THE EUROPEAN VOICE OF DIRECTORS

ecoDa — The European Voice of Directors

#EUAlert | Week 28

What's in this issue:

EU INSTITUTIONS

ESMA announces guidelines for sustainability disclosures in prospectuses

ESMA announces the release of new guidelines for sustainability disclosures in prospectuses. The guidelines will take effect from January 1, 2024 and aim to ensure that investors have access to consistent and comparable sustainability information. They cover a range of ESG factors, including climate change, biodiversity, and social and employee matters. ESMA has also provided a template for the disclosure of sustainability information. Additionally, it expects inclusion of reporting in accordance with NFRD (or the future CSRD), to the extent that the disclosures are material.

EFRAG extends the deadline of call for candidates for its Sustainability Reporting Advisory Panels

EFRAG has extended the deadline for applications to its Sustainability Reporting Financial Institutions Advisory Panels until September 15, 2023. The panels will provide technical advice on the development of possible EU sustainability reporting standards. The extension is due to the high level of interest and requests for more time to prepare applications. EFRAG encourages applicants from a wide range of backgrounds, including preparers, users, and academics.

EUROPEAN DEVELOPMENTS

Investors and banks oppose EU's proposal to simplify sustainability reporting rules

A collective of investment and sustainable investing groups, including Eurosif, PRI, IIGCC, EFAMA, UNEP FI, and over 90 asset managers, have expressed their opposition to the Commission's proposed changes to the ESRS. The proposed changes aim to simplify several aspects of the upcoming CSRD. The coalition argues that these changes would limit investor access to consistent, comparable, and reliable information, which is crucial for making decisions and allocating capital in line with sustainability goals.

INTERNATIONAL DEVELOPMENTS

NACD: Optimize shareholder engagement in 2023

The NACD has published a blog post outlining strategies for optimizing shareholder engagement in 2023. They emphasize the importance of proactive communication, understanding shareholder concerns, and being prepared to address ESG issues. It also suggests that directors should consider the use of technology to facilitate engagement and should be prepared to communicate their company's long-term strategy and value creation plan.

Boards suggested to become more effective using AI

An article on Board Agenda argues that AI will make corporate boards more effective. The author suggests that AI can help boards make better decisions by providing them with more accurate and timely information. AI can also help boards monitor company performance and identify risks and opportunities. However, the author warns that boards must be prepared to manage the ethical and governance issues associated with AI.

United States: Increasing litigation risks from ESG backlash

There are growing risk of litigation associated with the backlash against ESG initiatives in the United States. This research highlights the increasing scrutiny of ESG disclosures and the potential for legal challenges, and suggests that companies need to be aware of these risks and take steps to mitigate them, including ensuring that their ESG disclosures are accurate and not misleading.

IFRS will take over responsibilities from the TCFD

The International Sustainability Standards Board (ISSB) of the IFRS Foundation will assume responsibility for monitoring the progress of companies' climate-related disclosures from the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TCFD) starting next year. This decision comes after a request from the FSB and is a significant step in the ongoing consolidation of sustainability reporting standards. The TCFD, established by the FSB in 2015, has been the industry standard for climate-related disclosure.

Common framework for sustainable finance taxonomies for Latin America and the Caribbean

The Latin America and Caribbean (LAC) region is developing sustainability taxonomies to align with the UN Sustainable Development Goals (SDGs). However, the lack of comparability between national taxonomies poses challenges for trade and international capital flows towards low-carbon projects. To address this, the WG on Sustainable Finance Taxonomies for Latin America and the Caribbean, financed by the European Union through the EUROCLIMA+ Programme, has developed a project.

Practical insights on human rights due diligence down the value chain

The UN Guiding Principles on Business and Human Rights (UNGPs) have sparked renewed discussions on how and whether companies should conduct human rights due diligence (HRDD) downstream to identify and prevent or mitigate adverse human rights impacts. This article broadens the examples of sectors, products, and services and current business practice which demonstrate the critical need for, and ability of, companies to consider human rights risks downstream. The proposed EU CSDDD and the revision process of the OECD Guidelines (for Multinational Enterprises) have further fuelled these discussions. The article argues that while some debate on downstream HRDD has occurred, it has predominantly centered on specific sectors, products, and services where the links to human rights harms may be easier to identify and report.

REPORTS

Heidrick & Struggles report: lack of priority in ESG and sustainability topics amongst directors

A report by Heidrick & Struggles, in collaboration with the Boston Consulting Group and INSEAD, explores the role of boards in the era of sustainability. The report is mostly based on a survey of 879 board members and suggests that boards need to re-evaluate their composition, focus, and transparency in the current environment. It highlights the need for boards to expand their knowledge on fast-moving topics like sustainability, integrate sustainability considerations into their company's business strategy, and improve disclosure around board composition and practices. Despite the increasing importance of these topics, the report suggests that these issues are not high priorities for many boards. Specifically, only 29% of the survey respondents consider sustainability and ESG to be top priorities. The report theorises that this may be due to a lack of understanding or expertise in these areas, something corroborated by a report from WTW and Nasdaq, summarised below.

Survey finds half of board members deem themselves unfit to address climate issues

A survey conducted by Willis Towers Watson (WTW) and Nasdaq revealed that nearly half of the board members surveyed believe they lack the skills to effectively address climate change issues. The survey, which included responses from over 200 board members, found that 49% of respondents felt they did not have the necessary skills to manage climate-related risks and opportunities. The survey also found that 43% of board members believe their organizations are not effectively measuring and disclosing climate-related risks. The most commonly cited governance risks include cybersecurity, data privacy, succession planning, board effectiveness, board compensation, diversity, regulatory compliance, and quality of disclosures. The survey suggests that boards need to address skill and knowledge gaps, evaluate whether ESG oversight responsibilities are appropriately divided, ensure management has a succession plan for all executive leaders, and enhance board effectiveness with new evaluation techniques.

Innovation drives the internal audit function of the future, according to BPER Banca's Chief Audit Officer

In an interview with McKinsey, BPER Banca's Chief Audit Officer, Marco Bini, discusses the transformation of the internal audit function. Bini highlights the importance of innovation and technology in driving this change. He emphasizes the need for internal auditors to adapt to new technologies, such as data analytics and artificial intelligence, to improve efficiency and effectiveness. Bini also stresses the importance of a risk-based approach and the need for auditors to be proactive rather than reactive. This transformation, according to Bini, will enable internal auditors to provide more value to the organization and contribute to its strategic objectives.

ecoDa News

- **17 and 18th of July:** Rytis Ambrazevicius, Philippe Decleire and Béatrice Richez-Baum attending the GNDI in-person meeting in London.
- **19th of July:** Kick-off meeting of the WG on SOEs.