

Audit Committee Breakfast Briefing

26 October 2022



1. Welcome & Introduction

Kevin Prendergast
Chief Executive



Disclaimer

Disclaimer

The views expressed by the IAASA speakers are our own and do not necessarily reflect the views of the Authority, Board or the staff of IAASA

The view expressed by the guest speakers here today are their own personal views and do not necessarily reflect the views of their respective boards or organisations.

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This event will be recorded to be uploaded to IAASA's website

Audience Participation

Physical Attendees

Type SLI.DO in address bar of browser

Passcode: **IAASAACBriefing2022**

Virtual Attendees

SLI.DO

- Access built into Virtual Platform – see right hand sidebar
- Respond to the questions posed for each session
- Ask your own questions

Slido questions

SLI.DO Code: **IAASAACBriefing2022**

Pre-event questions

- What do you hope to get from this year's briefing?
- Since the lifting of Covid restrictions what format have your audit committee meetings taken?

Agenda

- | | |
|--|--------------------|
| 1. Welcome & Introduction | 8:30-8:40 |
| 2. Regulatory Update | 8:40-9:00 |
| 3. Audit Committee Questionnaire results | 9:00-09:15 |
| 4. Future of Corporate Reporting | 09:15-09:45 |
| 5. Corporate and stakeholder communications | 09:45-10:10 |
| 6. Break | 10:10-10:30 |
| 7. Audit committee panel session | 10:30-11:20 |
| 8. ESG & the Green Investor | 11:20-11:50 |
| 9. Closing comments | 11:50-12:00 |

Slido questions

- What is the key emerging topic that audit committees have had to deal with in 2022?

2. Regulatory Update

Lisa Campbell

Head of Operations

Slido questions

- How familiar are you with CSRD?
- What is your level of knowledge of ESRS?
- What impact do you think CSRD will have on your company?

Overview

1. EU consultation on corporate reporting and its enforcement
2. IAASA publications
3. ESEF
4. CSRD

EU consultation on corporate reporting and its enforcement

- EC issued consultation in November 2021
- Combined consideration of Wirecard and review of implementation of audit reform legislation
- 220 responses received
- 57% of responses from respondents active in audit or accounting

EU consultation on corporate reporting and its enforcement

Corporate Governance

- Respondents identified corporate governance as an area of weakness
- Auditors particularly negative about the effectiveness, efficiency and coherence of boards' responsibilities and liabilities
- Preparers found corporate governance framework to be effective
- Overall support for strengthening responsibilities of directors, ensuring effective risk management and controls and ensuring proper expertise.

EU consultation on corporate reporting and its enforcement

Corporate Reporting

- 74% of respondents reported that corporate reporting information is highly/very highly useful
- Overall view that the framework is rather effective
- Support for increased information sharing and cooperation between competent authorities, transparency and independence rules.

EU consultation on corporate reporting and its enforcement

Audit

- 82% of respondents reported that audit contributes as much as it can to the overall system of corporate reporting
- Support for harmonising rules on rotation and limiting the number of Member State options available

EU consultation on corporate reporting and its enforcement

What next

The results of the public consultation have been processed and will be reflected accordingly in the preparation of any further Commission's initiative in this regard. A summary of all consultation activities will be included in the impact assessment of any further Commission's initiative.

IAASA publications

- Register for our website updates
- LinkedIn
- YouTube
- Welcome feedback

AQU inspection reports

- Annually Q1
- Reports of inspection results for the previous year
- Details any firmwide findings
- Details grades awarded to each of the individual audit inspections
- Useful tool for audit committees – may prompt some questions for your auditors

Financial reporting documents

- Publish priority areas for 2022 year ends
 - Climate related disclosures
 - War
 - Economic uncertainty, interest rates, inflation
 - Impairment testing
 - Operating segments
 - Alternative Performance Measures
- Climate disclosures – IAASA information requests
- Publication policy consultation

ESEF

- 2021 was the first year
- Challenge for many issuers
- Observations document notes some recurring matters noted
- Notes must be tagged for 2022 year ends
- Engage with software providers and auditors

CSRD

Who:-

1. Large PIEs – over 250 employees
2. Large private companies – over 250 employees
3. All listed companies, excluding micro entities
4. Subsidiaries and branches with turnover > 40 million of non-EU companies with turnover greater than 150 million

CSRD

What:-

- Information at a group level – including value chain on:-
 - Climate change mitigation
 - Climate change adaptation
 - Water and marine resources
 - Resource use and circular economy
 - Pollution
 - Biodiversity and ecosystems
 - Social and human rights factors

CSRD

Where:-

- Management report – clearly identifiable in a dedicated section
- Report shall contain description of the processes, impacts, risks, indicators according to short, medium and long-term horizons
- Must be electronically tagged

CSRD

When:-

- 1 January 2024 for companies already in scope for non financial reporting (> 500 employees)
- 1 January 2025 for all large companies not currently in scope for non financial reporting (250 – 500 employees)
- 1 January 2026 for listed SMEs*

* SMEs can opt out until 1 January 2028

CSRD

Sustainability Reporting Standards:-

- EFRAG currently consulting on draft standards (ESRS)
- Very detailed and prescriptive
- Concerns regarding interoperability with ISSB and GRI standards
- Extensive specialisms could be needed to prepare the information
- Double materiality!

CSRD

Assurance:-

- Companies required to seek an assurance opinion – can be the statutory auditor but doesn't have to be
- Initially 'limited assurance'
- Commission must adopt a standard by 1 October 2026
- Commission must consider if it is feasible to move to reasonable assurance and if so, adopt a standard by 1 October 2028

Useful Links

- AQU Inspection Reports
- FRSU Observations Document
- FRSU Climate disclosures information requests
- Consultation on Publication Policy
- EU consultation - https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13128-Strengthening-the-quality-of-corporate-reporting-and-its-enforcement/public-consultation_en

Questions?

3. Audit Committee Questionnaire results

Martin Kelly

Senior Inspector

Slido Questions

- **Do you think the rules around the provision of non-audit services are set at an appropriate level?**
- **Are the current responsibilities assigned to audit committees around monitoring of the financial process, internal controls, statutory audit, independence and auditor selection overly burdensome?**
- **Would you like to see more interaction and or supervision of audit committees from regulators?**

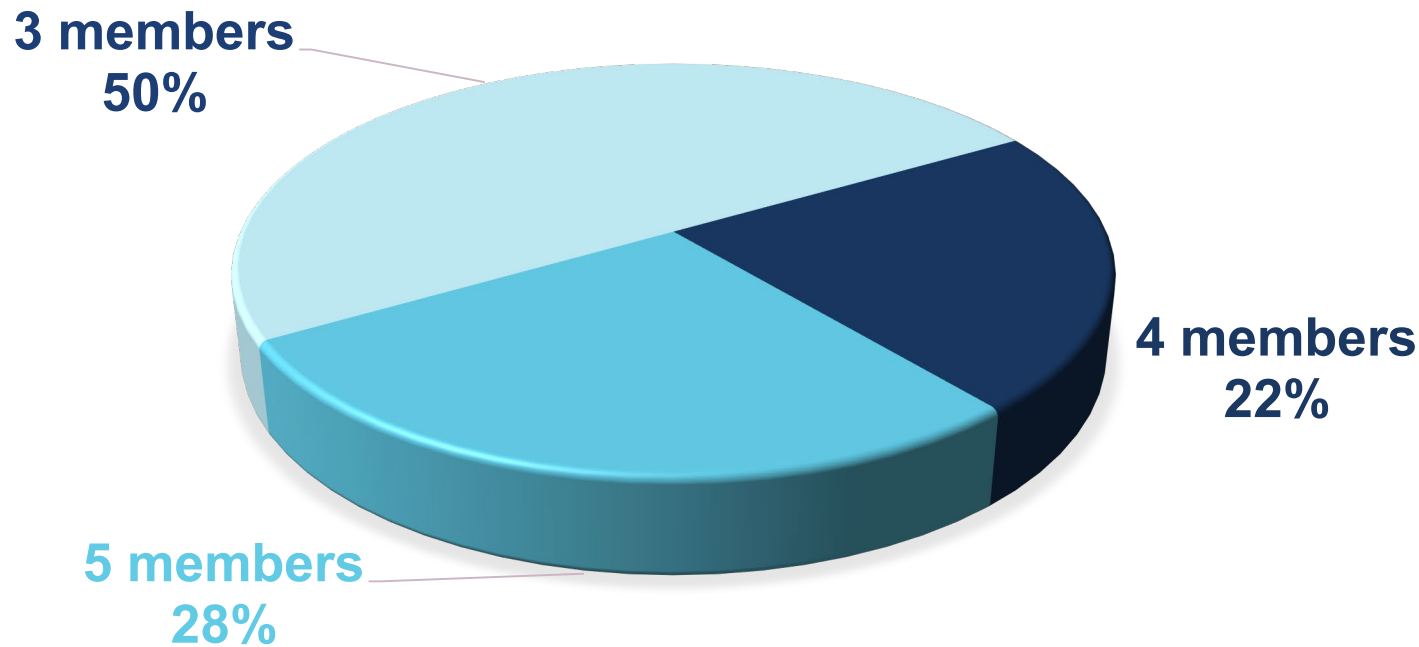
Overview

The questionnaire was divided into the following sections:

