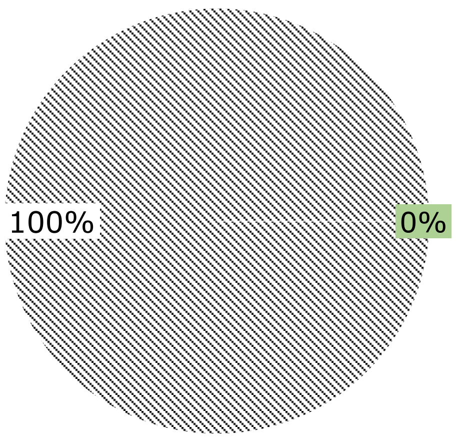
- As companies already provide annual sustainability reports, making an annual board-level review of sustainability targets feasible and in line with established reporting cycles.
- Performed analysis showed that detailed reports on GHG reduction targets and their reviews might not always be readily available, but many companies routinely engage in board-level evaluations of broader sustainability matters.
- Therefore, Ramboll proposes substituting questions to include language related to sustainability strategy and targets. Additionally, setting an initial ambition level and suggesting an annual review frequency for these board-level reviews would enable companies to align their sustainability goals with their reporting practices, fostering ongoing progress and transparency. This approach streamlines reporting and promotes continual improvement in sustainability efforts.

Geographical perspective: European companies are likely to lead in annual board-level sustainability reviews

Geographical location-based results analysis (current Claims Code)

% of analyzed companies

Companies meeting current criteria | Companies not meeting the criteria

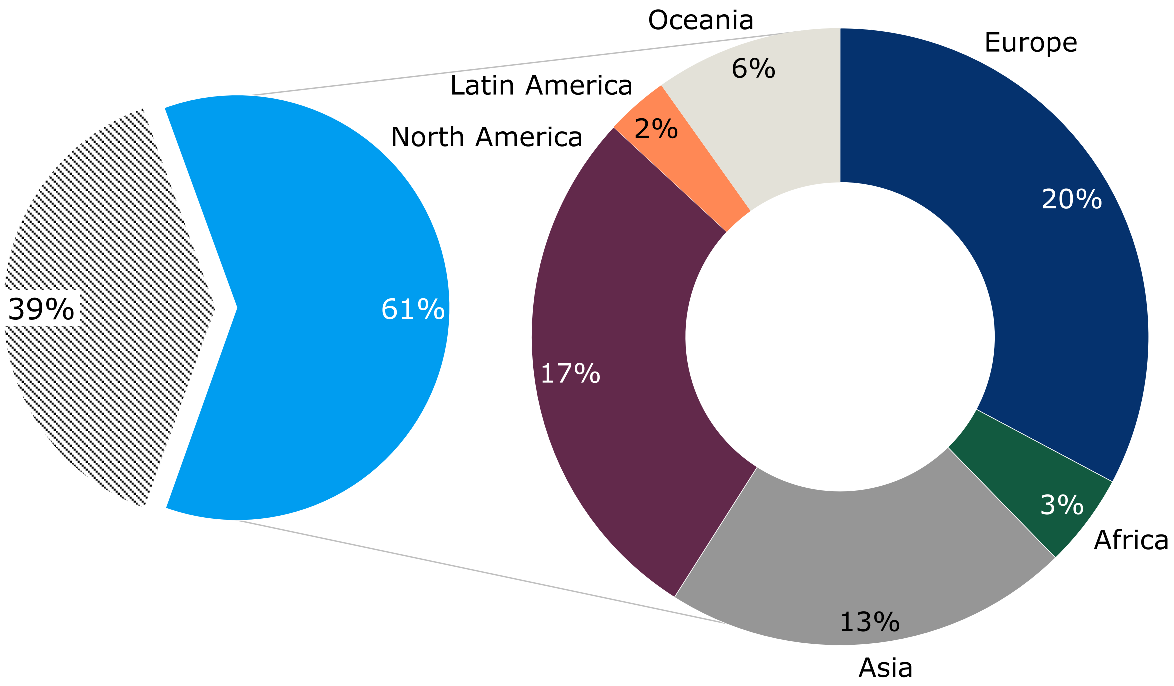


Note: Companies are currently not disclosing whether they conduct board-level reviews to assess progress toward achieving near-term emissions reduction targets, leading to a current 0% of companies meeting the claims code criteria.

