



# Directors' Duties Navigator: Climate Risk and Sustainability Disclosures\*

Fourth edition, September 2024

*\*Previously titled 'Primer on Climate Change: Directors' Duties and Disclosure Obligations'*

## Armenia

The content in this section was last updated in August 2023. Further updates will take place in 2025, reflecting relevant developments in this jurisdiction.

### 1. Legal and Regulatory Landscape Regarding Climate Change

#### 1.1. Government approach to climate change

##### 1.1.1. Climate change legislation

*This information will be included in the next edition of the Directors' Duties Navigator, which will be published in 2025.*

##### 1.1.2. Transition plans and targets

Armenia is a mountainous country located in the South Caucasus region with a high concentration of land at high altitudes. This topography, combined with the country's landlocked status, makes it susceptible to a variety of hazardous hydrometeorological phenomena (**HMP**), such as droughts, landslides, mudslides, and forest fires. These HMP can cause significant damage to the Armenian population and economy. Armenia is particularly vulnerable to the adverse impact of climate change.

Cognizant of this, the Government of the Republic of Armenia (**RA**) has enacted policies to ensure the implementation of short- and long-term actions to mitigate these risks. Particularly, in 2021 the decision on approving the *National Action Plan for Climate Change Adaptability and List of Activities for 2021-2025* (**National Action Plan**) was adopted.<sup>1</sup>

This decision has highlighted three main categories of obstacles to adaptability:

- (1) Governance and institutional obstacles, which among others comprise of institutional coordination in collection, analysis, and management of data obstacles. Moreover, the issues are not properly included in the

functions of state administration bodies that have key roles.

- (2) Informative, knowledge and technological obstacles, which diminish the process of adaptability; there is a lack of available information at all administrative levels.

- (3) Financial obstacles, which hinder the implementation of adaptation steps.

Finally, obstacles like the low income of the population, the relative distance of the country from the main economical centers, economic isolation further limit the ability of the country to adapt to the impact of climate change.

The National Action Plan includes the implementation of two sets of actions. The first is aimed at implementing cross-sectoral activities to strengthen the capacity of the country's institutions to identify, prioritize, and plan necessary actions as well as attract financing for these undertakings. The second set of actions is aimed at adaptability undertakings for six priority sectors: water management, agriculture, energy, settlements, health, and tourism for two regions (as a test period).

The specific set of actions indicated by the National Action Plan is aimed at regulating the implications of the climate change risks in the policy development plans of the specific sectors. The National Action Plan does not indicate the specific set of actions or recommendations for the Central Bank of Armenia or the Central Depository of Armenia. For the time being, the key

<sup>1</sup> Government of Armenia, *National Action Plan for Climate Change Adaptability and List of Activities for 2021-2025*, (15 May 2021).

corporate and financial regulators are not engaged in the set of actions.

### 1.1.3. *Wider government approach to climate change*

In 2010, the Government approved the *Corporate Governance Code of Armenia (Corporate Governance Code)*, which is dispositive and advisory in nature. It is not obligatory for companies to adopt the policies indicated under this code, however, they are strongly encouraged and recommended to do so. The Corporate Governance Code advises companies to indicate the scope of their stakeholders in general and actively cooperate therewith to increase the welfare of society.<sup>2</sup> Further, the Corporate Governance Code advises the boards of companies to define environmental policies, which among other things shall include waste management policies.

Therefore, whilst the Corporate Governance Code does not explicitly encourage the companies to take actions or undertake obligations to tackle the impact of climate change, it advises the adoption of environmentally aware policies and mechanisms. Yet, as mentioned above this is dispositive and the number of companies which have adopted the said code (if any) is not large.