- Audit committee composition and skills
- Interactions with the board
- Independence including the prior approval of permitted non-audit services
- Auditor selection process
- Oversight of the audit function
- Oversight of the financial reporting process
- Oversight of internal quality control and risk management systems

Audit Composition & Skills

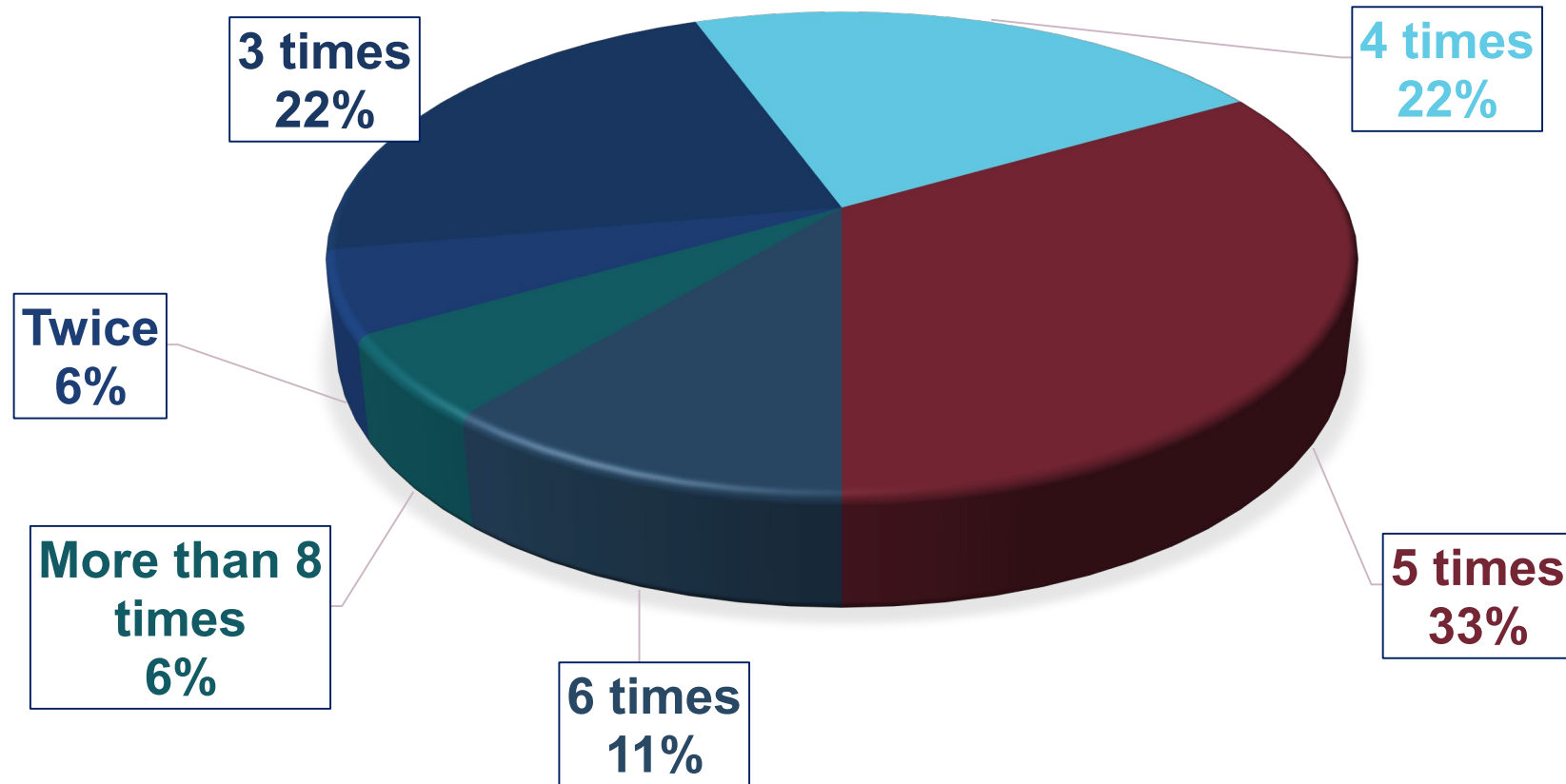
TOTAL NUMBER OF AUDIT COMMITTEE MEMBERS



- 66% members had financial reporting experience
- 53% had audit experience
- 69% had industry experience

