Public Policy Report

Q4 2023
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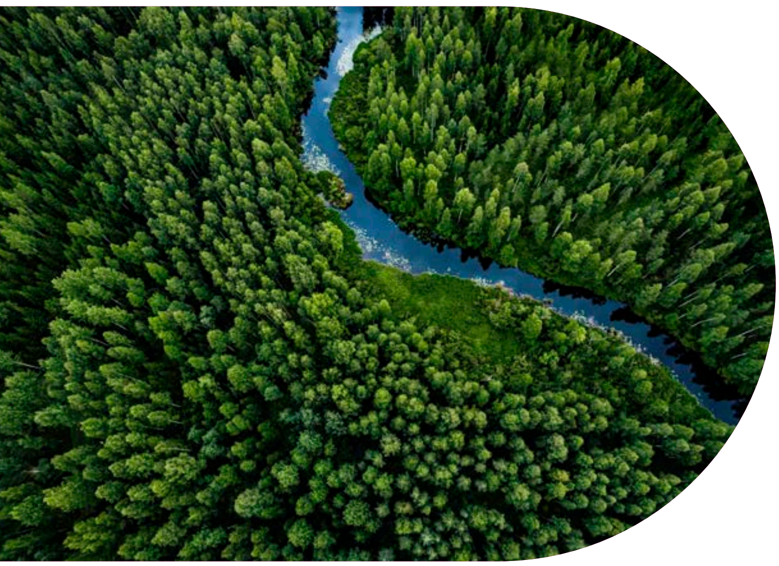
Public Policy Highlights

This quarter, on behalf of our clients, we held 13 discussions with relevant regulators, standard-setters and industry bodies and participated in 11 consultations or a proactive equivalent, such as a letter.

Region	Consultation or proactive equivalent	Meeting or discussion	Total
Global	6	4	10
Australia and New Zealand	–	1	1
Emerging Markets	–	3	3
Europe	1	–	1
North America	1	2	3
United Kingdom	3	3	6
Grand Total	**11**	**13**	**24**



Highlights

Our key activities and achievements in this quarter include:

Global

FSDA meeting and progress update
Lead engager: Joanne Beatty

We attended the Q4 2023 meeting of the Finance Sector Deforestation Action (FSDA) initiative, moderated by Global Optimism. The secretariat provided an overview of events at COP28 regarding governance and biodiversity expectations, and presented on FSDA progress to date. We appreciated that 89% of the original signatories have a deforestation policy (milestone one) in place. Three signatories who joined later have a commitment to develop a policy. There has been good progress by 21 (58%) signatories who have achieved milestone one (policy) and two (reporting/disclosure). Only one signatory was yet to achieve milestones one and two and the FSDA was optimistic that it would respond soon.

Global Canopy provided an overview of the results of its gap analysis of 10 certification schemes related to the commodities in the FSDA commitment, namely palm oil, soy, beef, pulp and paper. Each scheme was identified as having gaps. The analysis found varying levels of forest protection among seven of the 10 schemes, including different cut off dates, with several of the schemes not protecting human rights.

The Indonesia Sustainable Palm Oil (ISPO) and the Global Roundtable for Sustainable Beef (GRSB) schemes do not have strong requirements for forest protection and should not be used to meet FSDA commitments. The European Feed Manufacturers' Federation (FEFAC) is not a certification scheme in the same way as the others, and companies relying on FEFAC guidelines must have another verification and assurance scheme in place.

We participated in the thematic discussions, which focused on engagement with financial institutions, how to use Forest 500 data and approaches for escalating company engagement.

PRI Spring consultation on company selection methodology
Lead engager: Zoe de Spoelberch

In our role as advisory committee members of the PRI's Spring initiative on nature, we took part in a consultation with Canbury to feed into the development of a prioritisation framework for the company selection process. Canbury presented its initial findings on its methodology to select companies with an influential voice in shaping public policy relating to deforestation. Canbury assessed company supply chains, conducted interviews with local actors, and carried out a policy review for the different regions of focus to inform its selection process.

We challenged Canbury on the robustness of its supply chain analysis and the tools used for this. We gained reassurance that Canbury used supply chain mapping tools such as Trase, and worked with the Nature Conservancy to determine supply chain deforestation regions. We also asked about the policy review to see if it had considered emerging regulation and the political landscapes of the countries involved, such as Argentina during elections.

