

ESG View

June 2023

21 June 2023



Welcome to the June edition of ESG View!

Earlier this month we celebrated our blue planet with World Ocean Day, which was a valuable reminder of the significance of our ocean ecosystems. They cover over 70% of the Earth's surface and produce 50% of the oxygen we need, thereby being responsible for every second breath we take. Simmons & Simmons, in partnership with the [Marine Conservation Society](#) marked the occasion by hosting an event on **Financing the Growth of the Blue Economy**, which brought together a wealth of stakeholders, from NGOs to policymakers to financial practitioners across asset management, banking and insurance. All with the common purpose of exploring ways to channel more finance towards the blue economy. Learn more about what was discussed [here](#) and watch this space for future opportunities to get involved!

Building on the momentum of World Ocean Day, this week saw a historic [agreement](#) on the adoption of the UN High Seas Treaty. Initial agreement on the wording was covered in our [March edition of ESG View](#). The UN has now adopted the agreement, which addresses four key issues including: the fair and equitable sharing of benefits from marine genetic resources; establishment of area-based management tools, including marine protected areas; ensuring environmental impacts of activities are included in decision-making; and facilitation of cooperation in capacity-building and the transfer of marine technology.

We've also seen a historic climate development in Switzerland this week, with a national referendum resulting in almost 60% of voters casting their ballot in favour of a [new climate bill](#) (the Federal Act on Climate Protection Targets, Innovation and Strengthening Energy Security). This outcome signals overwhelming support for Switzerland to accelerate their net zero journey and become carbon neutral by 2050. It will be interesting to see whether other European states follow this lead and how this will impact the Swiss private market.

The 'E' should not detract from the criticality of 'S' and the 'G' and to that end, we are delighted to be partnering with the think-tank [City Hive](#), to become a founder of its [ACT Alliance](#) which aims to build a positive culture of diversity and inclusion within the asset management sector. More on this exciting announcement can be found [here](#).

This edition of ESG View has a wealth of updates impacting businesses globally, for example we cover developments in the carbon market space, changes to global guidelines released by OECD and PRI and a breadth of ESG consultations from multiple jurisdictions. Alas the cloud of greenwashing still looms large in the minds of regulators and lawcourts. We also have your regular menu of jam-packed regulatory updates from the EU and policy news from APAC and MENA regions.

Best wishes,



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GLOBAL DEVELOPMENTS

1. UN defines what counts as a carbon offset under the Paris Agreement (multi-sector)

 **What:** A recent information [note](#) issued by a UN Panel addressed the question of what counts as a carbon offset, provoking immediate backlash from the carbon removal industry. The document is part of the UN Article 6.4 Supervisory Board’s wider goal of creating an international carbon trading program, pursuant to Article 6.4 of the Paris Agreement.

 **Key observations:** The Panel appeared to favour nature-based techniques over engineered solutions for carbon removal, citing the “unknown environmental and social risks” posed by the latter and describing it as “unproven” and “not suitable for implementation”. In addition, the note stated that they “do not serve any of the objectives of the Article 6.4 mechanism.”

The Panel’s role in setting up a wider trading system means that the position it takes may have significant implications for the emerging carbon removal industry.

Responding to the information note, many in the carbon removal industry have since [advocated](#) for a method-neutral approach, which also avoids the difficulties that come with defining the blurred lines between ‘nature-based’ and ‘engineered’ carbon removal techniques.

This newly sparked debate comes on the heels of governments in Zimbabwe and Kenya announcing new regulations of carbon credit markets within their jurisdictions and even revocations of carbon credit contracts between private entities and local communities. These developments have left participants in voluntary carbon markets more uncertain, both on ‘nature-based’ and ‘engineered’ carbon removal projects.

2. OECD releases revised guidelines on responsible business conduct (multi-sector)

 **What:** On 8 June, the Organisation for Economic Co-operation and Development (OECD) published its [revised guidelines](#) (Guidelines) for multinational enterprises on Responsible Business Conduct. These updates received great attention upon release, as they were the first revisions to the Guidelines since 2011 and marked a significant evolution to the global standards on responsible business conduct.

Key amendments:

- Further recommendations for enterprises to align with internationally agreed goals on climate change and biodiversity.
- A new non-exhaustive list of environmental impacts for enterprises to be aware of, including in relation to climate change, biodiversity loss, degradation of ecosystems, pollution and waste.
- Better protection for marginalised at-risk persons and groups including whistle-blowers.
- Expanded due diligence and disclosure recommendations to all forms of corruption.
- New recommendations to ensure lobbying activities are consistent with the Guidelines.
- Strengthened procedures designed to improve the effectiveness of the National Contact Points (government agencies that promote the Guidelines and handle grievances).