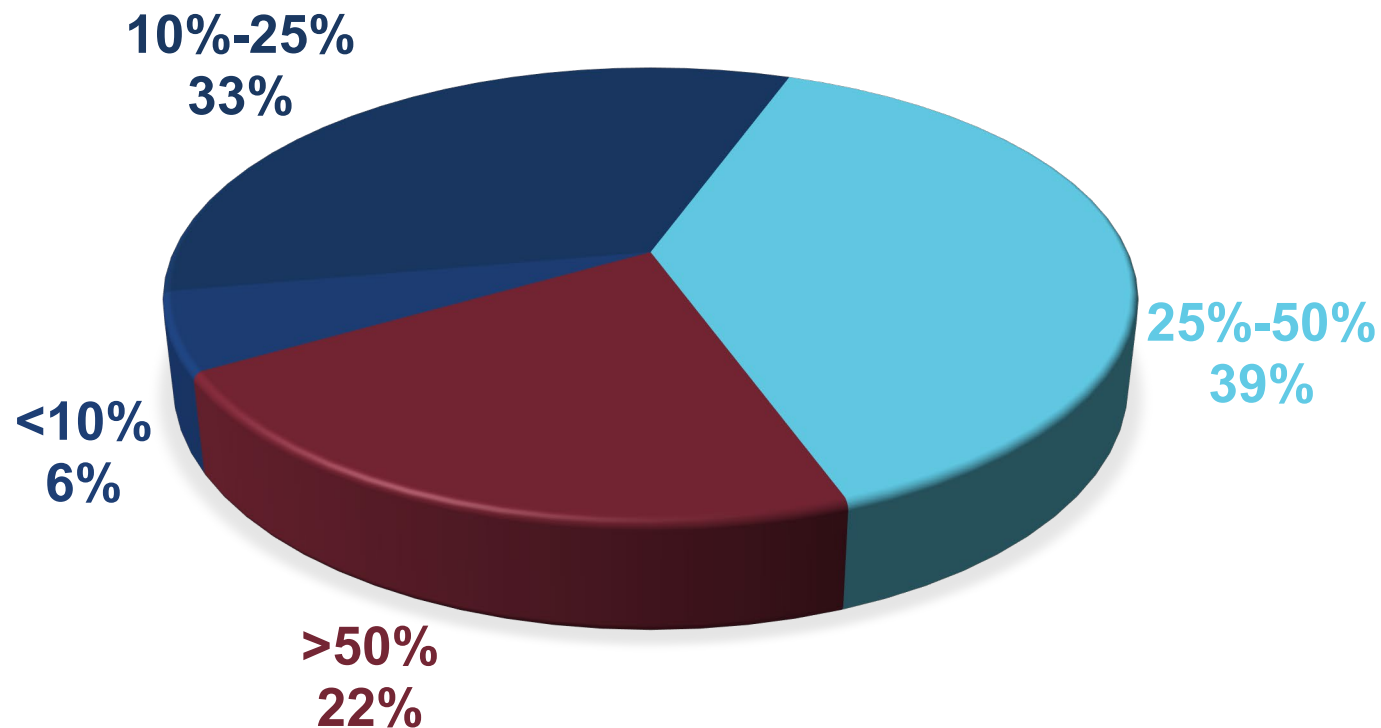
Interaction with the board

NUMBER OF MEETINGS WITH BOARD



Internal functioning

TIME SPENT ON AUDIT RELATED MATTERS

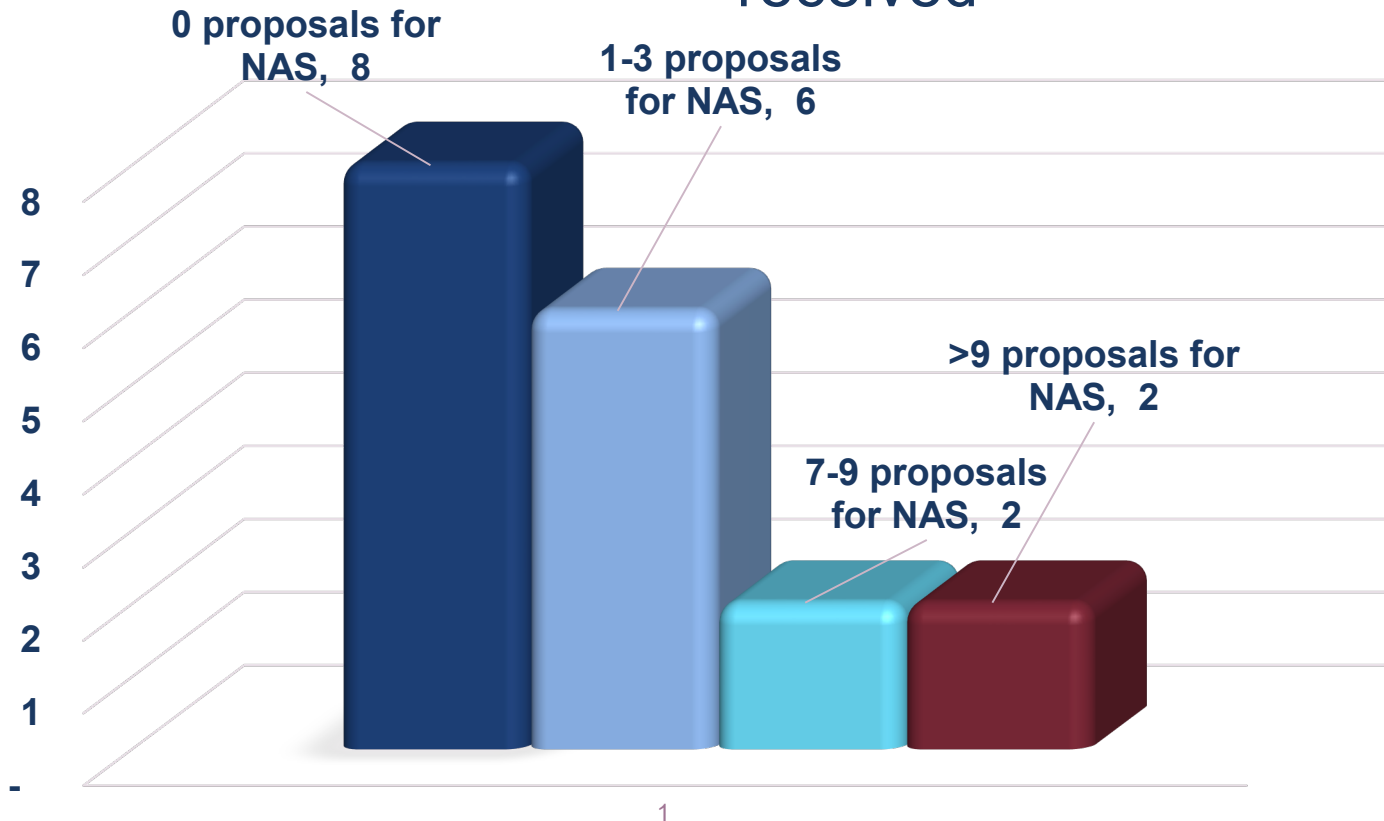


Other areas discussed

- 100% preparation of financial statements
- 94% Risk management analysis & internal controls
- 89% Regulatory compliance
- 61% cyber security

Non-audit services

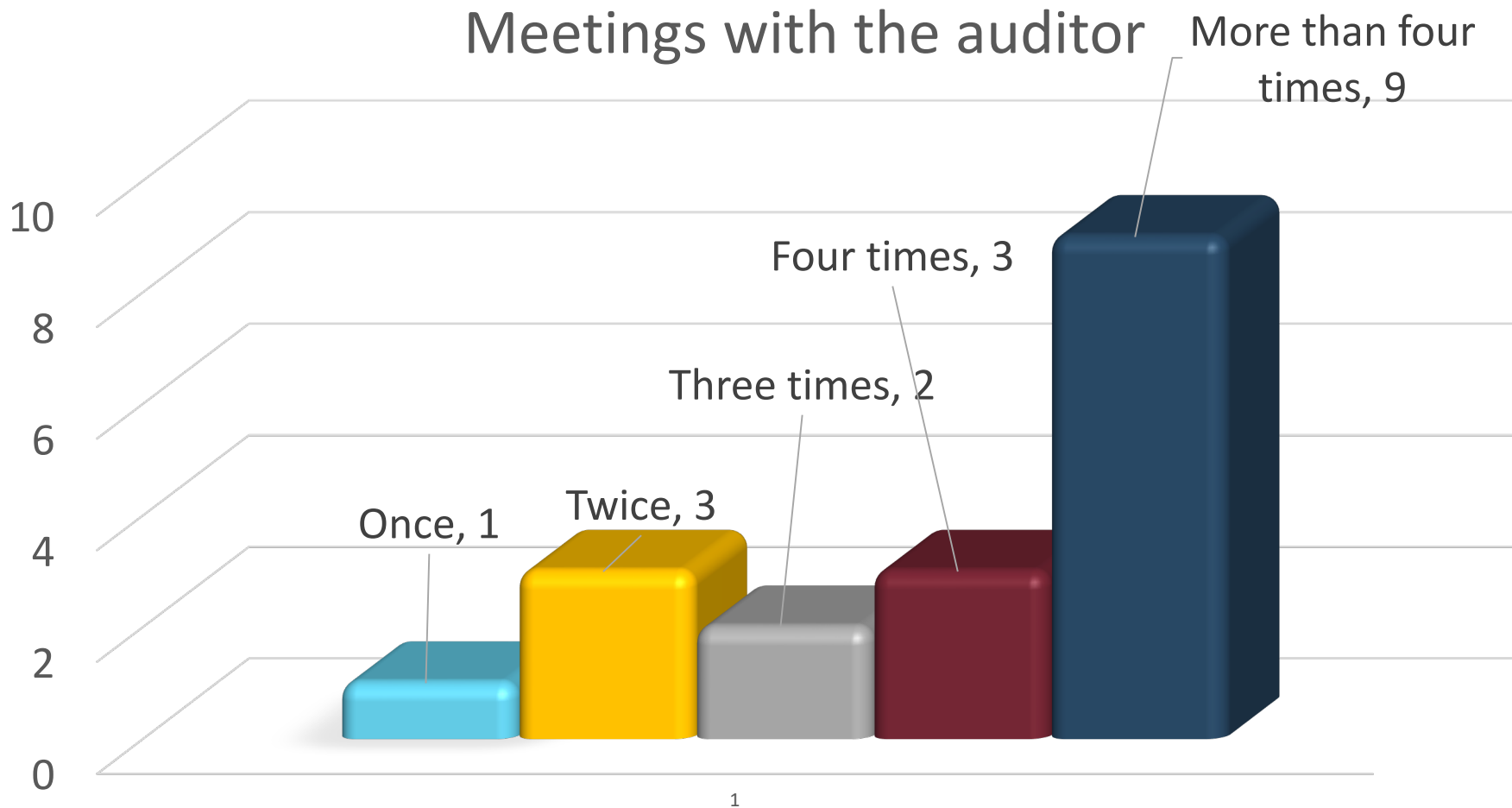
Number of Non-audit service proposals received



NAS trends

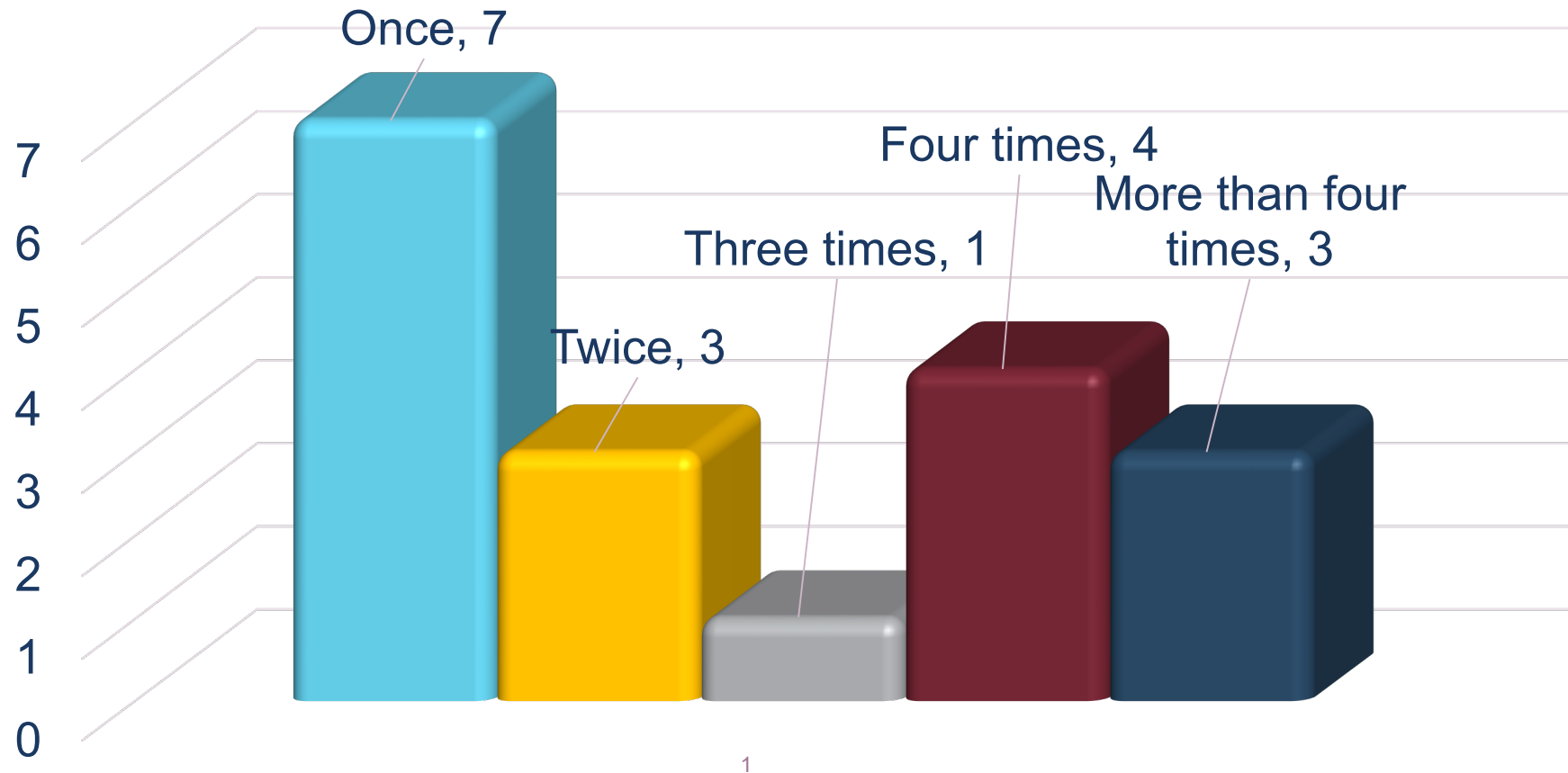
- 90% of companies did not have NAS in excess of 20% of audit fees
- 3 Companies had a cap on NAS of 40% of audit fees
- 77% of committees reviewed the NAS cap