We also discussed the risks of deforestation regulation enforcement in some areas leading to deforestation in other areas. We recommended that Canbury clearly outline the rationale for each company's selection in its next steps, including how companies impact the regions at risk of deforestation, or their potential to drive change in deforestation-related policy.

Consultation response to SBTi's interim pathway for automakers
Lead engager: Hannah Heuser

In 2023, the Science Based Targets initiative (SBTi) temporarily paused near- and long-term target validations for automakers until the downstream Scope 3 targets for new road vehicles had been developed and approved. Between the abolishment of the old sectoral decarbonisation approach (aligned with well-below 2°C) and the development of a new one (aligned with 1.5°C), the SBTi published an interim pathway to allow automakers to align the majority of their emissions with a 1.5°C trajectory. To understand the usefulness of the interim pathway, the SBTi launched a consultation, to which we responded.

The consultation comprised questions on the use of the absolute contraction method, and the requirement for automakers to commit to the phase out of new internal combustion engine (ICE) cars and vans by 2035. In our response we outlined some points of concern regarding the interim pathway. First, it was unclear whether automakers would need to respond to the interim pathway as well as a future pathway in order to retain their current SBTi validation. We pointed out that expecting companies to respond to all three pathways might be unreasonable and excessive.

Second, we suggested that automakers should not have to phase out ICEs if national policy did not require this, but it should be highly recommended in the interim pathway. Requiring a phase out might not only hinder useful innovation, but could also result in efficient automakers phasing out ICEs, leaving only the least efficient ICEs in the market. In our response, we outlined the confusion regarding the SBTi's requirements that we have heard in company engagements. We asked the SBTi to provide further clarity on the proposed interim pathway as well as the associated timeframes for the release of future pathways.

ShareAction chemical decarbonisation initiative meeting
Lead engager: Joanne Beatty

We participated in the Q4 2023 working group meeting for the chemical decarbonisation initiative led by the NGO ShareAction. ShareAction provided an overview of four engagements with chemical companies LyondellBasell, Yara, Air Liquide and BASF. The meeting discussed the new Global Framework on Chemicals, which provides a roadmap for reducing environmental risks from chemicals and waste, and sets strategic objectives for companies. ShareAction spoke about its new publication, which introduces a standardised framework for escalating engagement with companies. We discussed recent communications and upcoming webinars that may be of interest to participating investors.

AI Governance Alliance project meeting
Lead engager: Nick Pelosi

We participated in a community meeting of the World Economic Forum (WEF) Artificial Intelligence (AI) Governance Alliance project on Responsible AI Stewardship for Investors. The objective of this project is to help institutional investors and other large capital providers play an active role in accelerating the adoption of responsible AI. It will adopt a multi-stakeholder approach involving the investor community, business, academia, and civil society to ensure that diverse perspectives and interests are represented and considered. During the community meeting, WEF polled investors to inform upcoming research and convened group discussions on responsible AI. We encouraged greater consideration from investors on the impacts of AI on workers.

FAIRR annual survey response
Lead engager: Zoe de Spoelberch

As members of the Farm Animal Investment Risk and Return (FAIRR) organisation, we submitted our response to FAIRR's annual survey. We placed an emphasis on the importance of conducting research and engaging on climate change, biodiversity, regenerative agriculture, antimicrobial resistance (AMR), alternative proteins, and animal welfare. We also noted that ocean health was an upcoming theme that should be further explored in collaborative engagements.

We recognised the work that FAIRR has conducted on regenerative agriculture and thanked it for including us in the roundtable that led to a report on this topic. We suggested that FAIRR could organise more roundtables on specific nature-related topics to foster discussion between investors and their representatives on common expectations for companies.

UN human rights report consultation
Lead engager: Nick Pelosi

We attended an investor consultation hosted by the UN Working Group on Business and Human Rights to inform its report on Investors, ESG, and Human Rights. The report will make recommendations to assist investors in relation to the inclusion of human rights in ESG approaches.

We shared commentary on how human rights standards and frameworks are considered by investors; how ESG ratings, indices, and data products can be changed to help investors understand human rights impacts; and what challenges investors face in undertaking meaningful stakeholder consultation in relation to human rights impacts.

