The greening of AGMs

Liz Cole focuses on growing investor concerns over environmental issues in the 2023 annual general meeting season – plus latest governance and reporting developments.

Environmental concerns remain a hot topic among annual investor demands in the current AGM season. Aviva is prioritising the need for a just transition, early preparation for nature-related reporting (TNFD) and the cost-of living crisis, and the LAPF Forum is repeating its 2022 call for all companies to table a 'Say on Climate' vote. Meanwhile, the Investment Association has announced that Institutional Voting Information Service is increasing its diversity targets, with red tops for FTSE 350 and small cap companies that fail to meet gender diversity targets.

There have also been further updates to proxy voting guidelines with a focus on the impact of the energy and cost of living crises, with investors and proxies expecting remuneration committees to be mindful of the wider economic backdrop and broader stakeholder experience.

Investors are also increasingly wary of 'greenwashing', and therefore expect ESG metrics in executive incentive plans to be specific, tangible, meaningful, measurable and, above all, linked to the individual company's broader strategy on ESG, with LGIM going further and demanding third-

Liz Cole is head of policy and communications at the IR Society.
liz.cole@irsociety.org.uk

IR INDUSTRY NEWS

party verification of environmental and social targets. Other concerns include:

- climate accountability for boards or individual directors/chairs;
- 'overboarding';
- board diversity;
- cyber risk oversight; and
- frequency of audit committee meetings.

For more on AGMs, see 'The 2023 AGM season: What will dominate discussions?' on page 14.

The Financial Reporting Council also outlined its expectations for the 2023 reporting season, including a project on 'significant votes against' and its ongoing review of companies' reporting on the Code's risk management and internal controls requirements (Provision 29) to feed into the upcoming governance and reporting reforms (which I covered in my article 'Building trust in corporate governance' in last issue of *Informed*, number 117).

Edinburgh reform proposals awaited

The 'Edinburgh reforms' announced in December are a package of reforms the government hopes will drive growth and competitiveness in the UK financial services sector. They aim to allow the UK markets to differentiate themselves from Europe, with retained EU law 'lifted and shifted' across areas such as the prospectus regime and short selling (see HMT's recent 'call for evidence'). The Investment Research Review has also been launched to examine the link between the quality and quantity of UK investment research and the attractiveness of the UK markets.

We await the recommendations with interest given the recent press attention on the relative attractiveness of the London and New York markets.

Corporate governance and stewardship update

The Quoted Companies Alliance (QCA) has published a review of its Corporate Governance Code, followed by most AIM companies, finding that the code has encouraged improved disclosures, communication and better engagement with stakeholders. The QCA is updating the code this year but it will aim to continue to 'walk the line between credibility and flexibility in support of growth'.

Meanwhile the FRC has produced a three-page myth-buster to help dispel corporate governance and stewardship misconceptions, and has published the latest list of UK Stewardship Code signatories, which has increased to 254, bringing the total assets under management of the list to £46.4tn.

The Investor Forum's latest 'Annual Review' argued that more work is needed to enhance relationships between companies and investors. The Forum also wrote to FTSE chairs in the wake of

Cyber security – improved G-7 tools

The Department for Digital, Culture, Media & Sport (DCMS) is calling for views by 1st May on cyber security risks of software used by businesses and organisations, and where government should seek to mitigate them.

Meanwhile, recent updated G-7 guidance on the fundamental elements for the effective assessment of cyber security provides tools to guide and drive internal and external discussions on risk management decisions critical to cybersecurity, for example, to help inform board discussions and board oversight.

Tulchan's 2022 'State of Stewardship' report, calling for a new group to be formed to ease stewardship concerns and to settle contentious topics such as executive pay and 'overboarding'.

The Financial Conduct Authority's discussion paper for asset management entitled 'Finance for positive sustainable change: governance, incentives and competence in regulated firms' explores how current practices and regulatory initiatives may need to evolve to support the industry. Of most interest for IR professionals are the sections dealing with 'ongoing information needs of investors' and 'improving investor engagement through technology'.