Oversight of audit function



Oversight of audit function

Meetings with the auditor without management



Oversight of audit function

- 72% received a copy of IAASA's inspection report
 - QAR report
 - Individual inspection report
- Open communication with the auditor on the implementation of recommendations
- 61% made a formal assessment of audit quality
 - Quality of communications;
 - Technical expertise displayed by audit team;
 - Assessment of audit engagement team;
 - Amount of time spent on the statutory audit by the partner/senior audit management;
 - Use of technology;
 - Degree of auditor challenge
 - Amount of time spent on the statutory audit by the Engagement Quality Control Reviewer

Monitoring effectiveness of internal control

How was this achieved

- Interviews/Meetings with Heads of Function;
- Review of internal audit reports;
- Discussions with the auditor;
- Commissioning external consultant reviews

Key Findings

- Audit Committee composition
- Frequency of meetings with the board
- Allocation of resources
- Low level of NAS
- Auditor interaction

Questions?

4. Future of Corporate Reporting

Ken Bowles

CFO, Smurfit Kappa Group plc

Future of Corporate Reporting

Ken Bowles – Smurfit Kappa CFO

A little bit about SKG & Sustainability

SKG at a glance



Recycling

7.4 Million

tonnes per annum
recovered paper

48,000

employees



Paper

8.3 Million

tonnes sold per
annum

36

countries



Packaging

12.5Billion

m² per year

355

facilities



Forestry

68,000

hectares forest
plantation

65,000

customers

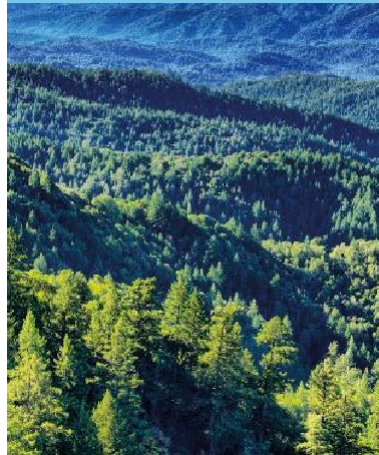
Leading in sustainability

We are committed to being **an impactful business** and supporting a **greener, bluer planet**.

We measure our progress in sustainability against our three pillars:

Planet

Forest
Climate change
Water
Waste



People

Values
Strategy
Health and wellbeing
Communities












































Impact

Innovation
Governance and human rights
Sustainable and responsible sourcing



Leading in sustainability

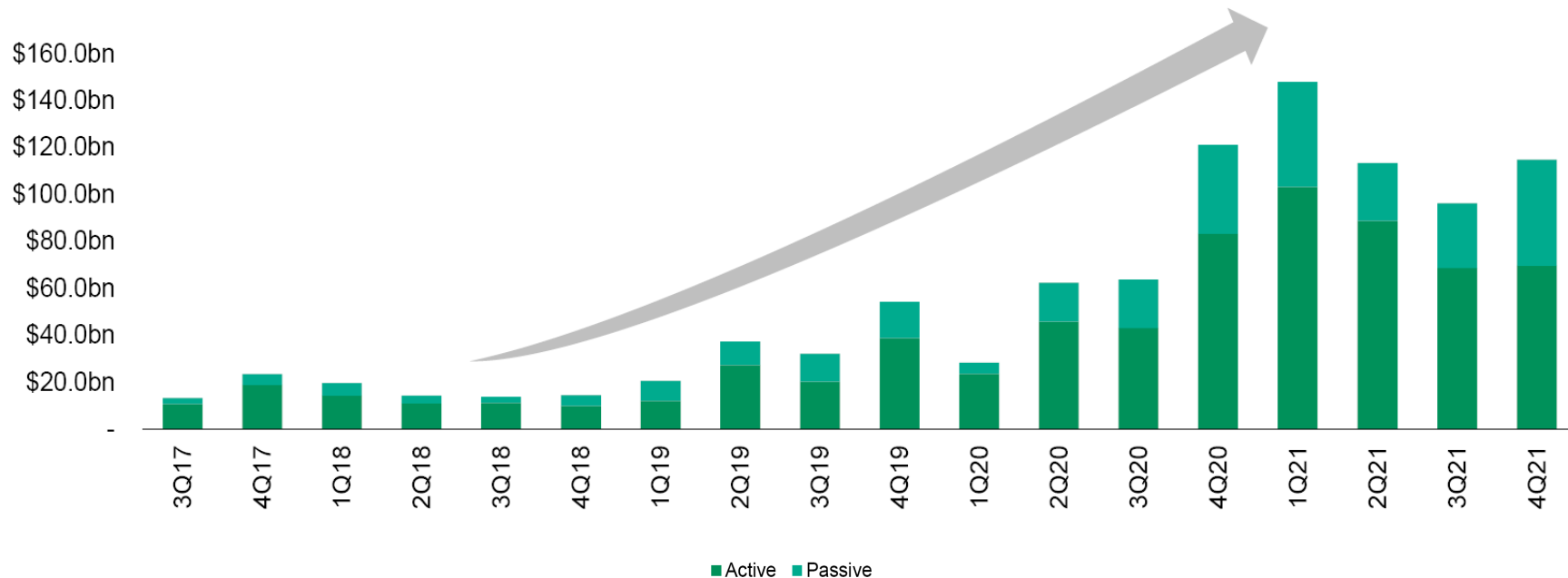
Significant progress across our targets, our 15th published sustainability report

Category	Targets		Achievements		Link to Strategy	Link to SDGs
Climate Change		Net zero Our ambition is to have at least net zero emissions by 2050 with a 55% reduction in relative CO ₂ emissions by 2030	41.3%	reduction in CO ₂ emissions since 2005	 	  
Forest		>95% packaging solutions sold as Chain of Custody certified to customers by 2025	93.45%	packaging solutions sold as Chain of Custody certified in 2021	 	  
Water		60% reduction in relative Chemical Oxygen Demand discharge by 2025	38.5%	reduction in Chemical Oxygen Demand since 2005	 	 
Water		1% reduction of our water usage annually, which reflects our position as a processor, not consumer, of water	6.2%	reduction of our water usage annually	 	 
Waste		30% reduction in relative waste sent to landfill by 2025	29.2%	reduction in waste to landfill since 2013	 	
Health and Safety		5% reduction in Total Recordable Injury Rate annually	1.7%	reduction in Total Recordable Injury Rate in 2021	 	
People		25% of management positions held by women by 2024	22%	of management positions held by women at the end of 2021	 	  
Communities		€24m will be donated between 2020-2025 to support social, environmental and community initiatives	€12.6m	donated since 2020	 	 

The current landscape

European ESG equities fund flows

Morningstar Global Sustainable Fund Flows (ESG AUM)



'Greenwashing' is headline news

Failure to spot greenwash gives 'false confidence climate crisis is being addressed,' regulator warns

Environment Agency chief Emma Howard Boyd says billions of pounds of investments will be in danger if companies fail to take climate risks into account.

HSBC banker quits over climate change furore

Stuart Kirk attacks 'cancel culture' as he resigns over reaction to provocative speech

Climate change ✓ Added

'Greenwashing' warnings accelerate drive for business sustainability standards

Regulators globally are seeking common ways of assessing companies' environmental performance

FINANCIAL TIMES

US COMPANIES TECH MARKETS CLIMATE OPINION WORK & CAREERS LIFE & ARTS HTSI

ESG investing ✓ Added

ESG's legal showdown: 'There's nothing to suggest DWS is a one off'

The boom in ESG investing is drawing regulatory scrutiny on both sides of the Atlantic

Meanwhile, accusations of greenwashing over ESG investment offerings have increased dramatically. Difficulties exist in measuring the impact of ESG at company levels and in deciding which companies are included in ESG indices and on what criteria. The arguments have become very public, for example over the role of index providers in compiling ESG indices.

Despite question marks, conviction in ESG as an investment theme remains

50.9%

of total European
fund assets are
classified as
Article 8 and 9*

60%

of new fund
launches in Q2
'22 were Article
8 or Article 9

Article 8 and 9
fund assets
declined by 6.4% in
H1 2022 compared
to 8.9% for Article
6 funds

*source: Morningstar

Wealth management

[+ Add to myFT](#)

Investors 'keep faith with ESG funds'

Wealth managers say most clients remain committed to greener assets

Investment providers recognise the choice their customers are making, with 41 per cent of wealth managers completing this year's [Private Client Wealth Management](#) survey stating that they believe offering ESG options is extremely important, 44 per cent very important and 15 per cent moderately important. This suggests that sustainability should be high on the agenda for wealth management companies.