We said that data on human rights impacts sourced directly from workers and communities is still difficult to find despite the plethora of other data, most of which is sourced from third parties or the companies themselves. We added that it is important to consider how human rights reporting metrics will be affected by current efforts to amalgamate and standardise ESG reporting metrics.

Finance for Biodiversity public policy advocacy group meeting
Lead engager: Sonya Likhtman

We joined a meeting of the public policy advocacy group within the Finance for Biodiversity Foundation. A speaker from the World Wildlife Fund joined and provided an update on the EU Corporate Sustainability Due Diligence Directive (CSDDD). His presentation focused on the importance of including financial institutions in the scope of the CSDDD. We also heard from a member who recently represented the Finance for Biodiversity Foundation at a Convention on Biological Diversity group meeting on resource mobilisation in the Democratic Republic of Congo.

We asked members for initial reactions about how nature has featured at COP28. One member said that InfluenceMap would soon release a report assessing companies on their nature-related lobbying activities. We provided an update on COP16 and the publication that we are working on about the implementation of the Global Biodiversity Framework with regard to the alignment of financial flows.

Response to ShareAction survey on health
Lead engager: Zoe de Spoelberch

We completed ShareAction's Long-term Investors in People's Health (LIPH) annual survey to feed into the development of its work. We thanked the LIPH for the collaborative engagements on health and nutrition in which we have participated. We suggested that more research on companies' health commitments and strategies, and comparisons among companies, could serve as helpful tools in engagement to point companies towards peer group best practice.

We encouraged LIPH to define a clear link between human health and other sustainability topics such as biodiversity, animal welfare, climate and human rights, which may help health and nutrition move up the investor agenda. We suggested that LIPH outline how improved biodiversity management, including regenerative agriculture practices and the development of sustainable proteins, might contribute to wider societal health benefits and be an opportunity for company value creation.

Nature Action 100 benchmark consultation
Lead engager: Sonya Likhtman

We provided feedback on the draft Nature Action 100 benchmark, including our overall impressions and detailed comments on specific indicators. We suggested areas where the benchmark could be clearer and more ambitious. For example, it should highlight the importance of using the mitigation hierarchy so that negative impacts on biodiversity are avoided in the first instance. It should ensure that value chain impacts are captured consistently throughout, as this is where most companies' major negative impacts will be.

> **We said that Nature Action 100 should undertake inclusive consultation with Indigenous Peoples in the development of the standard itself.**

In our view, there is also room for improvement in the section about engagement with Indigenous groups. We said that Nature Action 100 should undertake inclusive consultation with Indigenous Peoples in the development of the standard itself. We would recommend citing appropriate international standards so that investors know which human rights are included, and referencing language about consultation and consent. We also suggested the addition of specific language to avoid conservation evictions (ie communities being relocated for the purpose of conservation projects), which is a documented problem in many regions.

Other points of feedback included clarifying whether targets will be required across all impact drivers and specifying the need for long-term targets to accompany short- and medium-term targets. We also suggested asking companies to explain how information about nature-related risks and opportunities will be used in decision-making at the company to inform better management throughout the value chain, rather than solely as a disclosure exercise. Finally, we suggested additional terms that should be defined in the glossary, such as material dependencies, natural resources and pollution.

Australia and New Zealand

Contribution to report about Australian banks and biodiversity

Lead engager: Sonya Likhtman

We were asked to give input into a report about how Australian banks should address biodiversity loss and support the implementation of the Global Biodiversity Framework (GBF). The report has been commissioned by the Australian Conservation Foundation and is being led by EY. We welcomed the report because of the high risk of biodiversity loss in Australia, the high dependence on nature within the Australian economy and the important role of banks in halting and reversing biodiversity loss.

We said that banks should focus on reducing lending practices that are harming biodiversity, which may mean defining some exclusions or "no go" areas of financing, as well as supporting clients to transition by adopting better practices that mitigate biodiversity loss. Banks should also consider how they can support the financing of nature as part of the overall aim to align financial flows with the goals and targets of the GBF.

We also highlighted that deforestation remains a risk in Australia so banks should have clear policies for zero deforestation and conversion by 2025 for all relevant commodities.