The 2023 update from the Parker Review has set new ethnic diversity targets for FTSE 350 senior management, to help improve the 'pipeline' by December 2027. Encouragingly, the 2023 FTSE Women Leaders Review has found that FTSE 350 companies have already met the 2025 target of 40% women on boards, although progress is still needed for senior management and for senior roles – chair, senior independent director, CEO and FD.

The FCA is also encouraging companies to report early against the FCA's new gender and ethnic diversity targets (see industry news in *Informed* 115).

Climate litigation is on the rise

A range of novel and creative claims are being brought in the English courts, with environmental charity ClientEarth filing the first derivative action against a board of directors over failure to properly prepare for the energy transition. ClientEarth issued a claim in its capacity as a shareholder against Shell's board of directors, with the support of some institutional investors, alleging that Shell's board is not doing enough to prepare for the net zero energy transition and is failing to manage climate change risks.

ClientEarth is also challenging the FCA over Prospectus Climate Risk exposure by seeking a judicial review in the High Court, claiming that the FCA unlawfully approved the IPO prospectus of a UK oil and gas company, which allegedly failed to adequately describe the climate-related risks associated with the company in its prospectus.

If successful, this application could have wide ramifications as it could lead to compensation claims, so corporates operating in sectors where there is clear

continued overleaf

Sustainability reporting: latest UK and international moves

The **Financial Reporting Council**'s updated statement of intent on ESG sets out actions for preparers to produce decision-relevant information, and the FRC's plans to engage with the market to ensure that stakeholder needs are being met as demand for ESG information continues to evolve.

In this report, the FRC reaffirms its continued commitment to working towards international interoperability, supporting efforts towards a common international framework for sustainability disclosures and their 'assurability'. Key areas of focus include materiality, ESG Data, ESG reporting under the Corporate Governance Code and the link between investors and ESG reporting. See also the current FRC Lab projects on ESG data usage and materiality.

The **International Sustainability Standards Board** (ISSB) is ramping up its activities to support global implementation ahead of issuing inaugural standards in June 2023, taking its final decisions on all the technical content of its two initial standards.

The ISSB has agreed for IFRS S1 and IFRS S2 to be effective from January 2024, to allow businesses to collect sustainability disclosure information for the 2024 reporting cycle for inclusion in their 2025 reports. The ISSB also agreed to reference the European sustainability reporting standards (ESRS) within the climate-related reporting S1 appendix 'as a source of guidance companies may consider, in the absence of a specific ISSB standard, to identify metrics and disclosures if they meet the information needs of investors.' The ISSB is expected to consult in May 2023 on its future work programme and on the internationalisation of the SASB standards.

Meanwhile, **the European Union** continues marching ahead on various sustainability reporting fronts, which will impact on companies doing business there – not just in relation to the recently agreed corporate sustainability reporting directive (CSRD) which sits above the ESRSs, but also on supply chain due diligence and deforestation. Businesses active in the EU will need to start thinking about communicating with their supply chains to understand the source of their materials.

The EU is also addressing the problem of 'carbon leakage' (movement of carbon-intensive production abroad), proposing that, as from January 2026, importers must buy 'carbon certificates' reflecting the carbon price that would have been paid for the products under the EU's carbon pricing rules.

As a backdrop to these sustainability reporting developments, the **World Economic Forum**'s '18th edition of Global Risks Report' cites failure to mitigate climate change and failure of climate change adaptation as the top two long-term risks, with the 'cost-of-living crisis' the most severe global risk over the next two years and 'biodiversity loss and ecosystem collapse' one of the fastest deteriorating global risks over the next decade. Two new entrants to the top rankings are 'widespread cybercrime and cyber insecurity' and 'large-scale involuntary migration'.

climate-related risk should be keeping a close eye on this application.

Even if the application is rejected, it serves as a timely reminder that the FCA is likely to play an increasing role in the pursuit of the UK's climate goals given the Financial Services and Markets Bill 2023 (currently before Parliament) will require the FCA to contribute towards achieving compliance with the UK's climate goals when discharging its regulatory functions.

