Latest Developments in Governance, Stewardship and Sustainability

Valoris
Stewardship Catalysts

March 2023

TNFD releases the fourth and final framework

On March 28, 2023, the Taskforce on Nature-related Financial Disclosures (TNFD) released the fourth and final beta framework, with the following changes:

- It streamlined the 3,000 nature-related metrics identified in 2022 and established 'core global' and 'core sector' disclosure metrics.
- It adapted the notion of 'Scopes' (Scopes 1-3 in climate reporting) to the nature context as 'direct' operations, 'upstream', 'downstream' and 'financed'.
- It introduced modified priority location screening criteria, allowing large companies to prioritize their focus for analysis.
- It included new draft guidance for sectors (agriculture, food, energy, and mining and metals). Guidance for other sectors (forestry, aquaculture, infrastructure and real estate, textiles and apparel, and chemicals and pharmaceuticals) will be published by September.

India welcomes a new, balanced and comprehensive ESG regulatory framework

On March 29, 2023, in an effort to facilitate a balanced approach to ESG, the Securities and Exchange Board of India (SEBI) approved the regulatory framework for ESG disclosures, ratings and investing and amendments to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and SEBI (Mutual Funds) Regulations, 1996. The following table provides a summary of the key decisions made.

Aspect	Key decisions	Applicability
ESG disclosures	• Introducing the Business Responsibility and Sustainability Report (BRSR) Core, which contains a specific group of Key Performance Indicators (KPIs) for which listed entities need to obtain reasonable assurance.	• Applicable to the top 150 listed entities (by market capitalization) for FY 2023-24, and then gradually extends to the top 1000 listed entities by FY 2026. • Applicable to the value chains of the top 250 listed entities (by market capitalization) from the FY starting April 2024 with respect to the disclosure requirement and from the FY 2025 for the assurance requirement.
ESG Ratings	• ESG Rating Providers (ERPs) need to consider India/Emerging Market parameters in ESG Ratings. • A regulatory framework for ESG Rating Providers in Securities Market will be introduced as a new chapter in the SEBI Credit Rating Agencies Regulations. This framework will enhance transparency in ESG rating rationales and introduce measures to mitigate conflict of interest by ERPs.	• Assumed to have the same applicable dates as the above since EPRS need to provide a separate category of ESG Rating 'Core ESG Rating', based on the assured parameters under BRSR Core.
ESG Investing	• ESG schemes need to invest at least 65% of AUM in listed entities that undertake assurance on BRSR Core. A new scheme category will be introduced to enable the launch of multiple schemes on ESG-related factors. • Asset Management Companies (AMCs) need to obtain third-party assurance on compliance with objectives of the ESG scheme, enhance disclosures on voting decisions with focus on ESG factors and disclose commentary and case studies to show how the ESG strategy is applied to fund investments.	• Ongoing

The Net Zero Company Benchmark undergo significant enhancements

Following the consultation made with investor signatories, on March 30, 2023, the Climate Action 100+ Initiative released an updated Net Zero Company Benchmark (Benchmark 2.0). Benchmark 2.0 is an assessment tool for engagement intended to be used by investors. The revised Benchmark's enhancements/changes focus on emissions reductions, alignment with 1.5°C pathways and robust net-zero transition planning. The specific changes to the individual, systemized indicators can be summarized as follows:

Indicator/element	Change status and type
Disclosure Indicator 1: Net Zero GHG Emissions by 2050 (or sooner) ambition	Unchanged.
Disclosure Indicator 2: Long-term GHG Reduction Target(s)	Only minor enhancements to the underlying sectoral methodologies for some of its sub-indicators, based on TPI Centre's Carbon Performance assessments.
Disclosure Indicator 3: Medium-term GHG Reduction Target(s)	Only minor enhancements, including: (1) the time frame for assessment has been postponed by one year; and (2) an additional new beta sub-indicator to assess if focus companies that have only set emissions intensity targets have converted these into absolute emissions.
Disclosure Indicator 4: Short-term GHG Reduction Target(s)	Only minor enhancements, including: (1) the time frame for assessment has been postponed by one year; and (2) an updated underlying methodological enhancement.
Disclosure Indicator 5: Decarbonization Strategy	Significant expansion, by: (1) adding new metrics on offsets, negative emissions technologies and abatement measures; and (2) moving the focus of sub-indicator 5.2 from EU taxonomy-based green revenues to a new sub-indicator on climate solutions.
Disclosure Indicator 6: Capital Allocation	Some enhancements, by: (1) embedding a stronger focus on company investments in climate solutions; (2) assessing if companies have committed to phasing out investments in unabated carbon-intensive assets/products.
Disclosure Indicator 7: Climate Policy Engagement	Some enhancements, by adding two new metrics: (1) metric 7.1.c to evaluate whether companies that commit to lobby in line with Paris Agreement goals also explicitly commit to conducting their policy engagement in line with the goal of restricting global temperature rise to 1.50C; and (2) metric 7.2.a to evaluate whether companies review the alignment of their own climate policy positions with the Paris Agreement.
Disclosure Indicator 8: Climate Governance	Unchanged, except for sub-indicator 8.3 (on Board climate competencies and capabilities) to include publicly disclosed assessments of all focus companies instead of only assessing Australian companies in a beta form.
Disclosure Indicator 9: Just Transition	Significant enhancements, including: (1) requiring company assessments against this indicator to be made public; and (2) streamlining and restructuring the indicator to include a stronger focus on a company's commitment to a Just Transition, its plan and the quantified KPIs it uses to track progress.
Disclosure Indicator 10: TCFD Disclosure	Unchanged.
Disclosure Indicator 11: Historical GHG Emissions Reductions	This whole indicator is a new introduction.
Climate Accounting and Audit Hybrid Assessments	Slightly enhanced to include "a more nuanced, granular scoring system at metric level, under which companies will receive a traffic light score (green/amber/red)'' instead of a yes/no score on climate accounting and audit metrics.
InfluenceMap Climate Policy Engagement	Expanded to include: (1) new aggregate scores of overall direct and indirect climate lobbying performance; (2) a new indicator assessing the accuracy and completeness of company climate lobbying disclosures; and (3) a new indicator evaluating how companies review and ensure alignment between their climate policy engagement activities and the goals of the Paris Agreement.
Carbon Tracker Initiative: Capital Allocation Alignment Assessments for utilities + oil and gas	Same, except that it will assess relevant focus companies against the IEA's Net Zero Emissions by 2050 (NZE) Scenario and Announced Pledges Scenario (APS) instead of the IEA's Beyond 2°C Scenario.
Rocky Mountain Institute Capital Allocation Assessments for aviation, automotive, cement, utilities and steel sectors	Expanded to include two new indicators: (1) for electric utilities and automotive sectors, assessing company aggregate alignment with the IEA's Net Zero Emissions by 2050 (NZE) Scenario; and (2) for only electric utilities, assessing whether they are decarbonizing their electricity generation and capacity, and if such changes at asset level are real.

Timeline

March 2023
Benchmark 2.0 launch

Late April – Late May 2023
Company Review Period for the Disclosure Framework

September/October 2023
Release of company assessments against the Benchmark 2.0 framework