We provided views on priorities for each of the four focus sectors: agriculture, property, energy, and resource extraction. We pointed to the need for prioritisation within banks based on the most material sectors and geographies. We also highlighted that deforestation remains a risk in Australia so banks should have clear policies for zero deforestation and conversion by 2025 for all relevant commodities.

We highlighted the importance of the Taskforce on Nature-related Financial Disclosures (TNFD) recommendations being implemented and used to inform understanding and support decision-making, rather than just becoming a disclosure exercise. We discussed potential barriers to banks taking meaningful action on biodiversity loss and provided some examples of banks already taking positive steps. Finally, we emphasised the importance of good governance for nature-related risks and opportunities, including board oversight and alignment of lobbying positions with biodiversity goals.

Emerging Markets

ACGA investor-auditor roundtable in Mumbai

Lead engager: Sonya Likhtman

We joined an investor-auditor roundtable in Mumbai that was organised by the Asian Corporate Governance Association (ACGA). The session focused on integrating climate change into financial accounts and assurance of sustainability data. It started with the ACGA presenting insights from its recent report about climate change governance.

We heard different perspectives about integrating climate change risks into financial accounts, which is not yet common in India. We emphasised the importance of integrating climate change considerations into the financial audit and accounting process for companies where climate change poses a material risk. We asked the auditors what further steps they could take to accelerate the normalisation of this process and to enable it to occur effectively, for example, internal training, trialling the process with a company in an exposed sector, or other measures.

We also explained that in Europe, we are already recommending votes against at some companies where we do not think the audit process is properly taking climate risks into account. Some auditors said that standards and regulation are needed to ensure that audit processes evolve to incorporate climate change risk. They also suggested that integrating climate change into enterprise risk management, which some companies are doing, could be a good basis for integrating climate change into the financial audit process.

The second part of the discussion focused on the readiness of audit firms to assure sustainability data. India's updated Business Responsibility & Sustainability Reporting (BRSR) framework will require reasonable assurance. The BRSR will apply for nine sustainability topics, with numerous recommended data points in each topic, for the top 150 companies in India from 2024, with a phased implementation approach to reach 1,000 companies by 2027.

There are a range of views on the BRSR. Some have welcomed this step to help prevent greenwashing and create clarity in the market. However, others think that companies are not yet ready for reasonable assurance, especially within the supply chain. We said that we appreciated companies that present sustainability data that is reasonably assured because it shows that they value collecting and reporting accurate, decision-useful data.

We also highlighted that good quality sustainability data should be accompanied by meaningful narratives and qualitative descriptions, including data interpretation, and relevance to the business and strategy. There was consensus on the need for capacity building within the audit community to ensure that reasonable assurance of sustainability data could be delivered.

ACGA investor-corporate roundtable in Mumbai
Lead engager: Sonya Likhtman

We joined an investor-corporate roundtable in Mumbai that was organised by the Asian Corporate Governance Association (ACGA). The following companies were represented: Axis Bank, HDFC Bank, Hindustan Unilever, Mahindra & Mahindra, and Cipla. The discussion covered a range of topics, including the role of independent directors on the board, executive remuneration and board oversight of sustainability.

We raised a question about how to normalise investor engagement at board level with Indian companies. We emphasised the importance of engagement at this level to enable investors to properly assess board effectiveness and encouraged companies to provide access to independent directors. We also discussed the Business Responsibility & Sustainability Reporting (BRSR) requirements. Companies expressed some concerns with this regulation, mainly because it is sector-agnostic so will not reflect material indicators for individual sectors, and because of data challenges in the supply chain.

> **While we welcomed the work that SEBI has done to increase the focus on board independence in India, we explained that in our view there is more work to do to ensure genuine independence on boards.**

One of the companies questioned the validity of net-zero targets, given that they are so far away. We explained that climate change poses a significant physical and transition risk in India, so it should be a priority for companies. Also, the way in which India responds to climate change will be important to the world as a whole. We said that net-zero targets should be complemented by short- and medium-term emissions reduction targets that are aligned with a 1.5°C climate scenario to be credible and enable meaningful action across the short, medium and long term.