Assessing the ESG landscape...

Not yet settled...



- ESG is now an established part of the investment process and the market is differentiating
- Understanding how you are perceived and rated is critical to protect and enhance value
- Key areas remain decarbonisation and waste reduction
- Communicate your ambition with clarity, supporting it with verified, assured data, is a “must have”

There are two sides to the ESG coin

The organisational imperative and the capital markets requirements



- Corporates need to run their business (“E”)
- The world is demanding a greater societal impact (“S”)
- The capital markets (debt and equity) are looking for the right homes (“G”)
- How can all this be balanced in the context of the corporates strategic goals etc.

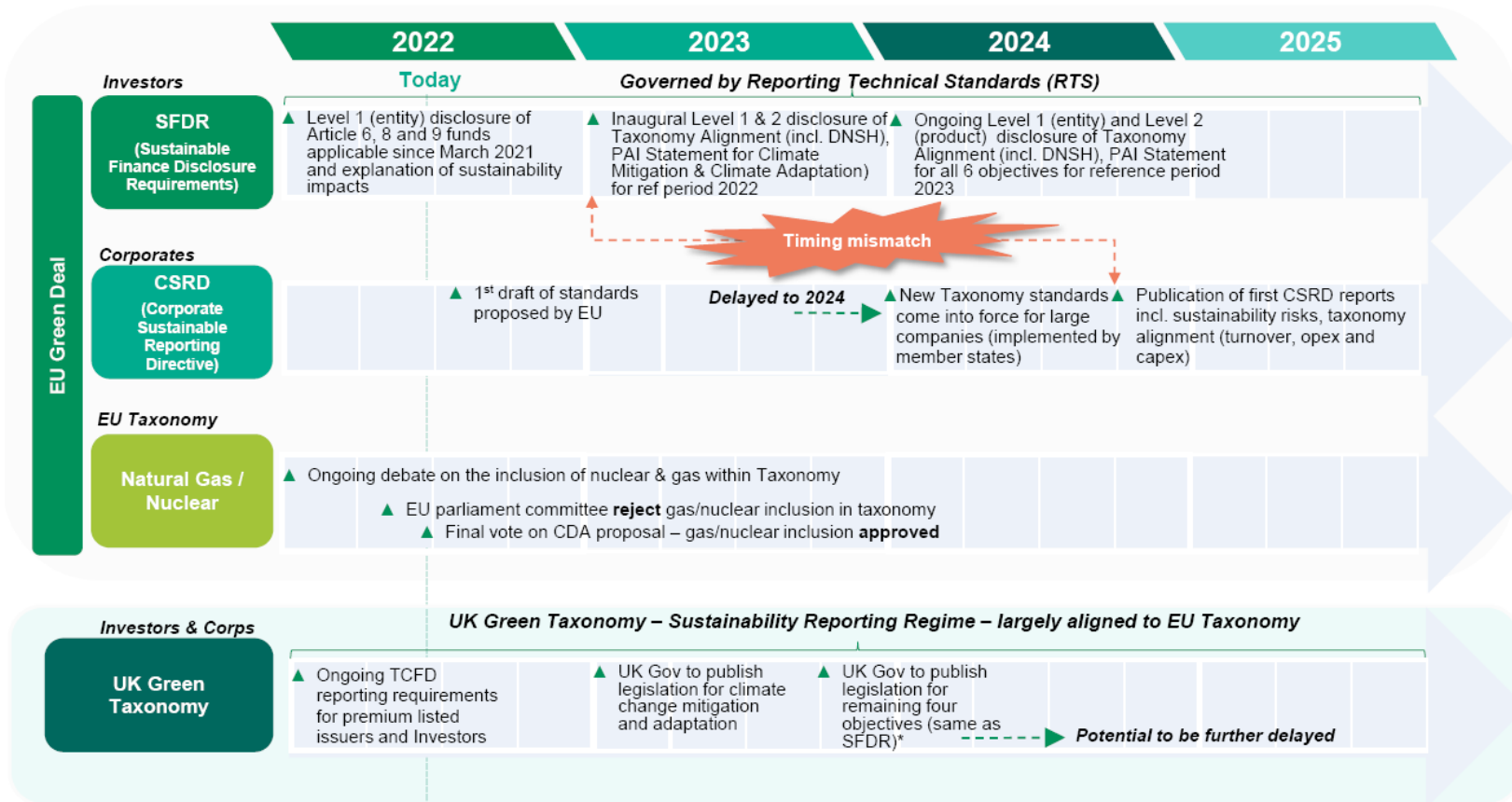
The alphabet soup

PAPER | PACKAGING | SOLUTIONS

 Smurfit Kappa

The regulatory timeline..

This illustrates the challenge for corporates and investors



And don't forget the rating agencies & indices..



S&P Global
Ratings



FitchRatings



Moody's

But, it isn't that simple

Not a level playing field...



- Not all assurance is the same
- Not everybody reports on the same timeline
- The only information considered is public
- Engagement with the index providers is difficult
- Commerical opportunity for advisory work complicating the field
(credible v commercial)
- Not all market participants value ESG in the same way

So what does this
mean for the
corporate and the
Annual Report?



Smurfit Kappa
**Better Planet
Packaging**

Annual report Implications

More compliance heavy going forward



- Organisations will need to revisit their Annual Report
- Front and back sections should be seen as having equal prominence
- Consider a SDR (if you don't already have one) and have it assured
- At a minimum, the AR will be more ESG heavy

Annual report Implications

More resources needed going forward



- Investment in people and skills
- Investment in systems
- Significant impact on data collection and analysis
- Specific Board level resources
- Potentially a Board Committee
- Somehow, retain agility to adapt to a changing environment

Annual report Implications

So what should companies do?



- The future is now
- Understand your own ESG story
- Understand the positives and the negatives
- Be able to articulate that with clarity
- Ensure it is credible
- Engage with all capital providers
- Consider appropriate target setting

Open questions

Some things to think about...



- Can you articulate your ESG story?
- Is it time for an integrated report?
- If not a dedicated committee where does ESG fit?
- Have you the resources to meet the challenge?
- As a Board and Committee how will you get assurance on the information flows?

OUR PURPOSE

create • protect • care



Thank you

Questions?

5. Corporate and stakeholder communications

Barry McLaughlin

Managing Director, Source Design
Consultants

**“DO ONE THING
EVERY DAY
THAT SCARES YOU”**

"DO ONE THING

EVERY DAY

THAT SCARES YOU"



SOURCE

Barry McLaughlin
Managing Director
Source Design Consultants

**SPECIALISTS IN
CORPORATE
STAKEHOLDER
COMMUNICATIONS.**

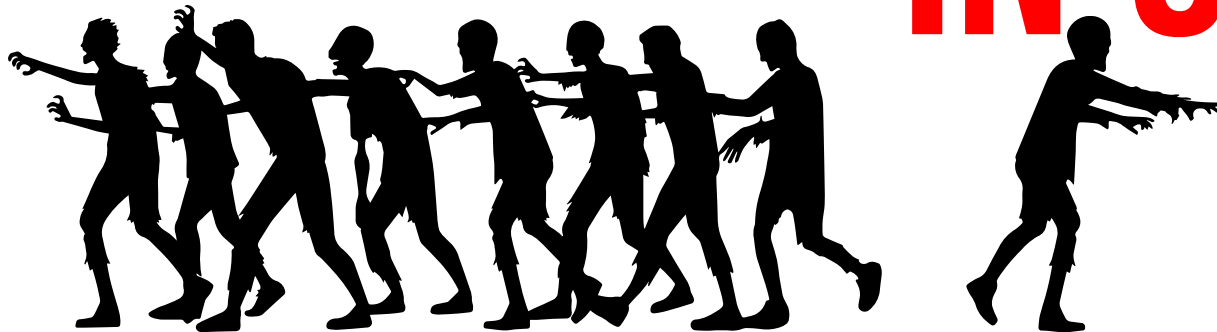
**CHAMPIONS OF
DIGITAL REPORTING.**

EVIL ESEF AND THE
HELLISH ROAD
TO **DIGITAL**
REPORTING



**“SO EVERYONE ELSE IS
MARCHING IN UNISON,**

**BUT YOU ARE
THE ONLY ONE
IN-STEP?”**



SO WHO IS MARCHING AND WHY?