Geographical location-based results analysis (recommended changes)

% of analyzed companies

Companies meeting criteria | Companies not meeting the criteria

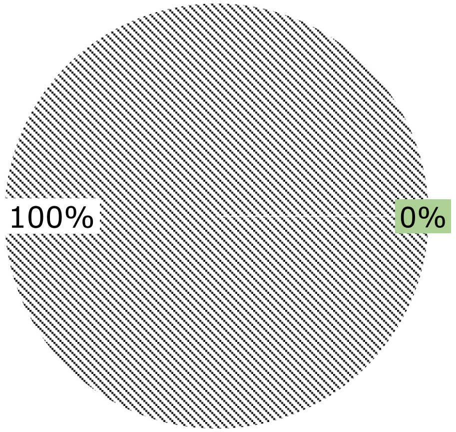


Sector perspective: FMCG sector poised to lead in annual board-level sustainability reviews

Sector-based results analysis (current Claims Code)

% of analyzed companies

Companies meeting current criteria | Companies not meeting the criteria

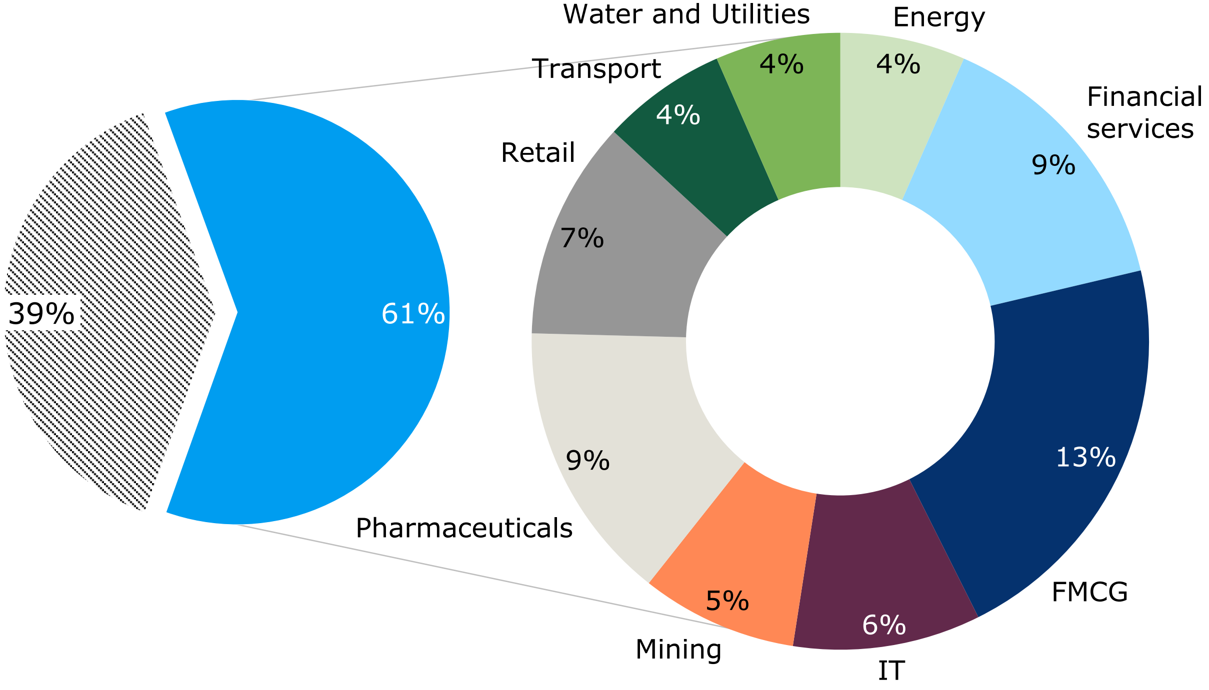


Note: Companies are currently not disclosing whether they conduct board-level reviews to assess progress toward achieving near-term emissions reduction targets, leading to a current 0% of companies meeting the claims code criteria.

Sector-based results analysis (recommended changes)

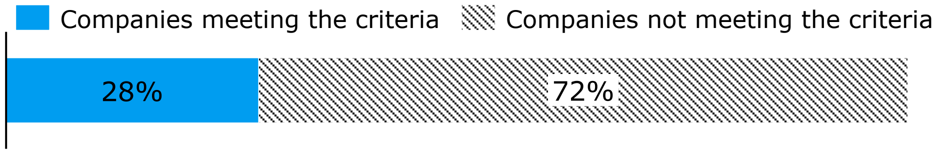
% of analyzed companies

Companies meeting current criteria | Companies not meeting the criteria



Board level reviews | Medium-term recommendations

Category	Medium-term recommendation
Claims Code of Practice	*3.1.3 Companies shall disclose whether they conduct board-level reviews on progress towards meeting near-term emissions reduction targets* *If yes, then companies shall disclose the frequency of these board-level reviews*
Disclosure Recommendation	Does the company conduct board-level reviews on a **semi-annual basis** on progress towards sustainability targets, including **greenhouse gas emissions reduction near-term targets**?
Metrics	Yes / No
% companies in our sample currently meeting the criteria*	