Meeting with the Securities and Exchange Board of India
Lead engager: Sonya Likhtman

We met the Securities and Exchange Board of India (SEBI) in Mumbai as part of the Asian Corporate Governance Association (ACGA) delegation. In an overview, SEBI said that India is expected to be the third largest economy by 2030, with an expected GDP of US$7tn. This economic growth will mean more initial public offerings (IPOs), more expansion of companies, and more company activity in terms of raising funds. Increasing retail investor participation is also expected in India in coming years.

SEBI outlined the need to build trust with international investors through good governance. The director of SEBI asked for investor views on governance and sustainability in India, with respect to the role of the regulator. The group shared some views, including on the separation of chair and CEO roles, and executive remuneration. SEBI is not currently reconsidering the rules about chair and CEO role separation, which are voluntary. It expects companies to gradually move towards the model of the roles being separate.

We strongly encouraged SEBI to consider the lead independent director (LID) role, in the absence of mandating the separation of the chair and CEO roles. We highlighted the importance and value of a strong core of genuinely independent directors, which can be led by a LID, to ask challenging questions and provide independent oversight. While we welcomed the work that SEBI has done to increase the focus on board independence in India, we explained that in our view there is more work to do to ensure genuine independence on boards.

Secondly, we shared our expectations on executive remuneration in India, including considering the ratio between CEO and average employee pay, the need to improve the disclosure of metrics and performance hurdles for variable pay, and the problems with incentivising non-executive directors through variable pay structures that may drive short-term behaviour. An investor asked whether SEBI is considering changing the number of directorships that are allowed - currently seven. SEBI said that this is not currently under consideration, as companies had already pushed back on seven directorships, so the regulator had to find a balance. It said there was a challenge with the supply of high-quality independent directors.

SEBI was encouraged to lower the threshold for filing shareholder resolutions in India, as the current 10% ownership requirement prevents most investors from filing. There was also a discussion about SEBI's decision to introduce a mandatory requirement for reasonable assurance of sustainability data. Over 150 companies had already disclosed sustainability data on a voluntary basis, so SEBI decided to make this mandatory. Given the importance of ensuring that no greenwashing occurs, it said that requiring reasonable assurance would be valuable.

Europe

WWF consultation on transition plans
Lead engager: Will Farrell

In support of the World Wildlife Fund's (WWF's) work on defining the credibility of company transition plans, we shared our views on what constitutes effective transition planning and how investors seek to use this information. We defined a credible plan as one that is sufficiently ambitious, provides a clear roadmap for decarbonisation across the business, identifies relevant technologies and market opportunities, and defines near- and long-term actions. It should also set relevant targets and sub-targets, limit and explain any reliance on neutralising measures, identify any policy dependencies, and explain how the company will lobby positively in line with this transition.

North America

Response to US EPA's proposed reporting rule
Lead engager: Dana Barnes

We submitted a comment letter on the US Environmental Protection Agency's (EPA's) proposed greenhouse gas reporting rule for petroleum and natural gas systems. This fulfils the congressional directive in the Inflation Reduction Act's Methane Emissions Reduction Program (MERP) to update its greenhouse gas reporting programme methane reporting protocols. The aim is to ensure that reporting more accurately depicts company-specific and total oil and gas sector methane emissions that will become the basis of the MERP-mandated methane fee assessments.

We outlined that more accurate reporting is critical for investors so that they can discern company-specific risks related to emissions and methane fees, safety, and reputation. We said that the proposed rule should enhance reporting transparency, credibility, and comparability, promote best operating practices, and improve public health and safety, human rights, and value chain regulatory oversight and transparency.

Participated in living wages panel at ICCR conference
Lead engager: Nick Pelosi

We spoke on a panel entitled *Advancing Worker Justice: Investor Advocacy on a Living Wage* at the Interfaith Center on Corporate Responsibility (ICCR) conference. The panel built investor understanding and capacity to engage with companies on paying a living wage, focusing on the business case and the moral imperative to raise wages for low-waged workers in the US. The ICCR discussed how living wages deliver business benefits, reduce economy-wide risks, and fulfil the corporate responsibility to respect human rights.