THE
PREPARER



THE
EXTERNAL
AUDITOR



THE
XBRL TAGGERS



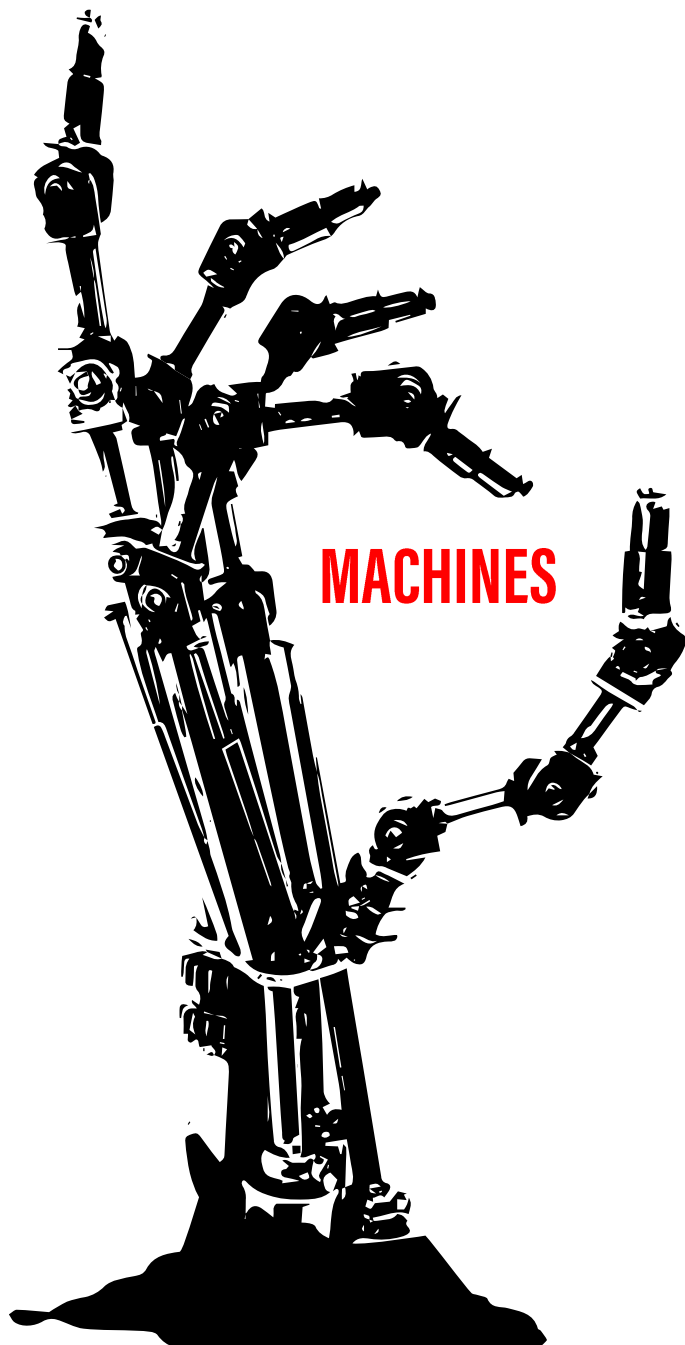
THE
DESIGNERS



THE
OFFICIALLY
APPOINTED
MECHANISM
(OAM)



THE
REGULATOR



MACHINES

WHO IS THE AUDIENCE

FOR THE ESEF PUBLICATION?

**THE
SHAREHOLDER**



**ALL OTHER
MATERIAL
STAKEHOLDERS**



SO WHAT IS CHANGING?



From 60 pages to 200+ pages

From printed and mailed to
electronic distribution

From singularly focused on
Shareholder returns to
addressing the wider material
concerns of its stakeholders

Leading to:

more transparency
more governance
more accountability

Longterm sustainable
value creation

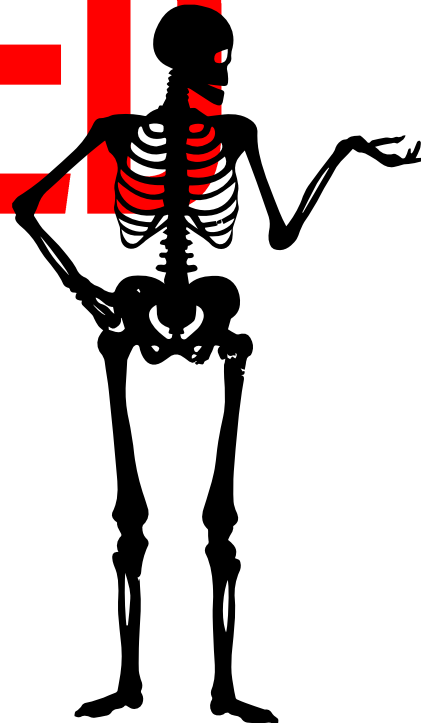


ENTER ESEF

**THE EUROPEAN
SINGLE
ELECTRONIC
FORMAT**

ESEF

EXPLAINED

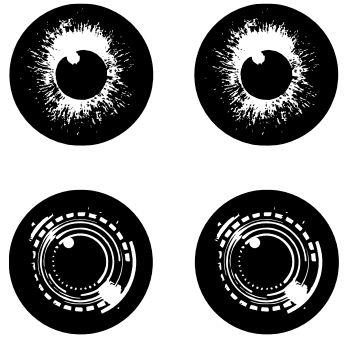


An ESEF report must be prepared entirely in XHTML.

XHTML code is the basic language of Digital Reporting and is human readable.

XBRL code is the tagging element built upon XHTML that makes it machine readable.

iXBRL is the requirement to meet the ESEF Digital Reporting standard.



inline XBRL

Human readable

Machine readable

Co-exist

iXBRL

ESEF:

EVOLUTION OR TECHNOLOGICAL REVOLUTION?

iXBRL creates another layer of transparency through tagging

- Primary statements
- Block tagging of notes.

ESMA states that the standard PDF is [to be] superseded with an xHTML file of the entire report.



REMEMBER:

ESEF IS THE ONLY OFFICIALLY AUDITED FINANCIAL STATEMENTS



An ESEF report must be prepared entirely in XHTML.

The standard PDF is superseded with an XHTML file of the entire report.

WHAT'S SO SCARY ABOUT PDF-TO-HTML CONVERTERS?



“This is typically because the Inline XBRL report has been created using automated PDF-to-HTML conversion software. Such software produces a document which faithfully reproduces the appearance of a PDF document, but the resulting HTML is often extremely inefficient, leading to large file sizes and slow rendering times.”

“...the usability of iXBRL reports can be hampered by inefficient HTML which can make them slow to use.”

“Many ESEF software solutions work by converting PDF files into HTML, and this automated conversion process often produces HTML that is extremely inefficient.”

SO WHAT'S THE SOLUTION?

“As processes and technology mature over time, companies may seek to move to a fully designed structured report that replaces their PDF report.”

“We expect this to improve over time, as software improves, and preparers start to target the Inline XBRL format directly, rather than converting from PDF”.

“Preparers should: Consider a report creation process that targets iXBRL/HTML natively, rather than converting a PDF output.”

FRC

XBRL.org



Think digital.

Prepare for digital.

Publish through digital.

Adopting the spirit of
ESEF will result in:

Improved Annual Financial Reporting

More effective and accessible
stakeholder communication

ESEF- **A CATALYST** **FOR CHANGE**





**FOCUS
ON THE**

END-USER.

Target native digital reporting.

Focus the end-product on the end-user.

Adapt to how the content is being consumed.

HTML can achieve more:

It's easier to navigate

it accommodates rich media

it's measurable

it's accessible

designed for its natural environment

responsive

more easily findable

totally searchable.

Fit-for-purpose.

OPERATIONAL BENEFITS

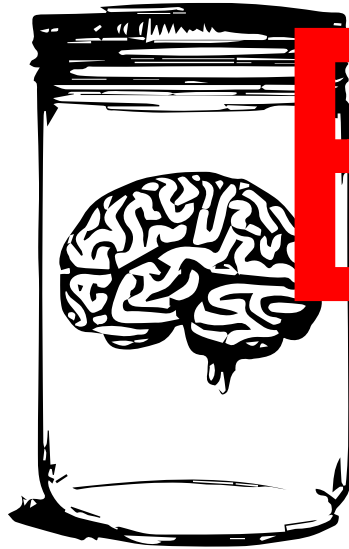
The digital reporting process can significantly improve operating efficiencies:

Much preparatory work can be done in advance

Tagging can be rolled over in advance

No page limits

Content can be quickly and easily updated.





THE TAIL IS WAGGING THE DOG.

Collectively we need greater collaboration:

Preparer's need to own and understand the process

Designers need to create a dynamic digital environment

Auditors need to ensure AFRs are prepared in native XHTML

Regulators must support native XHTML as the desired and only official format.

EMBRACE DIGITAL REPORTING.



We need to: Embrace Digital Reporting as the new norm.

Digital Reporting has the potential to far exceed the ESEF mandatory requirements.

Enhance corporate image.

Digital connects better and communicates more efficiently.

Content that is structured for digital channels is more readily shared.

FIT-FOR-PURPOSE.

Targeting inline XBRL or native
XHTML is achievable now

It simply requires:
a different approach
a different process
a shared objective and greater ambition.

**Thank you for listening
to my horror story.**



BREAK

The briefing will recommence at 10.30

6. Audit committee panel session

Panel Session

7. ESG & the Green Investor

Dr Margaret Cullen

Co-Academic Director, IOB's Certified
Bank Director Programme

Irish Auditing and Accounting Supervisory Authority (IAASA) Audit committee briefing on 26 October 2022

ESG and the Green Investor

Dr Margaret Cullen
Academic Director, IoB's Certified Bank Director Programme

26th October 2022



Discussion Topics:

- 1.** Concept of Stewardship and Responsible Investing
- 2.** Asset managers' and institutional investors' duties regarding sustainability within the EU Action Plan (policy and regulatory context)
- 3.** Evolving nature of investing, company stewardship and the implications for corporate reporting and engagement with investors

1. Concept of Stewardship and Responsible Investing

Setting the Scene: Stewardship

- **Recital 2 of the Shareholder Requirements Directive II (SRD II) states** ‘there is clear evidence that the current level of “monitoring” of investee companies and engagement by institutional investors and asset managers is often inadequate and focuses too much on short-term returns, which may lead to suboptimal corporate governance and performance’.
- **Speaking at the FCA’s Asset Management Conference in June 2018, the FCA’s CEO, Andrew Bailey, commented that** stewardship is: ‘A function of an asset manager’s responsibilities towards its investors’.
- **He went on to observe that** ‘The UK’s listing regime is also predicated on the existence of responsible owners who engage with companies and make informed voting decisions in relation to the significant matters where their view is sought. So, it is part of the market integrity agenda too.’