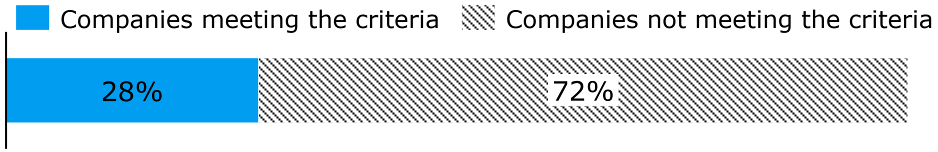


Rationale

- Ramboll recommends taking a proactive approach by including precise language concerning board-level assessments of GHG emissions reduction near-term targets. This establishes a benchmark and encourages companies to provide comprehensive information about board-level reviews of their GHG reduction target progress, going beyond the scope of sustainability-related reviews.
- Ramboll advocates for specifying a particular frequency for these assessments. While the CSRD and the TPT emphasize the increasing importance of board-level engagement in sustainability matters, they do not prescribe specific review frequencies. Furthermore, these reporting frameworks do not specifically address reviews of GHG emissions targets.
- Therefore, Ramboll suggests commencing with semi-annual reporting and gradually increasing the integration of sustainability-related matters into company reporting, alongside a frequent review of GHG targets and their progress.
- These recommendations are consistent with the evolving emphasis on sustainability and GHG emissions reduction, promoting transparency and ongoing enhancements, while aligning with VCMI's ambition to drive market transformation.

*considering that the reviews of sustainability matters include GHG emissions targets reviews

Board level reviews | Long-term recommendations

Category	Long-term recommendation
Claims Code of Practice	*3.1.3 Companies shall disclose whether they conduct board-level reviews on progress towards meeting near-term emissions reduction targets* *If yes, then companies shall disclose the frequency of these board-level reviews*
Disclosure Recommendation	Same as Mid-term recommendations: Does the company conduct board-level reviews on a **semi-annual basis** on progress towards sustainability targets, including **greenhouse gas emissions reduction near-term targets**?
Metrics	Yes / No
% companies in our sample currently meeting the criteria	

Rationale

- Considering the adequacy of detail in the mid-term recommendations for 2025, Ramboll recommends to maintain the same level of disclosure of long-term recommendations.

7. Appendix

List of collected data points

Collected data points (1/2)

General and demographic data

1) Total gross revenue
2) Number of employees
3) Region
4) HQ location
5) Industry
6) GHG Inventory (yes/no)
7) Publicly disclosed validated SBTI near-term emissions reduction targets (yes/no)
8) Demonstrate that the company's public policy advocacy supports the goals of the Paris Agreement (yes/no)
9) CDP Rating
10) Reporting in line with Global Reporting Initiative (yes/no)
11) Does the company report using TCFD or ISSB?

Strategy and Governance

1) Number of employees in sustainability structure
2) Does the company have a Chief Sustainability Officer?
3) Details about the Sustainability-leading role, is it the dedicated role?
4) CSO experience in sustainability vs general experience
5) CSO experience type: education/work/both
6) Board level compensation linked to climate performance indicators?
7) What are the metrics that define whether compensation is received?
8) Does the company conduct board level review on progress towards meeting near-term emissions reduction targets, and what is the frequency of reviews?
9) Are ESG reports and targets verified by independent third-party?

Collected data points (2/2)

GHG emissions

1) Near-term reduction target base year
2) Near-term target reduction year
3) Near-term target reduction: Scope 1
4) Near-term target reduction: Scope 2
5) Near-term target reduction: Scope 3
6) Progress towards near-term reduction target: Scope 1
7) Progress towards near-term reduction target: Scope 2
8) Progress towards near-term reduction target: Scope 3

Financial data

1) Total company spend
2) Total spend on Sustainability initiatives
3) Overall company CAPEX/OPEX
4) Company CAPEX/OPEX spent on sustainability initiatives
5) Company CAPEX/OPEX spent on GHG reduction initiatives

Bright
ideas.
Sustainable
change.

RAMBOLL