Latest Developments in Governance, Stewardship and Sustainability

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Stewardship Catalysts

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SBTi Revises Proposal Amid Controversy Over Carbon Offsetting

The Science Based Targets initiative (SBTi) published two key papers that may shape the future of its net-zero standards. The Scope 3 Discussion Paper suggests a framework to guide companies in focusing on critical emissions within their industries, rejecting the use of carbon credits from activities outside their value chains. The second, the Carbon Credit Synthesis Report, highlights the ineffectiveness of carbon credits in meeting corporate climate targets.

These releases follow an April 2024 statement by the SBTi Board that proposed including carbon credits in calculations for achieving climate targets, which sparked significant backlash and raised concerns about undue influence by “backers” of the carbon credit industry. The SBTi's revised proposals aim to address existing challenges in corporate target setting by emphasizing sector-specific transitions and more meaningful action, rather than relying on carbon offsets.

On the horizon: Ongoing revisions to SBTi standards, the GHG Protocol and a new ISO net-zero standard are expected to enhance corporate climate accountability.

Majority of U.S. Corporations Embrace Sustainability: Over 80% Drive Net-Zero Efforts Ahead of New Climate Law

On August 15, 2024, EcoOnline published survey results showing that over 80% of large U.S. companies are on a significant shift towards integrating sustainability and actively working on net-zero programs in advance of binding climate legislation. Notably, none of the surveyed firms are delaying sustainability efforts until laws are in place. Highlights of the survey results include:

- Companies are preparing for California's new climate laws (SB 253 and SB 261) that mandate greenhouse gas emission disclosures and climate risk reporting.*

- 73% view sustainability as a revenue driver, while 94% believe it enhances brand value.

- 85% plan to increase their sustainability budgets within the next three years, with 25% having fully funded and prioritized these budgets.

- 84% intend to use specialized software to meet compliance requirements.

** SB 253 requires U.S. companies doing business in California with over $1 billion in total annual revenues to disclose GHG emissions while SB 261 requires those companies with over $500 million in total annual revenues to report climate-related financial risks.*

Korean Corporate Governance Forum Criticizes Government's Value-up Initiatives, Endorses Opposition's Corporate Governance Reforms

In an opinion issued on July 27, 2024, the Korean Corporate Governance Forum lowered its rating of the government's "Value-up" initiatives from a B- to a C grade.* The Forum expressed disappointment with the Government's decision to delay amendments to the Commercial Code, which would have strengthened protections for shareholders. In the same opinion, the Forum criticized the 2024 Tax Reform Proposal, arguing that it primarily benefits the wealthy while failing to address the underlying issues of weak corporate governance that contribute to the "Korea discount." Despite acknowledging some positive tax incentives for shareholder returns, the Forum found that the proposed measures are too limited and short-term to drive substantial improvements in the capital market and omit broader reforms, such as mandatory share buybacks and enhanced stewardship by the National Pension Service (NPS).

In a subsequent opinion on August 1, 2024, the Forum endorsed the opposition Democratic Party of Korea’s "Korea Booster Project," which proposes key reforms to strengthen corporate governance and protect minority shareholders. The Forum praised this as a critical step toward addressing ongoing issues in Korea's capital markets and called for cooperation between the Government and opposition to implement these much-needed changes.

** In February 2024, South Korea’s government and stock exchange outlined a set of Corporate Governance measures dubbed “Value-up”, kicking off a potential multi-year overhaul process of corporate governance, tax and other laws and regulations.*