 **Key observations:** Despite critiques that these reforms have been incremental, they are still significant. For example, they are particularly important as they feature within the European Parliament’s amendments to

the EU Corporate Sustainability Due Diligence Directive (CSDDD) (see an update on CSDDD vote below). The strengthening of environmental and human rights obligations within the Guidelines therefore also strengthens the due diligence duties contained within CSDDD.

3. UN Principles for Responsible Investment (PRI) publishes human rights and climate reporting guidelines (financial institutions)

 **What:** 14 June saw the opening of the [new reporting window](#) for signatories of the PRI, which closes on the 6 September 2023. PRI has helpfully released new [guidelines](#) summarising human rights relevant indicators for the 2023 reporting period and how they correspond to the responsibilities outlined in the United Nations Guiding Principles on Business and Human Rights (UNGPs). More recently, PRI has also called on asset owners to include human rights in their requests for proposals (RFPs) and issued [guidance](#) on how to identify human rights due diligence, confirming the increasing focus and importance on the subject.

PRI also published guidance on net zero and climate reporting in PRI's Reporting Framework which include:

- UN-convened Net Zero Asset Owner Alliance (NZAOA) [guidance](#) for entities reporting on their NZAOA requirements through PRI's reporting framework.
- Updated [guidance for those reporting against the Net Zero Asset Managers \(NZAM\) Initiative](#) commitments.
- [Guidance for all PRI signatories](#) on climate reporting, based on TCFD-aligned indicators.

EUROPEAN DEVELOPMENTS

1. EU financial supervisory authorities warn of increased greenwashing risks (financial institutions)

 **What:** On 1 June, the European Supervisory Authorities, [EBA](#), [EIOPA](#), and [ESMA](#), published their respective reports on greenwashing applicable to participants across the financial markets industry. Within the reports, 'greenwashing' is identified as a practice where sustainability-related statements, declarations, actions or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, financial product or financial service and which may be misleading to consumers, investors or other market participants.

 **Key observations:** The findings are stark and conclude that there is a clear risk of increased misrepresentation with potential to create significant reputational risk. According to the reports, this risk is increased by a number of factors, including the unavailability of high-quality sustainability data, in particular in the sustainability investment value chain, and a fast-moving regulatory framework which is not yet adequate or mature.

Among other things, a number of preliminary remediation actions are highlighted. For example, the regulatory framework could be reinforced by clarifying certain key concepts and by further expanding on transition finance, sustainability impact or engagement. The reports also highlight the need to build sustainability expertise, such as placing obligations on market participants across the sustainable investment value chain to take responsibility for substantiated claims, and establishing a reliable and well-designed labelling scheme for environmental disclosures.

 **Our view:** Greenwashing is receiving ever more attention from European regulators and businesses must be alive to the reputational, regulatory and litigation risks it poses. The final greenwashing reports from the ESAs are expected in May 2024.

2. European Commission (EC) publishes package of Sustainable Finance measures (financial institutions)

 **What:** On 13 June, the EC published [a package of measures](#) aimed at improving the EU's sustainable finance framework. Read a full summary of our insights [here](#).

 **Key updates:**

- [Proposed Level 2 measures under the Taxonomy Regulation:](#) The EC has approved in principle (but not formally published):
 - a draft Taxonomy Environmental Delegated Regulation to:
 - a) establish Technical Screening Criteria (TSC) for activities that can make a substantial contribution to the environmental objectives for which TSCs are not already available and
 - b) clarify the disclosure obligations for the additional activities; and

- amendments to the Taxonomy Climate Delegated Act covering economic activities that make a substantial contribution to the climate change environmental objectives where these activities haven't been previously included in the EU taxonomy.
- [A proposed Regulation on ESG ratings providers](#): The EC has proposed measures to:
 - improve the reliability and transparency of ESG ratings activities.
 - set out organisational principles and clear rules on the prevention of conflicts of interest.
 - enable investors to make better informed decisions regarding sustainable investments.
 - require ESG rating providers which offer services to investors and companies in the EU to be authorised and supervised by ESMA.
- [Notice on interpretation of the Taxonomy Regulation and its links to the SFDR](#): this deals with the interpretation of aspects of the EU Taxonomy Regulation and links to the SFDR. Importantly, the Notice confirms that Taxonomy-aligned investments can qualify as a 'sustainable investment' under the SFDR. Read more about it in our [insights article](#).

