

THE EUROPEAN VOICE OF DIRECTORS



#EUAAlert | Week 10

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EUROPEAN INSTITUTIONS DEVELOPMENTS

CS3D: A new opinion voted

Last week, the European Parliament's Committee on Internal Market and Consumer Protection (IMCO) adopted its position on the CS3D. Among the main highlights:

- Increased level of harmonisation to ensure legal certainty and the creation of a level playing field for companies;
- Introduction of the concept of 'force majeure' so that companies cannot be responsible for unforeseeable events that lie outside the control of and cannot be avoided in spite of the exercise of all due care;
- A proportionate and risk-based approach should be adopted;
- Group-level due diligence, as well as simplified reporting, should be made possible;

At a roundtable organised by BusinessEurope this week, where ecoDa was represented by Pascal Durand-Barthez, MEPs Abir Al-Sahlani and Axel Voss, shared some insights:

- A more likely compromise to be found at the European Parliament regarding the scope is companies with more than 500 employees, with a lower scope (companies with more than 250 employees) for high-risk sectors;
- The list of high-risk sectors should be shortened;
- The European Parliament should better define what value chain means;
- Directors' duties should not be part of this directive.

EBA; Report on the benchmarking of diversity practices and the gender pay gap

The European Banking Authority (EBA) published its Report on diversity practices and the gender pay gap at the level of the management body:

- Already 27.75% of non-executive directorships are held by women;
- Only 18.05% of executive directors are female;
- Gender balance in Northern and Eastern Europe is generally better than in other parts of the EU;
- 27.05% of institutions still lack the mandatory diversity policy;
- A clear positive correlation between gender balance and Return on Equity (RoE) exists;
- Women earn on average 9.48% less than male executive directors and 5.90% less than male non-executive directors.

On International Women's Day, ecoDa and Ethics & Boards released a similar study, the Barometer of gender diversity in governing bodies in Europe. In 2023, 80.7 per cent of Stoxx Europe 600 have at least 33.3 per cent women on their boards as required by the directive. More than half even have a percentage higher than 40 per cent. By contrast, the number of women chairing a listed company, remains disappointingly low with a European average of 11.2 per cent in Stoxx Europe 600.

INTERNATIONAL DEVELOPMENTS

US: Congress votes to block ESG investing, Biden veto expected (Reuters)

The U.S. Senate voted 50-46 to adopt a resolution to overturn a Labor Department rule making it easier for fund managers to consider environmental, social and corporate governance, or ESG, issues for investments and shareholder rights decisions, such as through proxy voting. The White House has said Biden will veto the measure. Republicans claim the rule, which covers plans that collectively invest \$12 trillion on behalf of 150 million Americans, would politicize investing by allowing plan managers to pursue liberal causes, which they say would hurt performance.

Activist group 'Follow This' files resolutions against oil majors (Minerva Analytics)

International climate campaign group Follow This has filed shareholder resolutions against four of the world's largest oil and gas companies (including Shell, BP, Chevron and Exxon Mobil) urging them to take swifter action to cut greenhouse gas emissions. The motions urge the companies to set clear targets to reduce their scope 3 emissions by 2030, in order to meet the goals of the Paris Climate Agreement. The activist group calls on shareholders and major investors to restore momentum in 2023 and compel major oil firms to support the energy transition.

The Audit Gender Gap: Has it narrowed? (CFA Institute)

CFA Institute looked at the names of the lead engagement partners of the largest public US companies to determine what percentage were women. In 2021, there were nearly 40% more S&P 500 female lead engagement partners than four years prior, with the number of lead engagement partners rising from 79 (14.6%) to 102 (20.4%). In the S&P 100, progress has been even more significant. The number of female lead engagement partners has more than doubled from 11 (11%) to 24 (24%). So, progress has been made, but there is much room to improve, with women comprising nearly 50% of those entering the accounting profession.

EUROPEAN DEVELOPMENTS

EFRAG: Series of educational videos on the first set of draft ESRS

EFRAG released a series of educational videos dedicated to the First set of draft ESRS, which were released to the European Commission in November 2022. This series is composed of 20 videos:

- the "Glimpses" will give you an overview of the standards and;
- the "Educational sessions" will cover the draft standards in more details.

ecoDa and ECIIA (the European Confederation of Institutes of Internal Auditing) are working on a similar project to help board members prepare for this new reporting requirements.

Executive compensation schemes are more and more indexed to ESG but little effects

A joint study by researchers at the Leadership Institute at London Business School (LBS) and PwC UK, analysing the carbon targets at 50 of the top major European companies, shows that companies are increasingly using carbon targets as part of executive pay outcomes (78%). However, only 14% of companies meet investor expectations that targets should be significant, measurable and transparent. The most common problems were a failure to disclose targets transparently and the lack of a clearly explained link to the trajectory of long-term net zero goals.

NATIONAL DEVELOPMENTS

Spain: to approve new gender parity law to break 'glass ceiling' (Euractiv)

The Spanish government will approve a new law on equal representation of women and men in decision-making bodies, including the boards of directors of large companies. The new gender parity law provides that women must make up at least 40% of the board of directors of any listed company or public interest entity with more than 250 workers and an annual turnover of €50 million. The measure also applies to any governing board of professional associations and juries that award prizes or recognitions financed with public money.

ARTICLE

6 things audit committee members often won't say to internal audit (Audit Beacon)

Relationships between audit committees and chief audit executives (CAEs) have become increasingly more complex as the risks facing organizations have become more diverse and dynamic. But this relationship is often complicated by personal dynamics. Often, audit committees are uncomfortable pointing out to the CAE what internal audit could do better, such as:

- The information internal audit provide is not as valuable as what audit committees hear from the external auditors;
- Internal audit send too much written information: the method of communications must be reconsidered;
- Internal audit should connect the dots so audit committees can get the full picture;
- Internal audit should focus on more than just financial controls;
- Internal audit should bring their own voice — not be a mouthpiece for management.

ecoDa News

- ecoDa is delighted to welcome the Corporate Governance Professional Association in Ukraine as its first candidate member;
- **SAVE THE DATE: 30th of March** (from 11.00 to 12.00 CEST): Joint ecoDa, EY webinar on "Linking executive pay to sustainability goals: practical consideration";
- **16th of March:** Third day of ecoDa's European Board Diploma with 30 participants;
- **17th of March:** ecoDa's Advocacy Committee meeting.