> **We outlined that more accurate reporting is critical for investors so that they can discern company-specific risks related to emissions and methane fees, safety, and reputation.**

We shared insights from our engagements on living wages as part of our human capital management theme and relayed some common push backs from companies regarding living wage accreditation. Joining us on the panel was an associate from Walmart and a representative from the NGO Living Wage For US, to offer worker and civil society perspectives.

Investment Industry Leaders Forum participation
Lead engager: Nick Pelosi

We participated in the Investment Industry Leaders Forum convened by the High Meadows Institute. The purpose of the forum was to identify key factors impacting participants' work over the last several months and emerging issues for the field. Participants took a deep dive on biodiversity and the Taskforce on Nature-related Financial Disclosures (TNFD), which is focused on building a framework to disclose nature-related risks, opportunities, impacts, and dependencies.

United Kingdom

Response to government's Scope 3 emissions consultation

Lead engager: Hannah Heuser

EOS and Federated Hermes Limited's Responsibility Office sent a combined response to the Department for Energy Security and Net Zero's consultation on Scope 3 emissions in the UK reporting landscape. The International Sustainability Standards Board (ISSB) is developing a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors, which includes the IFRS S2 standard. This requires entities to disclose information about climate-related risks and opportunities that could affect their balance sheets in the future.

In its consultation, the UK government sought company and investor views on the costs, benefits, and practicalities of Scope 3 greenhouse gas emissions reporting to help inform its decision as to whether to endorse the use of IFRS S2 by businesses. In our response, we outlined our support for the endorsement of this standard by the UK government, as Scope 3 disclosure provides a clearer picture of the potential transition risks to which a company is exposed. This allows for more informed investment and engagement decision-making.

Scope 3 emissions categories vary in importance depending on the sector and business model. We therefore encouraged guidance specifying which Scope 3 emissions categories are likely to be most relevant for individual sectors, while supporting companies to conduct this assessment themselves to ensure that the most material categories for their business model are disclosed. If a company chooses not to report data for a category that is deemed material for its sector, it should present a detailed explanation for its non-compliance.

We cautioned against adopting a policy that would mandate the disclosure of non-material categories because this would not be useful for investors. Companies' material Scope 3 category disclosures should be given on an absolute and an intensity basis, to help investors understand the magnitude of company-specific exposures and compare performance across companies of different sizes.

PRI Spring signatory advisory committee meetings

Lead engager: Zoe de Spoelberch

As part of the signatory advisory committee of the Spring PRI initiative, we met with the group to discuss the initiative's development. We focused on the company selection methodology and were joined by consultants who have developed a draft methodology. The company selection will be based on three pillars: geographies at risk of deforestation, policy arenas on the supply and demand side that can generate systemic impact and be influenced by companies, and companies that have political influence and investor leverage.

The consultants shared the findings from interviews conducted in Argentina relating to the Gran Chaco region at risk of deforestation. They outlined that regulation on deforestation existed but was not enforced due to insufficient funding and corruption. We raised concerns about local corruption posing a barrier to effective engagement in the region and discussed economic incentives as solutions for this. We also recommended that the PRI should disclose the list of target companies ahead of the sign-on deadline to the initiative so that investors could map which companies would be of interest to them.

> **The consultants shared the findings from interviews conducted in Argentina relating to the Gran Chaco region at risk of deforestation.**

We asked about duplication of companies with Nature Action 100 (NA100) and were reassured that, as the company selection methodologies are different, the list of target companies will differ sufficiently for these initiatives to be complementary. In the event of company duplication with NA100, there will be collaboration between Spring and NA100.

Later in the quarter, we met again to discuss updates to the methodology for the initiative's company selection process. The methodology consists of identifying policy arenas related to deforestation, the trade associations that are most influential in shaping these policies, and their members. An initial list of companies had been developed and we suggested ideas to shorten the list. For example, we suggested prioritising companies that are advocating on deforestation policies that are in flux due to changing political landscapes or evolving regulation, to maximise the impact we could have in engagement.

IIGCC Accounts Working Group meeting

Lead engager: Justin Bazalgette

We joined our first meeting as co-chair of the Institutional Investors Group on Climate Change (IIGCC) Accounts Working Group. We discussed the progress made over the past few months and expectations for the forthcoming vote season. It was agreed that additional action was required to reinforce investor expectations of the regulator, the auditors and proxy voters. This will emphasise that environmental and climate-related factors are material to investors' stewardship and voting decisions as part of their fiduciary duty to mitigate financial risk and protect long-term shareholder value.

