# Latest Developments in Governance, Stewardship and Sustainability

Valoris
Stewardship Catalysts

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## FRC Announces Five New Priority Areas for Revised UK Stewardship Code Governance

On July 22, 2024, the Financial Reporting Council (FRC) announced significant revisions to the UK Stewardship Code, focusing on five new priority areas. The announcement follows FRC's engagement with over 1,500 stakeholders earlier this year. The revisions aim to enhance the effectiveness of the Code in supporting UK capital markets, reducing reporting burdens and driving better stewardship outcomes.

The FRC will specifically focus on the following themes in the new phase of the Code's revision:

- Purpose – The FRC will take into account all stakeholder views and set out its expectation of what defines effective stewardship, what this looks like in practice, and how reporting against the Code can help to deliver this.
- Principles – The FRC will consider what reporting will be necessary to deliver on a renewed purpose of the Code.
- Proxy Advisors – The FRC will carefully consider how the Code might support greater transparency of how proxy advisors operate.
- Process – The FRC will advance proposals to reduce the reporting burden currently associated with being a Code signatory and ensure that information included in reports is useful and accessible to all underlying investors and other stakeholders.
- Positioning – The FRC will work closely with other regulators such as the Department for Work and Pensions (DWP), the Pension Regulator (TPR) and the Financial Conduct Authority (FCA) to support clarity in understanding the revised Code and its successful implementation. The Code will continue to support the objectives of those other regulators to avoid any confusion and duplication that signatories may encounter.

The FRC will also introduce five changes to reduce the reporting burden on existing signatories to apply during the next application window (31 October 2024): remove the requirement to annually disclose all 'Context' reporting expectations; remove the requirement to annually disclose against 'Activity' and 'Outcome' reporting expectations for some principles; allow the use of content from previous reporting and cross-referencing; set clear expectations of what is considered an 'Outcome' for stewardship purposes; and emphasize the ability to exercise reporting against Principles 10, collaborative engagement, and 11 escalation 'where necessary'.

## TNFD Issues Sector-specific Guidance to Enhance Nature-related Disclosures

On July 3, 2024, the Taskforce on Nature-related Financial Disclosures (TNFD) issued its first set of additional sector-specific guidance. This includes recommended metrics for disclosure that align with the TNFD's recommendations from September 2023. The guidance pertains to the following eight real economy sectors:

- Metals and mining
- Electric utilities and power generators
- Chemicals
- Food and agriculture
- Oil and gas
- Forestry, pulp and paper
- Aquaculture
- Biotechnology and pharmaceuticals

Additionally, the TNFD released more guidance for financial institutions and value chains. The guidance for financial institutions provides recommended disclosures and metrics for banks, (re)insurance companies, asset managers and asset owners and development finance institutions. The value chain guidance offers a framework for organizations to analyze their upstream and downstream value chains.

Drafts for guidance documents directed at other sectors (Fishing, Engineering, construction and real estate, Construction materials, Beverages and Apparel, accessories and footwear) are open for consultation until September 27, 2024.

## Two Major ESG Raters Exit the Indian Market

S&P Global decided to cease issuing ESG ratings to Indian investors regulated by the Securities and Exchange Board of India (SEBI) in reaction to SEBI's new rules which mandate ESG rating agencies to disclose their methodologies and consider local conditions. While S&P Global will no longer offer ESG ratings of Indian companies to Indian investors, the former will still have access to them for their own purposes and ratings will still be offered to international clients where SEBI regulations do not apply. S&P is the second major rating agency to formally exit the Indian ESG ratings market following Sustainalytics' withdrawal last November.