Definition: Stewardship

FRC (custodian of the Stewardship Code) defines Stewardship as:

- *"the responsible allocation, management and oversight of capital to create **sustainable value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.** Stewardship activities include monitoring assets and service providers, engaging issuers and holding them to account on material issues, and publicly reporting on the outcomes of these activities"*
- This definition identifies the primary purpose of stewardship as looking after the assets of beneficiaries that have been entrusted to the care of others. It also broadens the scope of the Code to be applicable beyond UK listed equity assets.

Definition: Responsible Investing

The PRI (Principles for Responsible Investments) defines responsible investment as "a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership".



Definition: Responsible Investing

While **not a guiding regulation**, the UN Principles for Responsible Investment (PRI) is the world's leading proponent of responsible investment, providing a **blueprint** for responsible investment for its signatories **since 2006!!**

A Practical Guide for
ESG Integration for
Equity Investment@
<https://www.unpri.org/download?ac=10>

THE SIX PRINCIPLES



PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- 1** We will incorporate ESG issues into investment analysis and decision-making processes.
- 2** We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3** We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4** We will promote acceptance and implementation of the Principles within the investment industry.
- 5** We will work together to enhance our effectiveness in implementing the Principles.
- 6** We will each report on our activities and progress towards implementing the Principles.



2. Asset managers' and institutional investors' duties regarding sustainability within the EU Action Plan (policy and regulatory context)

EC: Action Plan on financing Sustainable Growth (March 2018)

Reorienting capital flows towards a more sustainable economy

1. Establishing a clear and detailed **EU taxonomy**, a classification system for sustainable activities.
2. Creating an **EU Green Bond Standard** and labels for green financial products
3. Fostering investment in sustainable projects
4. Developing **sustainability benchmarks**

Mainstreaming sustainability into risk management

6. Better integrating sustainability in ratings and market research
7. Clarifying **asset managers' and institutional investors' duties** regarding sustainability
8. Introducing a 'green supporting factor' in the EU prudential rules for banks and insurance companies

Fostering transparency and long-termism

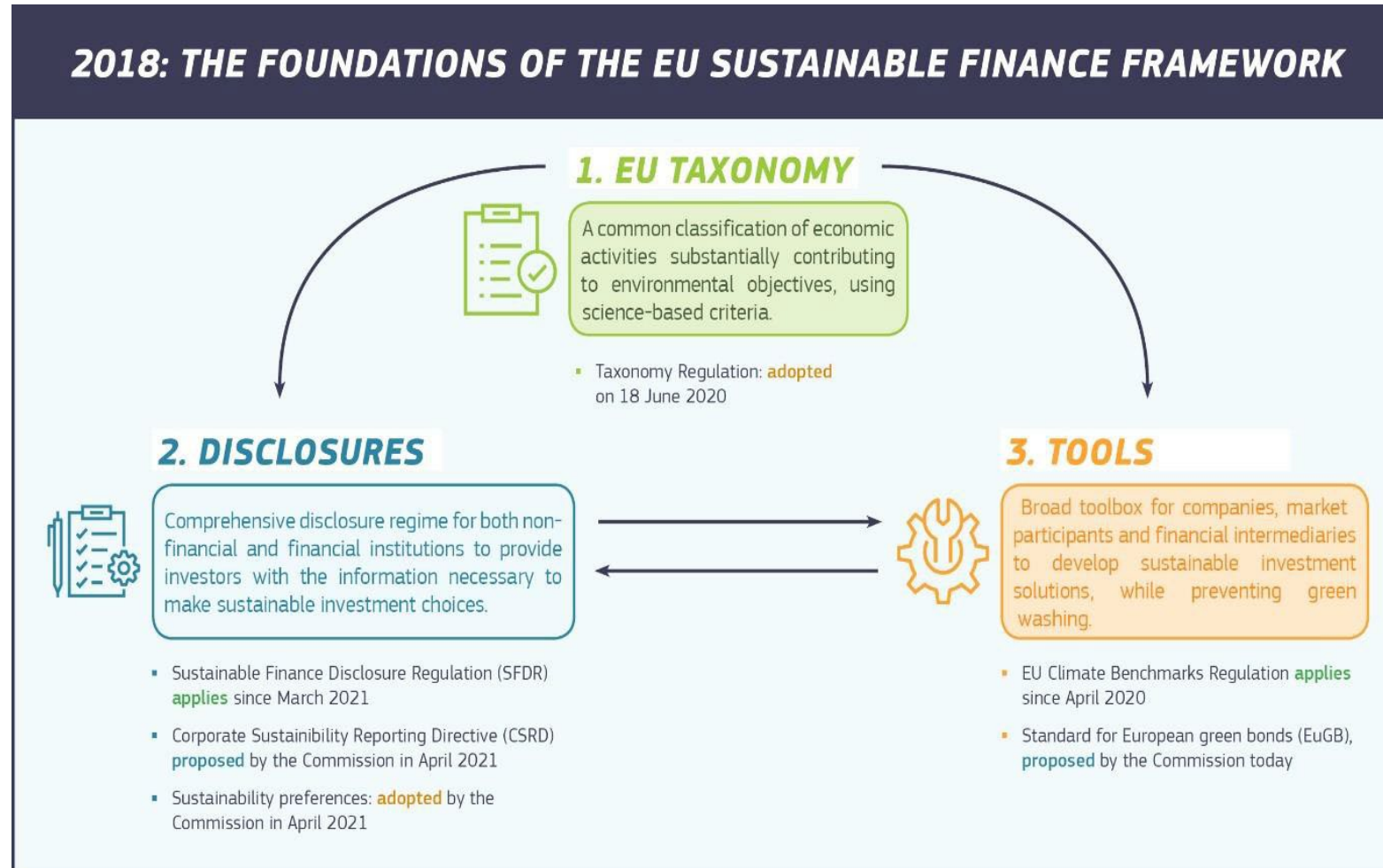
9. Strengthening **sustainability disclosure** and **accounting rule-making**
10. **Fostering sustainable corporate governance and attenuating short-termism in capital markets**

EC: Executing the Action Plan

- European Union (EU) governments and business leaders believe that one of the best ways to achieve their sustainability goals is to encourage capital to flow towards efforts that promote and enable a more sustainable economy.
- Many investors also support this objective, but **often lack enough information to assess and compare sustainable investment options** on the basis of how they are aligned to their investment goals.
- The EU Action Plan on Sustainable Finance features a series of interlinking regulations designed to encourage sustainable investing, represents a major step towards redirecting capital to the sustainable economy.
- A key part of the plan is the **EU Sustainable Finance Disclosure Regulation (EU SFDR)**, which came into effect on 10 March 2021.
- The subsequent **EU Taxonomy Regulation** established specific environmental criteria related to economic activities for investment purposes and thus impacts the product classifications set out in the EU SFDR, from 1 July 2022.
- An extended environmental taxonomy and a social taxonomy will follow.

EC: Executing the Action Plan

Based on that plan, the EU has put in place the three building blocks for a sustainable financial framework



The EU taxonomy in brief

What is the EU taxonomy?

The EU taxonomy is a tool to help investors, companies, issuers and project promoters navigate the transition to a low-carbon, resilient and resource-efficient economy. The taxonomy sets performance thresholds (referred to as 'technical screening criteria, or TSC') for economic activities which:

- make a substantive contribution to one of six environmental objectives;
- do no significant harm (DNSH) to the other five, where relevant; and
- meet minimum safeguards (e.g. OECD Guidelines on Multinational Enterprises and the UN Guiding Principles on Business and Human Rights).



Who does the EU taxonomy regulation apply to?

There are three main groups EU taxonomy rules apply to:

- Financial market participants, including occupational pension providers, offering financial products in the EU;
- Large companies which are required to report under the Non-Financial Reporting Directive (NFRD), which is set to be revised by the CSRD; and
- The EU and its member states.

