NAVIGATING ESG LEGISLATIVE DEVELOPMENTS AND STAKEHOLDER EXPECTATIONS

A PUBLIC AFFAIRS PERSPECTIVE

June 2023

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ESG ORIGINGS

UN report, 2004: highlighted the importance of integrating environmental, social, and governance factors into investment decisions. This influential report played a pivotal role in shaping the ESG landscape and promoting the idea that sustainable business practices can lead to positive financial outcomes.

Environmental

- Climate change and carbon emissions
- Air and water pollution
- Biodiversity
- Deforestation
- Energy efficiency
- Waste management
- Water scarcity

Social

- Customer satisfaction
- Data protection and privacy
- Gender and diversity
- Employee engagement
- Community relations
- Human rights
- Labor standards

Governance

Board composition

- Audit committee structure
- Bribery and corruption
- Executive compensation
- **Lobbying**
- Political contributions
- Whistleblower schemes

www.cfainstitute.org

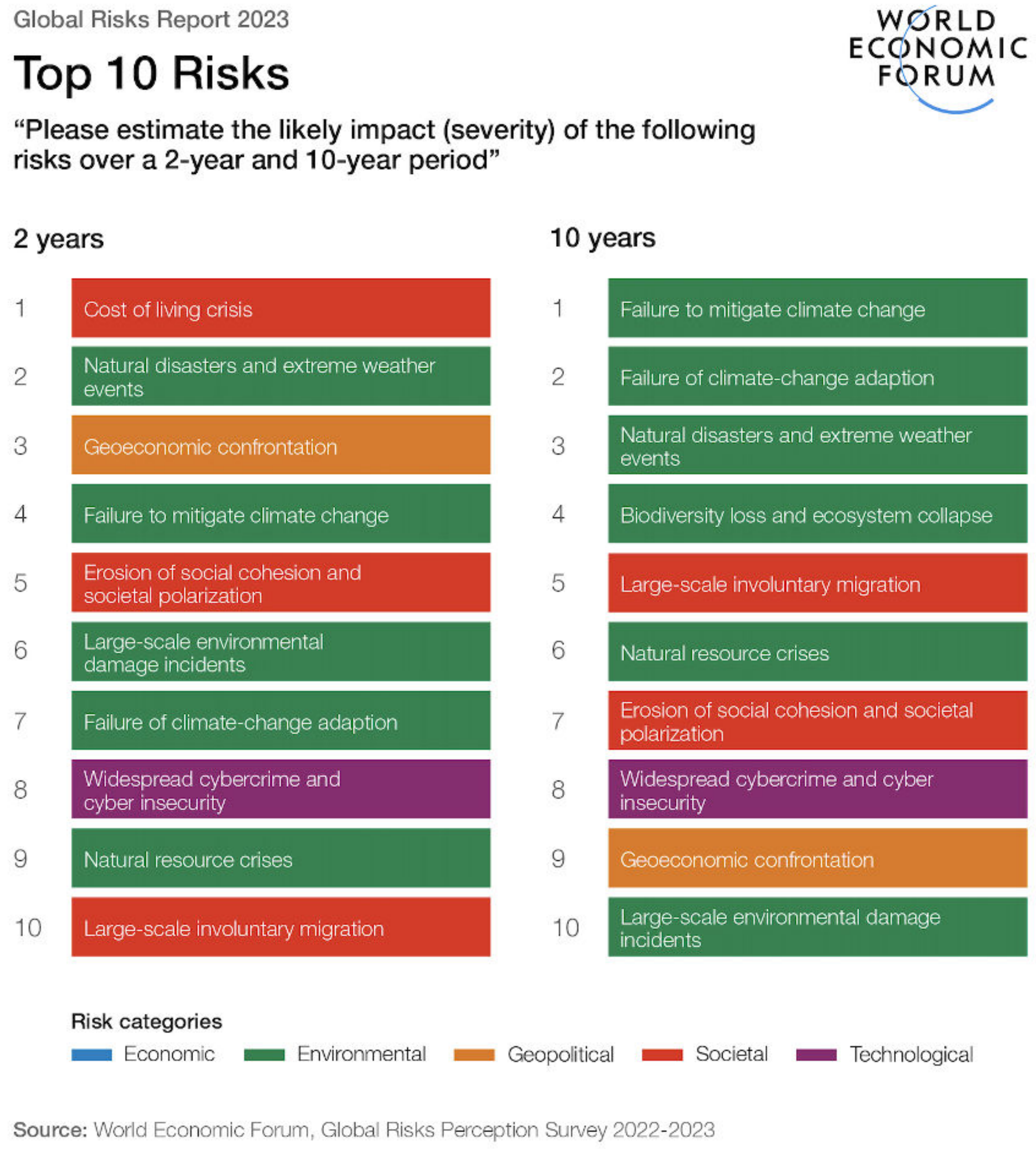
GROWING DEMAND ON ESG

ESG RISKS

TOP 10 RISKS

2025

2033



https://www3.weforum.org/docs/WEF_Global_Risks_Report_2023.pdf

EU REGULATORY RESPONSE

EUROPEAN UNION: FIRST NET-ZERO CONTINENT?

- The Von der Leyen Commission has made hugely ambitious strides towards making Europe the first net-zero continent.
- The *European Green Deal* provides the EU's overarching framework to promote the transition towards reducing greenhouse gas emissions, which in turn could create opportunities for the development and deployment of clean energy technologies.
- The *Fit for 55 Package* aims to have a significant impact on various sectors, including energy, transportation, and buildings, which are all key areas that contribute to carbon emission activity.