Corporate reporting

Company reporting of current business model and its evolution assists stakeholders in assessing sustainability, viability and resilience. The FRC Lab is seeking participants for its latest review of business model reporting, to examine how this reporting has evolved, including how it is described, how the business model is used as a driver for other disclosures across the annual report and accounts and how it can provide the most useful information for stakeholders.

The FRC's supervisory focus for 2023/24 will prioritise the travel, hospitality and leisure, retail, construction and transport sectors for its corporate reporting reviews, with thematic reviews to include TCFD metrics and targets, and large private companies.

BEIS - which has now been split between the new Department of Energy Security and Net Zero (DESNZ) and the new Department for Business and Trade (DBT) – is consulting on changes to payment practices reporting.

This would require reporting businesses to include their payment practices and performance information in their directors' report and introduce further validation, for example from the audit committee (comments due by 28th April). This could result in yet more disclosure requirements for directors' reports, which will perhaps not be welcome news in light of the QCA's recent review demonstrating the ever-increasing size of annual reports.

Society responses

The Society commented on the proposed UK disclosure framework for transition plans, supporting the proposals but calling for more flexibility in the way transition plans are published so that companies are permitted to include them

> “IR Society calls for more flexibility in disclosure framework for transition”

in their annual report or other relevant reports (eg, sustainability or climate reports), instead of being required to publish them as standalone reports. The Society has also written to the FRC seeking dialogue over government plans to increase shareholder engagement with audit and risk.

Takeovers

The Takeover Panel's new rules on 'acting in concert' came into force on 20th February, which are particularly relevant for investment entities and joint ventures, raising the threshold at which entities within a group are presumed to be acting in concert from 20% to 30%. ■

Recent CIR and ICIR passes

The IR Society would like to congratulate the following candidates who passed the CIR or ICIR from December 2022 to February 2023.

Abdulaziz Shahadah – MEIRA
Abdulkareem AlMalki – MEIRA
Ahmed Alhezab – MEIRA
Aijing Zhang – Brunswick Group
Alanoud Almoudaifer – MEIRA
Ali Alateeq – MEIRA
Ch'ng Geik Ling – MIRA
Chloe Broadbear – Trainline
Dinara Iskakova – Air Astana JSC
Duma Siahaan – Nobian
Essam Alkurdi – MEIRA
Faisal Arab – MEIRA
Faisal Shami – MEIRA
Fawaz Dubaikel – MEIRA
Frederic R Simoes – Novartis Pharma Services AG
Hamish Docherty – Weber Shandwick
Hannah Campbell – Alma PR
Ibrahim Al-Tuwaijri – MEIRA
Ibrahim AlKhudair – MEIRA
Jana Lyra Manlangit – Metro Pacific Investments Corporation
John Gollifer – MEIRA
Karoline Parker – Mercedes-Benz
Khalid Ahmed – MEIRA
Khalid Alsheikh – MEIRA
Louisa Henry – Powerscourt
Maha AlOhaly – MEIRA
Matthew Holland – MERIA
Mohammad Alzamil – MEIRA
Mohammad Makhdoom – MEIRA
Nawaf Alnasser – MEIRA
Nawaf Alotaibi – MEIRA
Nojoud Al-Daajam – MEIRA
Osama S Al-Khalifah – MEIRA
Paul Fincham – London Stock Exchange Group
Peter Hutton – MEIRA
Rakan AlQahtani – MEIRA
Rami Fahmi – MEIRA
Saad Al-Shabanat – MEIRA
Simon Wright – IG Group
Stella Octaviani Bustan – PT IR Advantage
Tareq Al-Zahrani – MEIRA
Tom Davies – Teneo
Wafa Alghamdi – MEIRA
Yasmeen Naim – MEIRA
Yee Phui Yoke – NagaCorp Ltd.
Yousef Alablani – MEIRA

For more information, please contact Tara Mitchell at tara.mitchell@irsociety.org.uk