 **Looking ahead:** Once the EC formally adopts the Taxonomy Regulation measures, the European Parliament (EP) and Council will have four months to review them (this can be extended once for an additional two months). The measures are expected to apply from January 2024. Meanwhile on the ESG ratings Regulation, the EC will engage in discussions with the Council and the EP to agree a final text in due course.

3. European Parliament (EP) approves the Corporate Sustainability Due Diligence Directive (CSDDD) (multi-sector)

 **What:** As detailed in our [May edition](#) of ESG View, the EP was due to vote on CSDDD on 1 June. This vote went ahead as planned this month and CSDDD was adopted by the EP.

The CSDDD's reach is set to be broad and all-encompassing. It applies to:

- i. all EU-based companies with more than 250 employees and a worldwide turnover exceeding €40 million spanning all sectors including financial services;
- ii. parent companies boasting over 500 employees and a global turnover surpassing €150 million; and
- iii. non-EU companies with a turnover higher than €150 million, as long as at least €40 million of that turnover is generated within the EU.

 **Key observations:** The CSDDD sets forth clear rules on due diligence that cover both human rights and the environment. The rules extend to a company's value chain partners, encompassing suppliers, distribution, transport, storage and waste-management entities. In particular, one of the most important changes adopted by the EP compared to the initial proposal, is the requirement for companies to implement a climate transition plan to limit global warming to 1.5°C and in the case of large companies with over 1,000 employees, meeting the plan's targets will have an impact on a director's variable remuneration (i.e. bonuses). According to the new rules, failure to comply could incur sanctions by the national supervisory authorities (i.e. fines of at least 5% of the company's net global turnover or, for non-EU companies, ban from public procurement in the EU).

 **Next steps:** Negotiations with member states on the final text of the legislation will now begin.

4. EU Council approves approach to Platform Workers Directive (multi-sector)

 **What:** After much negotiation, on 12 June, EU labour ministers finally reached [agreement](#) on the general approach of the proposed Platform Workers Directive. Significantly, the new Directive will introduce a legal presumption of employment status for gig economy workers where their platform exerts control and direction over them.

The Directive proposes that where any three of the below criteria are fulfilled, there will be a presumption of employment status unless the digital platform can demonstrate that no employment relationship exists:

The digital labour platform:

- determines upper limits for remuneration;
- dictates what the individual wears / how they act towards service recipients;
- supervises performance by electronic means;
- controls working hours / periods of absence;
- limits individual's ability to take accept / refuse work;
- limits individual's ability to use subcontractors or substitutes;
- restricts individual's ability to build a client base / do work for a third party.

The Directive aims to improve the working conditions of gig economy workers by ensuring that the contractual relationship which they have best reflects the work that they do with the relevant digital platform – in reality millions of gig economy workers may gain access to employment rights. The Directive will also regulate the use of artificial intelligence, ensuring that workers are informed about the use of automated monitoring and decision-making systems on digital labour platforms.

 **Next steps:** Negotiations with the European Parliament are due to begin with a view to reaching a provisional agreement. Although it has taken three council presidencies to reach this point, now that there is a general consensus we may see more rapid progress.

5. EU have agreed to ambitious targets for renewable energy – but its success lies in member state implementation (multi-sector)

 **What:** After weeks of strained discussions, the [Renewable Energy Directive](#) (RED III) has been agreed by a large majority in the European Council and will now be submitted to the European Parliament for final approval. This Directive aims to support the delivery of the energy security and climate objectives in the context of the [REPowerEU strategy](#) – Europe's energy response to the Ukraine war. This increases the EU's targets, requiring 42.5% of EU energy to be renewable by 2030 - as opposed to 32% as it currently stands. These targets are supplemented with sector-specific targets in transport, industry and heating, with parallel targets within respective sectors allowing member states to adopt the target which best aligns with their specific industrial and policy goals. In addition, RED aims to accelerate planning and permitting procedures by loosening requirements on environmental impact assessments and giving renewable projects the status of 'overriding public interest'.

 **Our view:** RED III signals strong ambition from the EU, but the binding targets are placed on member state governments, not industry. As EU governments will seek to make use of the flexibility provided within the RED III, success will depend heavily on implementation at the member state level.

MIDDLE EAST DEVELOPMENTS

1. NEOM closes on \$8.4 Billion for world's largest carbon-free green hydrogen plant (multi-sector)

 **What:** NEOM Green Hydrogen Company (NGHC) is a joint venture created between ACWA Power, Air Products and NEOM to build the world's largest green hydrogen plant to produce green ammonia in 2026. After signing financial documents with 23 banks and investment firms at the end of May, NGHC has achieved **financial close** on the largest green hydrogen facility valued at USD 8.4 billion. S&P Global has certified the non-recourse financing structure for the project where it has adhered to green loan principles. This has become one of the largest project financings to take place under the green loan framework.