## 1.2. Regulatory approaches to climate change

### 1.2.1. *Climate change as a systemic financial risk*

*This information will be included in the next edition of the Directors' Duties Navigator, which will be published in 2025.*

### 1.2.2. *Financial regulation and guidance*

*This information will be included in the next edition of the Directors' Duties Navigator, which will be published in 2025.*

### 1.2.3. *Liability risk: enforcement action by regulators*

*This information will be included in the next edition of the Directors' Duties Navigator,*

*which will be published in 2025.*

## 2. Directors' Duties and Climate Change

### 2.1. Legal framework for directors' duties

The RA Law on Limited Liability Companies and the Law on Joint Stock Companies determine a general obligation of fiduciary duty of directors towards the company.<sup>3</sup> These fiduciary duties are not applicable to the actions of the directors related to climate change or the potential harm caused to stakeholders (other than the company or the shareholders thereof).

Directors of Armenian companies (whether public or private) are not legally required to ensure that their companies operate in a way that complies with the adverse impacts of climate change. This, by extension, applies to the companies themselves. The policies that companies may choose to implement in order to proactively mitigate the risks associated with climate change are predominantly subject to their autonomous decision-making processes. Certain (larger) companies do adopt certain policies within their corporate social responsibility initiatives, but these are fully dispositive.

### 2.2. Guidance on interpretation of directors' duties

#### 2.2.1. *Legal guidance*

*This information will be included in the next edition of the Directors' Duties Navigator, which will be published in 2025.*

#### 2.2.2. *Regulatory guidance*

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### 2.3. Directors' liability and litigation risk

<sup>2</sup> Government of Armenia, *Corporate Governance Code* (12 February 2011).

<sup>3</sup> Government of Armenia, *RA Law on Limited Liability* (7 December 2001).

The approach taken by the legislation of Armenia is setting sector-specific obligations on companies to protect the environment and diminish the harmful impact thereon. In a number of instances both the Criminal Code of Armenia and the Code of Administrative Offences indicate liability for companies in case of certain actions that have harmed the environment or breached the regulations of environmental protection. This, among others, includes liability for air, subsoil and water pollution, illegal cutting of trees, and breach of regimes in specially protected areas.

### **3. Directors' Duties and Sustainability Disclosure Obligations**

#### **3.1. Narrative sustainability disclosure**

##### **3.1.1. Sustainability disclosure frameworks**

Armenian legislation does not indicate specific (climate change-related) disclosure duties for companies, whether they are publicly listed or not.

##### **3.1.2. Specific sustainability disclosure requirements for listed entities**

*This information will be included in the next edition of the Directors' Duties Navigator, which will be published in 2025.*

##### **3.1.3. Specific sustainability disclosure requirements for financial institutions**

*This information will be included in the next edition of the Directors' Duties Navigator, which will be published in 2025.*

##### **3.1.4. Directors' duties regarding sustainability disclosures**

*This information will be included in the next edition of the Directors' Duties Navigator, which will be published in 2025.*

##### **3.1.5. Liability risk arising from narrative sustainability disclosures**

*This information will be included in the next edition of the Directors' Duties Navigator, which will be published in 2025.*

#### **3.2. Climate-related disclosures in financial statements**

##### **3.2.1. Climate-related disclosures in financial statements**

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##### **3.2.2. Directors' duties regarding climate-related disclosures in financial statements**

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##### **3.2.3. Liability risk arising from financial statements**

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#### 4. Practical Implications for Directors

In light of the substantial influence of climate change on Armenia, encompassing its economic landscape, it is strongly recommended that companies establish internal procedures to enhance their capacity to navigate climate change impacts. Among other things it is advised to:

- Ensure that the company's decision-makers are well-informed about environmental laws relevant to the company's operations, taking into consideration the specific industry focus of their respective companies;
- Perform annual comprehensive internal due diligence to ensure that the real beneficiaries of the companies are accurately identified and publicly disclosed;
- Implement internal policies aimed at ensuring the company's activities are conducted in accordance with environmental laws, with a focus on minimizing the potential adverse environmental impacts resulting from these activities;
- Implementing the Corporate Governance Code's regulations and developing corporate governance guidelines, including policies related to Environmental, Social and Governance (ESG) matters in compliance with internationally recognised standards; and
- Companies within eco-sensitive sectors, including mining, energy, urban development, etc, may create specialised committees within the boards of directors for addressing climate and environment related issues.

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