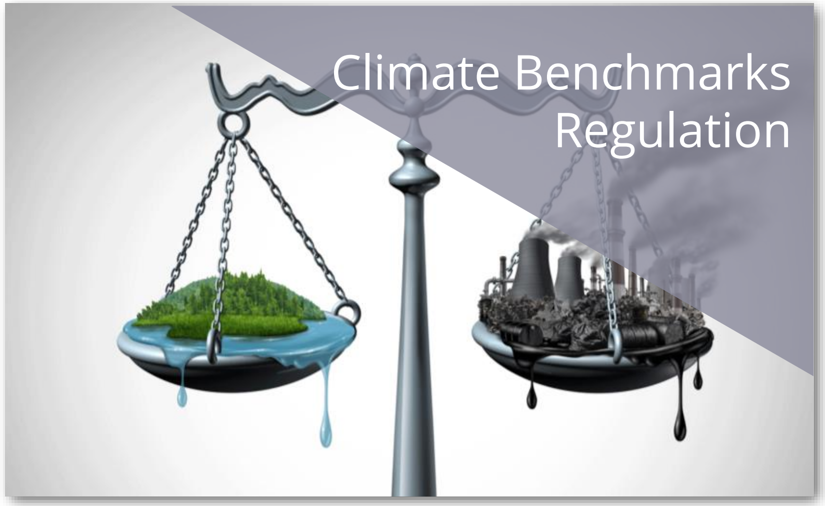
EU SUSTAINABLE FINANCE STRATEGY AND IMPLEMENTATION OF THE ACTION PLAN OF FINANCING SUSTAINABLE GROWTH

Financing Sustainable Growth

Reorient capital flows towards sustainable investment	Mainstream sustainability into risk management	Foster transparency and long-termism
Establishing an EU classification system sustainable activities Creating standards and labels for green financial products Fostering investment in sustainable projects Incorporating sustainability in financial advice Develop Sustainability benchmarks	Better integrating sustainability in ratings and market research Clarifying institutional investors' and asset manager duties Incorporating sustainability in prudential requirements (ie. SFDR)	Strengthening sustainability disclosures and accounting rule making Fostering sustainable corporate governance and attenuating short-termism in capital markets

European Commission, DG FISMA

THE EU'S LEGISLATIVE AND REGULATORY MEASURES UNDER THE ACTION PLAN ON FINANCING SUSTAINABLE GROWTH (NOT FULL LIST)



SUSTAINABLE FINANCE DISCLOSURE REGULATION (SFDR)

Context

- (Level 1) financial market participants and financial advisers to provide transparency to **end-investors** with regard to the **integration of sustainability risks** and the **consideration of adverse sustainability impacts** in their **processes.** Disclosures apply from 10 March 2021
- (Level 2) to provide further clarity on how to present information and the methodologies to apply. Disclosures apply from 1 January 2023.

Content

Entity level: there are requirements for disclosures, integration of sustainability risks in investment decision-making, and disclosure of adverse sustainable impacts. The integration of sustainability risks in remuneration policies is emphasized.