Carbon Tracker Initiative (CTI) joined the call and confirmed that its next benchmark on climate-aligned accounting would be published in January 2024. We also discussed the opportunity for CTI to provide more timely information to assist with individual company engagements on the subject. It could provide a sector-by-sector assessment of key issues and questions for investors to use in engagement, plus sector-by-sector refresher seminars to help improve engagers' confidence and understanding of the subject.

Letter to Ofgem on renewable energy grid connections

Lead engagers: Owen Tutt

We wrote a private letter to the CEO of Ofgem, the UK energy regulator, and the lead for power grid connections. We emphasised our support for Ofgem to accelerate the rate at which renewable energy projects are being connected to the electricity grid, following our letter to the secretary of state for energy security and net zero on this topic earlier this year. We highlighted that the companies we engage with are not able to decarbonise in isolation and the regulatory environment, in part formed by Ofgem, must be supportive for private sector decarbonisation.

We stated that the challenge of connecting renewable energy projects to the grid was a key barrier to further emissions reductions for a number of companies with which we engage in the UK. We understand that Ofgem is currently considering a change to an industry code that has been proposed to help address this challenge. We expressed our support for Ofgem prioritising solutions to this issue, although noted that we are not able to evaluate and support specific solutions.

The director general for infrastructure at Ofgem responded to our letter, confirming that addressing the backlog in grid connections for renewable energy projects was a priority for the regulator. He outlined a number of immediate actions being taken. These included a change to the queue management code that will insert enforceable milestones into new and existing connection agreements. This will allow the regulator to remove projects from the queue that are not progressing and therefore accelerate the connection of viable projects. This was a very positive outcome following our letter sent in the lead up to this decision.

Feedback on report providing technical advice to Defra

Lead engager: Sonya Likhtman

The draft report outlines the recommendations made by the Land, Nature and Adapted Systems (LNAS) Advisory Group on technical screening criteria (TSC) for agriculture and fisheries activities within the UK green taxonomy. The report for the Department for Environment, Food and Rural Affairs (Defra) sets out the process through which the criteria were developed, with a detailed rationale and the feedback received during market testing of the proposals.

We suggested that an additional recommendation should be to keep abreast of national and international developments in sustainable agriculture and fisheries to ensure that the UK can evolve expectations and implement best practices. We highlighted that agriculture forms the supply chain of major supermarkets and food and beverage manufacturers. Therefore, investor scrutiny through a supply chain risk and impact perspective may be relevant to agriculture and fisheries. We also provided several suggestions for clarifying the wording in the technical screening criteria for climate change mitigation in agriculture.

PwC trust and transparency forum

Lead engager: Justin Bazalgette

We attended PwC's annual trust and transparency forum and heard the company talk about the results of the Edelman Trust Barometer. This highlighted a lack of faith in societal institutions triggered by economic anxiety, disinformation, the class divide and a failure of leadership. This has created a society that is deeply and dangerously polarised. Against this backdrop, we heard that business is the only institution seen as competent and ethical, with 53% of respondents globally saying that their countries are more divided today than in the past.

It then went on to explain the gap it sees between the rigour and control taken to report financial information, compared with non-financial and ESG reporting, and the need for more standardisation and process control to be introduced into non-financial reporting. In the EU, new legislation is coming, with expectations for non-financial reporting, but in the UK such regulations are delayed. However, over 50% of companies surveyed are asking their auditor for limited assurance to help with their reporting, and are clearly seeing the benefits of this approach. Much of this is focused on the environmental part of ESG, but the company is seeing a growing number of social and governance areas in the requests for limited assurance.

The company was joined by the new CEO of the UK's Financial Reporting Council (FRC). We asked how he would ensure that the FRC closes the gap between the reality and the expectations around greater disclosure of judgements, assumptions and estimates relating to climate-aligned accounting. He stated that he and the FRC valued the voice of the investor and that it was important to represent this clearly in the FRC's role. However, he added that he did not want to jump to rule setting too quickly, but rather help the sector evolve to take a more nuanced and principled focus.

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Federated Hermes Limited

Federated Hermes

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