ESG UPDATE
EXECUTIVE SUMMARY
DECEMBER 2022

Global ESG Disclosure Regimes

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EXECUTIVE SUMMARY

GENERAL

- Accenture released a research report that revealed a marked increase in the percentage of global banking institutions that have endorsed the TCFD framework. Accenture noted a 131% increase in the number of banks endorsing TCFD since Q2 of 2020. Institutions making these endorsements now account for 60% of banking assets worldwide, and their disclosures are maturing. Accenture found, however, that disclosure challenges remain across all four of the TCFD pillars. The Strategy pillar is the most problematic, particularly in the disclosure of how climate issues have been integrated into strategic planning.
- Reacting to political pressure in the U.S., Vanguard announced it was withdrawing from the Net Zero Asset Managers initiative. Vanguard stated it was withdrawing so that, "we can provide the clarity our investors desire about the role of index funds and about how we think about material risks, including climate-related risks—and to make clear that Vanguard speaks independently on matters of importance to our investors." Vanguard's decision is widely seen as a reaction to the vocal pressure from federal and state Republican officials in the U.S. over the ESG practices of the major investment houses. The incoming GOP majority in the U.S House of Representatives has promised to investigate ESG investing practices.

EUROPEAN UNION

- The President of the European Parliament and the President of the Council of Ministers signed the Corporate Sustainability Reporting Directive. This follows the November adoption of the Directive by the Parliament and Council. The CSRD has now been published in the EU Official Journal and will take effect on January 5, 2023. This triggers the requirement for EU Member States to transpose the CSRD into their national laws. Member State have 18 months to complete this step.
- The Chair of EFRAG's Sustainability Reporting Board said the body has developed a universe of around 1,000 data points for corporate reporting under its European Sustainability Reporting Standards. While regulated companies will not have to report data for all 1,000 criteria, the SRB Chair noted that a given company will need to disclose against around 300 of them and provide data for other criteria deemed to be material to the corporation. EFRAG is working on the next sets of ESRS: one set focused on sector-specific disclosures, and a second for smaller companies.

- The European Commissioner for Financial Stability reiterated the EU's Commitment to driving interoperability with the anticipated ISSB standards. In published remarks, she noted the concept "to establish an interoperability mapping table between the two sets of disclosure requirements once the European and international climate reporting standards are finalized." She also announced that Brussels plans to open the CSRD audit market for sustainability standards to independent assurance service providers.

United States

- Republican SEC Commissioner Hester Peirce, in published comments, urged issuers to consider all of the "extremely challenging" elements of the Commission's proposed Climate Disclosure Rule. Noting that most commenters had focused on the draft Scope 3 disclosures and financial statement amendments in the Proposed Rule, Commissioner Peirce called attention to numerous additional provisions in the draft that she believes will increase compliance costs and cause confusion while yielding little to no material benefit. The Commissioner believes that several elements are far too prescriptive and – rather than serving as mere disclosure requirements – may impact the substance of how companies operate.
- Republican members of the U.S. House of Representatives filed legislation to circumscribe the SEC's ability to impose disclosure requirements on public companies. If enacted, the bill would allow the Commission to impose such obligations only when it "expressly determines that there is a substantial likelihood that a reasonable investor of the issuer would consider the information disclosed to the commission under the requirement to be important with respect to an investment decision regarding the issuer." While the bill does not reference explicitly the SEC's proposed Climate Disclosure Rule, that rulemaking is clearly a target of the legislation. The GOP will hold the majority in the House in the 118th Congress but the Democrats still control the Senate and the White House.
- The Republican staff of the Senate Banking Committee released a report entitled, "The New Emperors: Responding to the Growing Influence of the Big Three Asset Managers." The report took aim at the index fund voting practices of BlackRock, State Street and Vanguard, financial firms that collectively hold approximately $20 trillion in assets under management. The report stated: "Each of these firms proudly uses the voting power gained from their investors' money to advance liberal social goals known as ESG and DEI." The report advanced seven recommendations, including Congressional investigations, compliance review, and legislative and regulatory reforms. BlackRock "respectfully

disagreed" with the report, stating that its "conclusions are built on flawed premises and risk harming millions of everyday investors."

United Kingdom

- The UK's Financial Conduct Authority provided guidance to companies in meeting their climate-related financial disclosures. The FCA noted that its initial review of TCFD-aligned disclosures by premium listed commercial companies (published July 2022) identified "some common reporting gaps and areas for improvement." The FCA offered a list of recommendations for companies to consider and stressed the importance of aligning with TCFD and SASB, particularly in anticipation of the ISSB standards. The FCA is also considering "moving to a mandatory compliance basis."

IFRS-ISSB

- In its December 2022 meeting in Montreal, the ISSB took steps to "ground its standard-setting work by clearly articulating the relationship between sustainability matters and financial value creation." Specifically, the ISSB *tentatively* decided to clarify the objective of Exposure Draft IFRS S1 ("General Requirements for Disclosure of Sustainability-related Financial Information") by building on concepts from the Integrated Reporting Framework. These concepts help companies "articulate how they use and effect resources and relationships for creating, preserving and eroding value over time."
- On December 29, the IFRS Foundation entered into a Memorandum of Understanding with the Ministry of Finance of China to establish a Beijing office of the IFRS Foundation. The agreement is another step forward in driving global consistency around sustainability disclosures. The Beijing office will focus on "leading and executing the ISSB's strategy for emerging and developing economies, acting as a hub for stakeholder engagement in Asia, facilitating deeper co-operation and engagement with stakeholders, and undertaking capacity-building activities for emerging economies, developing countries and SMEs."