Product level: there are obligations for disclosures, information on products promoting environmental and social characteristics, and consideration of sustainability risks in investment decision-making. The periodic reporting must include the consideration of adverse sustainable impacts, while explanations of non-relevance are also required for sustainability risks and adverse sustainable impact considerations.

What it entails

- Aims to combat greenwashing and enhance transparency.
- The regulatory uncertainty and interpretational challenges at the company level introduce complexity.
- This transformation affects the ESG/sustainable investment market and requires amendments to various regulations, including UCITs, Solvency II, AIFMD, CRR, MiFID II
- Member states must ensure that competent authorities monitor compliance with the regulations, granting them necessary supervisory and investigatory powers.

CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD)

Context

- Effective from January 5, 2023, amends the Non-Financial Reporting Directive (NFRD).
- It **expands** the directive's scope to include all **large and listed companies**, modernizing and enhancing reporting rules for social and environmental information.
- Key reporting timelines include large public interest entities reporting in FY24 (2025), large entities reporting in FY25 (2026), and listed SMEs reporting in FY26 (2027).

Content

- **Materiality and Metrics**
- Comprise 13 standards, including 2 cross-cutting and 11 ESG specific, encompassing over 1000 data points.
- Companies will be required to report on the impact of material sustainability topics on their governance and strategy structures, their management of impact, risk, and opportunity (IRO) through policies and actions, and the metrics and targets they have established.

What it entails

- Mandatory Assurance and Enhanced Responsibilities in Sustainability Reporting
- The Audit Committee will have new responsibilities, including monitoring the sustainability reporting process and assurance, assessing internal quality control and risk management systems, and overseeing sustainability reporting within the company.
- Companies must disclose their risk management and internal control processes and systems related to sustainability reporting, with **periodic reporting** to administrative, management, and supervisory bodies.

CORPORATE SUSTAINABILITY DUE DILIGENCE DIRECTIVE

Context

- Aims to promote sustainable and responsible corporate behavior, emphasizing the incorporation of human rights and environmental considerations into companies' operations and corporate governance.
- The new rules require businesses to address adverse impacts, including those within their value chains both inside and outside Europe.

Content

- Integrate due diligence into their policies.
- Identify actual or potential adverse human rights and environmental impacts.
- Prevent and mitigate potential adverse impacts, cease ongoing impacts, and minimize their extent.
- Establish and maintain a complaints procedure involving affected individuals, trade unions, workers' representatives, and civil society.
- Monitor the effectiveness of their due diligence policy and measures annually.
- Publicly communicate due diligence efforts.

What it entails

- Pecuniary sanctions imposed by national authorities (based on company turnover).
- Legal actions for damages by victims.
- Companies must develop a plan for aligning business strategy with the Paris Agreement.
- Directors' duties include: conducting due diligence processes and Incorporating climate change action in variable remuneration.

EUROPEAN SUSTAINABILITY REPORTING STANDARDS
FOR THE DISCLOSURE OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE INFORMATION

European sustainability reporting standards – first set

Have your say > Published initiatives > European sustainability reporting standards – first set

In preparation

Draft act

Feedback period

09 June 2023 - 07 July 2023

FEEDBACK: OPEN

UPCOMING

Commission adoption

Planned for

Second quarter 2023

About this initiative

Summary	This act supplements the Accounting Directive as amended by the Corporate Sustainability Reporting Directive, which requires large companies and listed companies to publish regular reports on the social and environmental risks they face, and on how their activities impact people and the environment. This first delegated act sets out cross-cutting standards and standards for the disclosure of environmental, social and governance information.
Topic	Banking and financial services
Type of act	Delegated regulation
Expert group	E03603

Draft act

FEEDBACK: OPEN

Feedback period

09 June 2023 - 07 July 2023 (midnight Brussels time)

- General requirements
- General disclosures
- Climate change
- Pollution
- Water and marine resources
- Biodiversity and ecosystems
- Resource use and circular economy

- Own workforce
- Workers in the value chain
- Affected communities
- Consumers and end-users

- Business conduct

https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13765-European-sustainability-reporting-standards-first-set_en

ZOOM ON BUSINESS CONDUCT – DISCLOSURE REQUIREMENTS POLITICAL INCFLUENCE AND LOBBYING ACTIVITIES

27. The undertaking shall provide information on the activities and commitments related to exerting it political influence, including its lobbying activities related to its material impacts, risks and opportunities.

