Latest Developments in Governance, Stewardship and Sustainability

Valoris
Stewardship Catalysts

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CG Watch 2023: Unveiling Disparities in Sustainability and Corporate Governance Reporting

On December 13, 2023, the Asian Corporate Governance Association (ACGA) released its 11th biennial CG Watch report, presenting in Asia its latest assessment and ranking of corporate governance and ESG performance across 12 markets in the APAC region. Overview…A New Order: Biggest ranking reshuffle in 20 years examines these markets through seven different perspectives: Government & Public Governance, Regulators, CG Rules, Listed Companies, Investors, Auditors & Audit Regulators, and Civil Society & Media.

The report highlights a significant trend in the quality of sustainability and CG reporting over the past five to ten years. Sustainability reporting has become more sophisticated and dynamic, surpassing conventional ESG reporting by incorporating climate disclosure and a degree of financial analysis. In contrast, CG reporting has stagnated descending into 'boilerplate legalese, policy statements, and PR jargon.'

The report attributes this divergence to greater pressure on sustainability reporting compared to governance reporting. It suggests that listed companies face less pressure to provide detailed narratives or insights into the actual functioning of their boards. ACGA criticizes this imbalance, deeming it unhealthy and asserting that it hinders investors from accurately evaluating a board's contribution to a company's sustainability strategy and performance. The lack of information regarding the roles of directors and the reasons behind their appointments impedes investors' understanding of what boards truly accomplish or why specific directors were chosen in the first place and even affects the quality of board evaluations and skills matrices.

CG Watch 2023 market rankings and scores (%)

Market	Previous ranking	2023	2020	Change vs 2020 (ppt)
1. Australia	1	75.2	74.7	+0.5
2. Japan	=5	64.6	59.3	+5.3
=3. Singapore	=2	62.9	63.2	-0.3
=3. Taiwan	4	62.8	62.2	+0.6
5. Malaysia	=5	61.5	59.5	+2.0
=6. Hong Kong	=2	59.3	63.5	-4.2
=6. India	7	59.4	58.2	+1.2
8. Korea	9	57.1	52.9	+4.2
9. Thailand	8	53.9	56.6	-2.7
10. China	10	43.7	43.0	+0.7
11. Philippines	11	37.6	39.0	-1.4
12. Indonesia	12	35.7	33.6	+2.1

ICMA Releases Voluntary Code of Conduct for ESG Ratings and Data Products Providers

On December 14, 2023, the International Capital Market Association (ICMA) published a new, globally consistent, voluntary Code of Conduct for ESG ratings and data products providers. The Code incorporates recommendations from the International Organization of Securities Commissions (IOSCO) to ensure its 'international interoperability' and applicability in jurisdictions lacking local codes or regulations. The Code is structured around six principles: Good Governance; Securing Quality (Systems and Controls); Conflicts of Interest; Transparency; Confidentiality (Systems and Controls); and Engagement (Systems and Controls).

Under the first principle, ESG ratings and data products providers are expected to 'ensure appropriate governance arrangements are in place that enable them to promote and uphold the Principles and overall objectives of the Code'.

No.		
1.1	**Principle**	ESG ratings and data products providers should ensure appropriate governance arrangements are in place that enable them to promote and uphold the Principles and overall objectives of the Code of Conduct.
1.2	**Context**	*The purpose of this Principle is to ensure that ESG ratings and data products providers have appropriate governance and oversight arrangements in place necessary in connection with this Code of Conduct.*
1.3	**Actions**	ESG ratings and data products providers should have appropriate governance arrangements in place that:
1.4		(A) include a clear organisational structure with well-defined, transparent and consistent roles and responsibilities for personnel involved in the determination, publication, or oversight, as appropriate, of an ESG rating or of an ESG data product; and which
1.5		(B) enable them to follow the Principles set out in this Code of Conduct.
1.6	**Outcome**	*Appropriate governance arrangements ensure ESG ratings and data products providers are well-positioned to operationalise this Code of Conduct appropriately and ultimately enable appropriate management of conflicts of interest, ensure appropriate and transparent procedures, as well as support competent personnel and sufficient resources.*

Assessing SFDR PAI Reporting: Insights from Recent Reports on Developed and Emerging Markets

This month witnessed the release of several reports examining the implications of reporting under the Sustainable Finance Disclosure Regulation (SFDR) and offering insights into future trends. Sustainable Finance in Luxembourg 2023: An Expanded Overview conducted by the Luxembourg Sustainable Finance Initiative (LSFI) and PwC Luxembourg, revealed that over half of Luxembourg-based entities adhere to the 'comply or explain' obligation regarding reporting on the Principal Adverse Impacts (PAIs) of their investment decisions. However, a closer examination of their disclosures reveals that not all entities fully meet the reporting requirements, leading to highly heterogeneous reports.

Meanwhile, MSCI's Sustainability and Climate Trends to Watch 2024 anticipates challenges for many emerging-market companies in meeting the DNSH (Do No Significant Harm) criteria. The report notes difficulties related to the availability of 'good' and 'suitable for quantification' data, crucial for PAIs.

These findings underscore the importance of adopting a well-informed approach to address SFDR reporting requirements and emphasize the necessity of utilizing optimal options for collecting and estimating the data needed to meet such requirements.