Latest Developments in Governance, Stewardship and Sustainability

Valoris
Stewardship Catalysts

February 2024

Only One in Five EU Asset Managers disclosed an SFDR PAI Statement

This month, PwC Luxembourg released "Mind the Gap: Principal Adverse Impact Statements in the AWM Industry". The report presents an in-depth examination of the website disclosures of over 2,000 EU Regulated Management Companies subject to the Sustainable Finance Disclosure Regulation (SFDR) in nine European countries, including France, Germany and the Netherlands. The examination found that only one in five management companies publicly disclosed a Principal Adverse Impact (PAI) statement in 2022 and that only around 22% of these statements follow the PAI Template as provided by the Regulatory Technical Standards of the SFDR (SFDR Level II). This means that there is limited comparability between the issued statements, with varying degrees of quality and content.

E3G Assessment: Netherland's Development Bank Makes Strides Towards Paris Agreement Goals

A recent assessment conducted by E3G, an independent climate change think tank with a global outlook recognized the steady progress of the Dutch Entrepreneurial Development Bank (FMO) towards full Paris Alignment. The assessment was completed using the E3G Public Bank Climate Tracker Matrix, an online tool employing 15 metrics to measure the extent of Paris Agreement alignment within Development Finance Institutions (DFIs).

Key areas where FMO stands out as a leader include effective mainstreaming of climate change into its core strategic documents, strong procedures for greenhouse gas (GHG) accounting and reduction, as well as its significant commitment to complete fossil fuel phase-out by 2026 with its formulated comprehensive 'Transition Criteria'.

Notwithstanding this commendable progress, E3G recommended that FMO:

- extend its fossil fuel phase-out commitment to cover indirect investments;
- implement a zero net deforestation target and a screening process for biodiversity-positive co-benefits across its operations;
- enhance transparency in climate finance; and
- develop country-specific strategies to guide their engagement with clients.

Korea's Value Up Launch Disappoints?

Hoping to emulate Japan's achievements in increasing shareholder returns and enhancing share value through corporate governance reforms, South Korea's government and stock exchange outlined a set of measures kicking off a multi-year overhaul process. However, prospects for following in Japan's footsteps may be overstated due to fundamental differences in corporate structures: Korean corporates are controlled by a handful of powerful families with considerable political influence, while the challenge that faced Japanese policy makers was entrenched professional managers insulated from shareholder interests.

So far, the reception of the reform measures among investors has been tepid. Equities declined in the aftermath of the announcement. Investors voiced concerns over the absence of details and enforcement mechanisms. Investors will now look for signals of the government's willingness to take the initiative up a notch, adding sticks along its carrots. Failure to take more stringent measures will likely result in international investors remaining on the sidelines.

Stay tuned for a more detailed piece on the South Korean reforms in our upcoming newsletter by Mike Lubrano.