28. The objective of this Disclosure Requirement is to provide transparency on the undertaking's activities and commitments related to exerting its political influence with political contributions, including the **types and purpose of *lobbying activities*.**

Metrics and targets
Disclosure Requirement G1-5 – Political influence and lobbying activities

For purposes of this Standard 'political contribution' means financial or in-kind support provided directly to political parties, their elected representatives or persons seeking political office. Financial contributions can include donations, loans, sponsorships, retainers, or the purchase of tickets for fundraising events and other similar ***actions.*** In- kind contributions can include advertising, use of facilities, design and printing, donation of equipment, provision of board membership, employment or consultancy work for elected politicians or candidates for office.

'Indirect political contribution' refers to those political contributions made through an intermediary organisation such as a lobbyist or charity, or support given to an organisation such as a think tank or trade association linked to or supporting particular political parties or causes.

When determining 'comparable position' in this standard, the undertaking shall consider various factors, including level of responsibility and scope of activities undertaken.

The undertaking may provide the following information on its financial or in-kind contributions in regard to its lobbying expenses:

1 (a) the total monetary amount of such internal and external expenses; and

2 (b) the total amount paid for membership to lobbying associations.

If the undertaking is legally obliged to be a member of a chamber of commerce or other organisation that represents its interests, it may disclose that this is the case.

In meeting the requirement in paragraph 29(c) the undertaking shall consider the alignment between its public statements on its material impacts, risks and opportunities and its ***lobbying activities.***

ZOOM ON BUSINESS CONDUCT – DISCLOSURE REQUIREMENTS POLITICAL INCFLUENCE AND LOBBYING ACTIVITIES

An example of what such disclosures could look like:

Political engagement (including lobbying activities) illustrative example

During the 20XY financial year ABC was involved in activities around the proposed regulation XXX which could have significant negative impacts on its ***business model*** *if implemented in the current format. ABC's considers that while the proposed regulation will realise some improvements to the regulatory regime such as xxx, in its current format the costs relating to xxx will outweigh the benefits. ABC and its peers continue to work with XXX (the regulator) to improve this balance.*

ABC also supported the QRP political party in Country X and EFG party in Country Y as both …. ABC is registered in its local transparency register, i.e., XYZ, and its registration number is 987234.

ESG: Public Affairs Role

Legislation

Policy

Public opinion

Client expectations and market dynamics

Strategy and Business Case

Public affairs professionals must understand how ESG factors influence stakeholders and competitive dynamics.

They should contribute to the development of the ESG business case, roadmap, and strategy, ensuring alignment with sustainability goals.

Reporting

ESG requires enhanced control and reporting mechanisms. Public affairs professionals should be involved in non-financial reporting, establishing a comprehensive KPI model, incorporating incentives, developing risk models, managing risk, and addressing tax implications.

ESG DNA

Public affairs professionals must recognize that ESG is becoming an integral part of companies' DNA.

They should understand public opinion, manage public and regulatory relations related to ESG initiatives, and navigate the policy landscape.

Legislation

ESG influences legislation and regulatory requirements. Public affairs professionals need to stay updated on ESG-related legislation and ensure its integration into the organization's sustainability orientation. They should actively engage with policymakers and regulators to shape the implementation of these requirements.

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ESG IN PUBLIC AFFAIRS: INTEGRATION AND ENGAGEMENT

•Monitor ESG developments at EU and global levels relevant to your sector.
•Align governance and public affairs for consistency.
•Integrate sustainability considerations into public affairs strategies.
•Contribute to internal policies and ensure compliance with environmental regulations.
•Engage with regulators, industry associations, and NGOs to influence policy development.
•Demonstrate positive ESG practices and communicate sustainability efforts transparently.
•Develop a tailored ESG narrative for EU stakeholders.
•Seek input, address stakeholder inquiries, and use feedback to improve sustainability performance.

STAYING AHEAD OF THE ESG CURVE

Social Media Showcasing of ESG

EU – Legislative Monitoring & Analysis

EU/Key Market Public Consultation Activity

Creation of Sustainability and Transition Strategy

Increased Activity Among Trade Associations

THANK YOU!

Questions?