# Latest Developments in Governance, Stewardship and Sustainability

Valoris
Stewardship Catalysts

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## CDP Finds Water Data Requests Are Nearly as High as Climate Data Requests

On June 24, 2024, CDP's annual Non-Disclosure Campaign (NDC) saw a dramatic 122% increase in demands for high-impact businesses to disclose water-related data. This push was led by a coalition of 276 financial institutions, which together manage over $21 trillion in assets. A record 1,029 high-impact companies have been specifically requested to report their water-related impacts and risks. This focus on water is particularly significant when compared to the 1,329 companies targeted for climate data (a 17% increase from 2023) and the 373 companies targeted for forest data (a 10% decrease from 2023). The manufacturing sector is the most targeted for water disclosures, representing 28% of the companies requested, followed by the materials sector at 13% and the retail sector at 12%.

## The European Supervisory Authorities Propose Recommended Amendments to the SFDR

On June 18, 2024, the European Supervisory Authorities (EBA, EIOPA, and ESMA – ESAs) issued on their own initiative a joint Opinion on the Sustainable Finance Disclosure Regulation (SFDR). The Opinion calls for a coherent framework that supports the green transition and enhances consumer protection, based on lessons learned and feedback received. The ESAs encourage the European Commission to undertake consumer testing to inform its assessment and policy considerations. The main ESAs' recommendations to the Commission can be summarized as follows:

- Product Classification System: Introduce a product classification system based on regulatory categories and/or sustainability indicators to help consumers navigate sustainable products and support the transition to sustainable finance.
- Categories with Clear Criteria: Create simple categories of financial products with clear, objective criteria or thresholds, including at least 'sustainability' and 'transition' categories. This would reduce the needed extent of sustainability disclosures.
- Consumer Testing: Test product categorization options and/or sustainability indicators with consumers and consult on them to ensure clarity.
- Revisiting Concept Coexistence: Revisit the coexistence of "sustainable investment" as defined in the SFDR and Taxonomy-aligned investment as defined in the EU Taxonomy.
- Catering to Different Investor Needs: Ensure sustainability disclosures cater to different investor needs, consider various distribution channels, and ensure consistency of information. Prioritize essential information for retail investors, while providing more detailed information for professional investors.
- Inclusion of Other Products in SFDR: Consider including additional products within the SFDR scope to ensure harmonized disclosures for all relevant financial products.

**ESAs Opinion on SFDR**

eba European Banking Authority · eiopa · ESMA

**Sustainability categories for financial products**

**"Sustainable" category**
- Focus on sustainable investments
- Clear and objective minimum criteria
- EU Taxonomy basis for environmental sustainability

**"Transition" category**
- Focus on transition investments
- Mix of KPIs
- Consider initial ambitious but realistic share of investments that can grow over time

**Non-categorised products**
- Products that do not fulfil the conditions to fall under the proposed categories

**Sustainability indicator(s) for financial products**

**Option 1:** one indicator for products within and outside the sustainable and transition categories

**Option 2:** one indicator per sustainability category (non-categorised products not included)

**Examples for grading**

A B C D E

Sustainable category A B C D E

Transition category A B C D E

## China's Revised Company Law in Effect from July 1

On July 1, 2024, the Chinese Revised Company Law went into effect. The Law introduces several significant changes, particularly in enhancing employee participation in corporate governance. Notably, the revision mandates that companies with 300 or more employees must have employee representatives on their board of directors, unless they already have a board of supervisors with members elected by the Employee Assembly.* This requirement also applies to foreign-invested companies in China. Additional changes to corporate governance structures introduced by the Revised Law include:

1. Establishment of an Audit Committee: The Revised Law permits limited liability companies (LLCs) and joint-stock companies to establish an audit committee within the board of directors. In joint-stock companies, the audit committee must consist of at least three members, with more than half (at least two if there are only three members) being directors who do not hold any other position within the company. Prior to the revision, audit committees were only permitted at the board of supervisors.
2. No Board of Directors for Small Joint-Stock Companies: Small joint-stock companies or those with few shareholders now have the option not to establish a board of directors, a provision previously available only to LLCs under the 2018 Company Law.
3. No Supervisors for Small LLCs: Small LLCs or those with few shareholders can opt not to have supervisors, provided there is unanimous consent from all shareholders.
4. Transfer of Powers to the Board of Directors: The revision allows the shareholders' meeting to authorize the board of directors to make resolutions on certain matters within its functions and powers, such as issuing corporate bonds.
5. Expanded Scope for Appointment of Legal Representatives: The 2018 Company Law restricted the role of legal representative to the chairman, executive director or manager. The revision expands this to include any director or manager who conducts affairs on behalf of the company.

In a blog piece posted prior to the approval of the revised Chinese Company Law, the Asian Corporate Governance Association (ACGA) covered the proposed draft and indicated that some amendments are related to what it recommended in its 2018 report on China "Awakening Governance''. Particularly, their recommendation to a move *"to either see supervisory boards have their powers strengthened or delineated, or that they be phased out entirely"*.

** China has a 'two-tier' board system: a board of directors and a supervisory board, or board of supervisors. The Board of Directors is the decision making unit while the Board of Supervisors serves as a monitoring mechanism. According to the ACGA, "unlike other 'two-tier' regimes however, in practice supervisory boards have limited authority over directors and management. Their oversight function is formalistic and adds little value to companies or assurance to shareholders. Members typically lack relevant business credentials and are appointed (and fired) by controlling shareholders."*