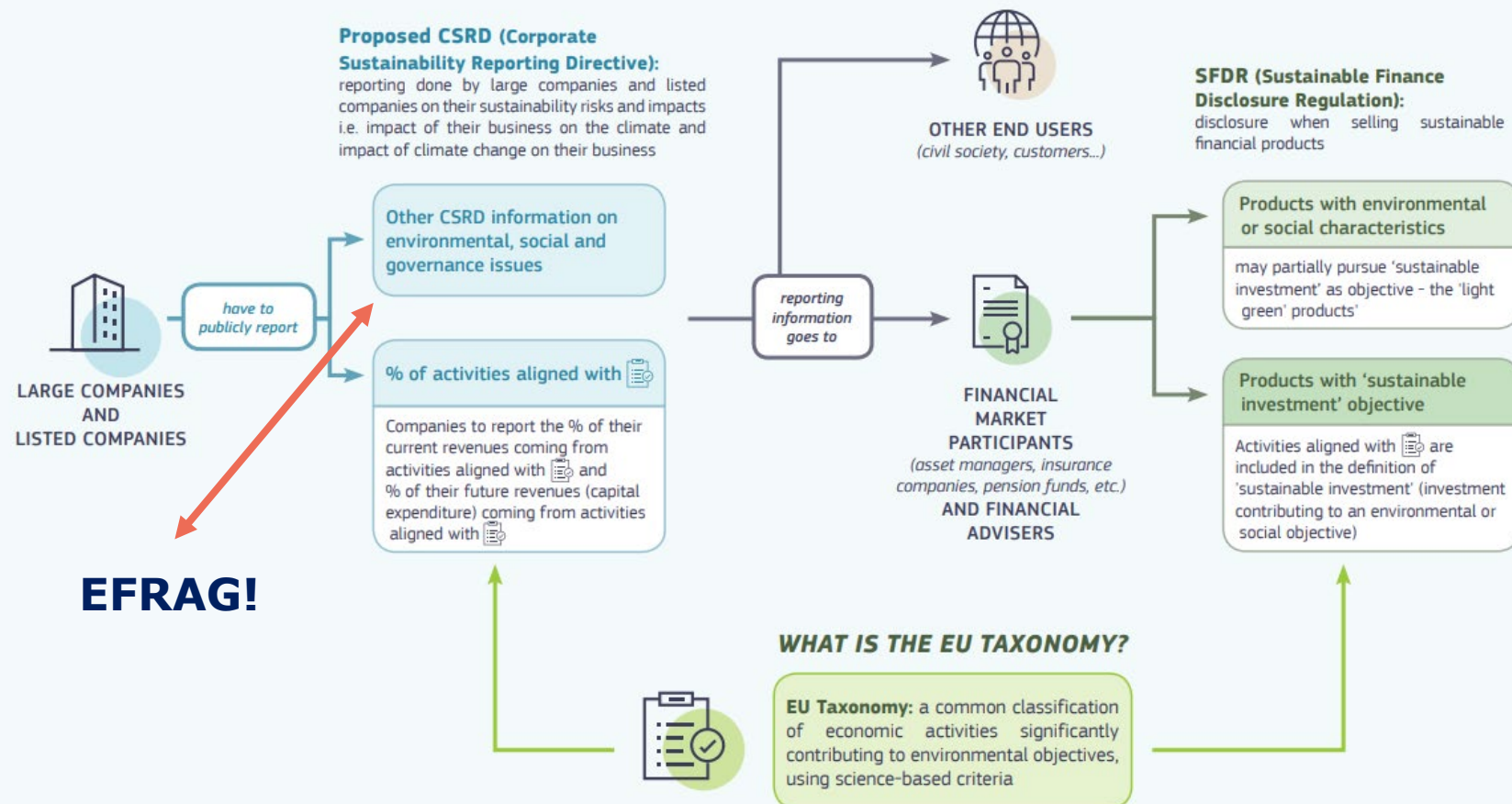
Building Block: Mandatory disclosure regime for both non-financial and financial companies

Sustainable Finance Disclosure Regulation

- The EU's Regulation on sustainability-related disclosures in the financial services sector (the **SFDR**) was published in the Official Journal on **9 December 2019** (although aspects of it were amended by the Taxonomy Regulation, which was published on **22 June 2020**).
- The action targets asset managers and financial advisors **in an attempt to combat greenwashing**
- The requirements do not require asset managers to incorporate sustainability into their thinking, but they do require disclosures about actions they are taking, if any, on a number of sustainable investing topics
- The EU taxonomy is the central tool for assessing the sustainability claims made under SFDR.

HOW DOES THE EU TAXONOMY FIT WITHIN THE SUSTAINABLE FINANCE FRAMEWORK?

Two examples when the taxonomy will be used:
in disclosures of financial products and reporting by large companies and listed companies



3. Evolving nature of investing, company stewardship and the implications for corporate reporting and engagement with investors

Environmental, Social and Governance (ESG) Factors

- ESG investment strategies are no longer seen as distinctly separate from traditional investment strategies
- Integrating environmental, social and governance (ESG) factors into analysis of listed equity investments is the most widespread responsible investment practice in the market today
- Several drivers, including capital flowing into funds that integrate ESG factors and the growing awareness of academic research supporting the benefits, are encouraging more and more investors to practice ESG integration
- Ignoring ESG factors is seen as ignoring risks and opportunities that have the potential to materially impact financial performance and returns
- Shift in focus on ESG factors, from the margin to the mainstream, is also having an increasingly important **influence on stakeholder engagement by companies and their disclosure to the markets**
- Companies are now attracting investment for scoring highly on ESG – as against being applied to exclude companies – and with a consequent positive impact on asset prices
- **DATA!!**

What are investors using the EU Taxonomy for?

- One of the primary uses is to measure the environmental performance of investment products.
- The Taxonomy can also be used by investors to:
 - Assess beneficiaries' sustainability preferences;
 - Identify sustainable investment opportunities;
 - Conduct due diligence on current and potential holdings;
 - Design green financial products;
 - Guide stewardship activities; and
 - Measure sustainability outcomes of an investment portfolio.

Asset Stewardship: What we are seeing in EMEA

Climate Change in EMEA (Sept 2021 Snapshot)

The race to Net-Zero continues across Europe

- 30 of the UK's FTSE 100 companies have now signed up to the UN's Race to Zero campaign. Pledges have doubled in 2021 with companies including AstraZeneca, BT Group, Sainsbury's and Unilever
- All but three of the 22 largest European power and gas utilities on the continent have now set net-zero emissions targets, and many have already made significant strides toward achieving them

The emergence of Say on Climate proposals

- A new management proposal giving shareholders a vote on climate transition strategies
- Say on Climate vote gained significant traction across Europe quickly
- Ferrovial, Shell, Total, Unilever, Glencore, Vinci, Atos and Iberdrola were among the companies that added a Say on Climate resolution to their AGM agenda. They all received well above 90% support from shareholders

Asset Stewardship: What we are seeing in EMEA

Climate Change in EMEA (Sept 2021 Snapshot)

European Bank continue to be targeted by climate activists

- Banks targeted by activists include Deutsche Bank, Credit Suisse, Barclays and HSBC
- Climate related shareholder resolutions at European banks seem to be shifting from covering “disclosures-orientated” topics to “action-orientated” ones

Executive Compensation – Greater focus on climate-related metrics

- In Europe, environmental metrics are the common ESG in the LTI
- 11% of European companies, but only 2% of US S&P 500 companies, have CO2 emissions linked to their incentive plans

Asset Stewardship: 2022 US AGM Season

ESG During the 2022 AGM Season

Posted by Stefanie Chalk, Pru Bennett, and Dan Lambeth, Brunswick Group LLP, on Thursday, May 5, 2022, Harvard Law School Forum on Corporate Governance

[ESG During the 2022 AGM Season \(harvard.edu\)](#)

“ESG is now, without question, a mainstream lens through which companies are viewed and assessed by investors. AGMs have become firmly established as a platform for shareholders to bring key ESG issues to the attention of boards and the public.

Global ESG assets are projected to surpass \$41 trillion by 2022 and \$50 trillion by 2025, one-third of the projected total assets under management globally, according to Bloomberg Intelligence. ESG funds represent the fastest-growing part of the global fund market”.

Asset Owners / Activist Shareholder Influence: The Social Challenge

Why these Article 9 funds continue to hold Tesla despite social controversies

Citywire Selector takes a closer look at the firm's social credentials and how Article 9 funds are dealing with the controversies around the stock.
April 2022



[Link: Why these Article 9 funds continue to hold Tesla despite social controversies - Citywire \(citywireselector.com\)](https://citywireselector.com)

Reputational Risk of Stewardship Claims: Example

[BlackRock accused of ESG inconsistency over Indonesia palm oil | Financial Times](https://www.ft.com/content/479b9dd2-c738-4310-8b1e-afdfbd3921b0)

- <https://www.ft.com/content/479b9dd2-c738-4310-8b1e-afdfbd3921b0>

BlackRock accused of ESG inconsistency over Indonesia palm oil

US fund manager invested in group facing allegations of land grabs and poor environmental standards, 5th May 2021



A palm oil farmer in Indonesia. BlackRock has made ambitious commitments to environmental, social and governance issues

EU proposal for new directors' duties and rules on corporate sustainability due diligence

On 23 February 2022, the Commission adopted a proposal for a Directive on corporate sustainability due diligence. The aim of this Directive is to foster sustainable and responsible corporate behaviour and to anchor human rights and environmental considerations in companies' operations and corporate governance. The new rules will ensure that businesses address adverse impacts of their actions, including in their value chains inside and outside Europe.



My Tips to Boards / Audit Committees:

- Know your Purpose and Values
- Reflect Purpose in Strategy, Risk Appetite
- Reflect/Integrate E&S Factors
- Know and influence your supply chain
- Build a narrative
- Avoid reporting silos (e.g. Financial reporting versus sustainability reporting)
- Disclosure quality – know your audience...and the data they need versus what you can provide



Thanks for your time. Any questions?



8. Closing Comments

Kevin Prendergast

Chief Executive