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ICGN Brief - 2022

ICGN Engagement in European Financial Reporting Advisory Group Consultation on Sustainability Reporting Standards (governance)

The International Corporate Governance Network (ICGN) has engaged actively in a public consultation held by European Financial Reporting Advisory Group (EFRAG) concerning draft European Sustainability Reporting Standards (ESRS). The ICGN, a leading authority that influences global corporate governance and investor stewardship standards, represents investors managing trillions in assets. The consultation centers on two categories of standards: cross-cutting ESRS and topical ESRS. The standards target different aspects of corporate sustainability and help to ensure comprehensive reporting based on the Corporate Sustainability Reporting Directive (CSRD). The drive towards sustainability aligns with ICGN's global governance principles, which inform many members' voting policies and company engagements. ICGN's involvement in EFRAG's consultation represents another stride in promoting corporate value, sustainable economies, societies, and environmental preservation. Feedback from this consultation will assist in the further refinement of European sustainability reporting standards.

Addressing Systemic Risks: Focus on Climate Change's Impact on Capital Markets (climate change)

There's an emphasis on the duty of investors and corporations to address systemic risks like climate change. These can threaten the viability of investments, often identified through disruption in technology, policy alterations, social risks due to wealth disparity, and environmental damage. The EU's Corporate Sustainability Due Diligence Directive encourages directors to consider sustainability matters such as climate change and human rights in their decision-making process. Acknowledging climate change as a major systemic risk, global consensus supports the commitment towards a net zero economy, making the financial sector vital in this process. Participants in capital markets worldwide are addressing these challenges to enable efficient capital allocation towards companies that can best respond to climate change through mitigation, adaptation, and provision of solutions. Ahead of COP26, the ICGN published a climate change responsibility statement to guide companies, investors, auditors, regulators, and standard-setters. They proposed the enhancement of board education on the risks intrinsic to the company due to climate change, alongside the emphasis on diversity and ESG-related expertise among board candidates.

Evaluation of Corporate Sustainability Policy Compliance and Improvements (nist)

The document discusses various regulations and evaluation processes to address sustainability and governance issues in organizations. The focus is on the International Sustainability Standards Board (ISSB), US Securities and Exchange Commission (SEC), and Canadian Securities Administrators' climate and sustainability reporting standards. EU policies and various other regulations are considered in this context, including those addressing financial market participants' disclosure obligations, sustainable finance disclosure requirements, and other specific regulatory directives. The disclosed information should provide an understanding of governance structures and responsibilities in organizations, from executive to operational levels. Topics discussed include diversity and nomination processes for management bodies, evaluation processes, remuneration policy, internal control processes, and the bodies' composition and meeting attendance rate. Feedback on these measures is solicited, addressing relevancy, verifiability, cost-benefit balance, consistency with EU policies, and alignment with international sustainability standards. Suggestions for improvements and further alignment are encouraged.

Overview of ICGN's Corporate Governance and Investor Stewardship Standards (environment)

The International Corporate Governance Network (ICGN) is a global entity that works on establishing corporate governance standards and investor stewardship. Its goal is to enhance long-term corporate value, contributing to sustainable economies, societies, and environment. The architecture of ICGN is designed to cover environmental, social and governance-related matters with information reported in a comprehensive manner. ICGN supports the EU's 'double' materiality approach requiring companies to report on how sustainability factors impact the performance of a company and how a company impacts society and the environment. Thus, ICGN recognizes climate change as a systemic risk to capital markets and to the broader society. The regulatory structure in the European Union is focused on identifying the environmental and social impacts of businesses on stakeholders and society at large. As part of its effort to promote transparency, ICGN calls for robust disclosures concerning systemic risks that can potentially threaten a company's viability.

Understanding Corporate Sustainability and its Impact on Business Value (business model)

Sustainable reporting focusing on climate is crucial for organizations as it impacts a company's financial performance, cash flows, strategy, and business model, promoting sustainable value generation. Non-financial reporting, sustainability due diligence, Corporate Sustainability Reporting Directive (CSRD) related topics, and other elements are becoming integral in corporate governance, contributing to enterprise value. The corporate sustainability reports include strategy and business model, governance and organization, and materiality assessment, among others. It is essential that the entity's implementation of its sustainability frameworks is clearly reported. Companies face several risks, including business model threats, cybersecurity threats, performance risks, solvency, liquidity, and reputation. Therefore, overseeing risk management is critical. Disclosures, such as the commitment to net zero carbon emissions and adaption of business models, and plans to align with this commitment, as well as the impact of physical and transition risks on business strategies, help investors understand the future prospects of a company. The board should assess the impact of climate change on the company's business model and adapt it to meet a net zero economy's needs. Risk oversight should extend beyond financial aspects to include human and natural capital, and systemic risks identified in the United Nations Sustainable Development Goals.

Evaluation and Improvement of Corporate Greenhouse Gas Emissions Disclosure Standards (greenhouse gas emissions)

An examination of disclosure standards relating to corporate greenhouse gas (GHG) emissions shows that there is certain information required, which includes details about sustainability, relevant sector-agnostic information, and aspects that can be verified or assured. These standards also need to meet objectives of the Corporate Sustainability Reporting Directive (CSRD) regarding the quality of information. The standards should maintain a balance between cost and benefits, align with relevant EU policies and legislation, and be compatible with international sustainability standards. Moreover, clear information should be prioritized in the first year of implementation, and these standards should be suitable for conversion into digital reporting taxonomy to avoid practical complexities or misunderstandings. There is a call for clarity on why costs would be high and the specific benefits of this disclosure requirement. Certain aspects of the European sustainability reporting obligation are thought to be inadequately addressed by these requirements. Beginning with scope 1, 2, and 3 GHG emissions, institutions including ICGN support mandatory disclosure. This includes governance details, transition plans, scenario analysis, GHG emissions disclosure, and financial statements. More corporations and investors are aiming for net zero GHG emissions by 2050 or earlier, with different performance benchmarks set for the near, medium, and long-term. As per the IPCC special report, GHG emissions need to drop by about 45% by 2030 to reach net zero by about 2070. Thus, mandating the disclosure of scope 1 and 2 greenhouse gas emissions is contemplated in proposed rules.