 **Next steps:** The plant is currently being built in Saudi Arabia's region of NEOM. The deal will have implications for renewable energy in the region as the NGHC's plant will produce up to 4GW of solar and wind energy, which in turn can produce 600 tonnes of carbon free hydrogen per day by the end of 2026. This production will provide a cost effective solution for decarbonisation for the transportation and industrial sectors in particular.

2. UAE accelerates gender balance efforts in the private sector (multi-sector)

The Dubai Women Establishment (DWE) directed by her highness Sheika Manal bint Mohammed bin Rashid Al Maktoum, organised a new round of the 'Women on International Boards' programme with the aim of providing confidence and elevating Emirati women by enhancing their leadership skills and showcasing their vital role as members of boards globally. This initiative is in line with the direction of wider UAE policies on diversity and a focuses on increasing the UAE's competitiveness in the market.

Several multi-national and national companies including Emirates NBD, Pfizer, PwC Middle East, Nissan (among others) joined the voluntary pledge to 'Accelerate Gender Balance in the UAE Private Sector', aimed at enhancing the participation of women in senior and middle management roles to 30% by 2025, raising the total number of participating firms to 64. There are four main pillars to the pledge: (a) ensuring equal pay; (b) promotion of recruitment on the basis of gender equality; (c) encouraging gender balance in the development of policies and programmes governing work; and (d) encouraging transparency.

APAC DEVELOPMENTS

1. EU and the Republic of Korea establishes a Green Partnership (multi-sector)

 **What:** On 22 May, the EU and the Republic of Korea announced the establishment of a Green Partnership with the aim of strengthening bilateral cooperation and exchanging best practices on climate action, clean and fair energy transition, protection of the environment, and other fields of the green transition. Both sides reaffirmed their: (a) strong commitment to green growth and enhanced efforts to achieve their respective 2030 targets, as well as net-zero greenhouse gas (GHG) emissions by 2050; and (b) willingness to work together for rapid, deeper and sustained reductions in greenhouse gas emissions to limit the global temperature increase to 1.5 °C.

Some priority areas for cooperation include the following:

- Climate Action, including carbon pricing, methane emissions and climate adaptation policies.
- Environmental Protection, including cooperation in relation to biodiversity conservation, circular economy and resource efficiency and forest protection.
- Clean and just Energy Transition, such as intensifying cooperation on renewable energy and collaboration on energy transition.
- Facilitating Transition with 3rd Party Countries, notably to facilitate their efforts for mitigation, adaptation and resilience, and the climate, the just and clean energy and circularity transition.

ESG LITIGATION ROUND-UP

1. Advertising watchdogs take action against greenwashing (multi-sector)

 **What:** On 7 June, the UK Advertising Standards Authority (ASA) censured [Shell](#), [Repsol](#), and [Petronas](#) in relation to adverts which the regulator held misled consumers as to the companies' green credentials. The ASA took aim at television promotions, posters as well as online, TV and YouTube ads. Despite the companies' arguments that consumers were well aware of their environmentally detrimental operations and products, the ASA held that, as a result of the focus which the adverts placed on the companies' sustainable activities with little to no mention of the rest of their activities, consumers would be misled as to the progress each of the companies was making in their transition journeys, and therefore the adverts were misleading. More information on the UK's efforts to combat greenwashing is available in our recent [update](#).

On the same day, the Swiss Fairness Commission (SLK), an independent regulatory body in the Swiss communications industry, [upheld complaints from five European countries](#) relating to FIFA's claims that the 2022 Qatar World Cup had been carbon neutral. It was held that a high standard should be applied when claiming carbon neutrality and that FIFA had fallen short in showing that its claims were accurate in terms of sustainability and in the levels of offsets it had made and planned to make.

 **Key observations:** While the ASA and SLK's decisions may have only a reputational impact on the relevant businesses, this may not be the end of the road. In the same week, the District Court of Amsterdam allowed a civil case against the airline KLM to proceed. The claim is being brought by environmental groups for allegedly misleading consumers about their environmental credentials in a previous "Fly Responsibly" campaign. Crucially this claim followed a [2022 decision](#) from the Dutch Advertising Code Authority (SRC) which had found certain "Fly Responsibly" adverts to be misleading.

 **Our view:** Standalone decisions by advertising authorities in cases of greenwashing may have limited impact however they are likely to be seen as a hook for environmental campaign groups to bring further claims against targeted businesses.

2. Volkswagen shareholder case dismissed by the Court (multi-sector)

 **What:** On 8 May, the Braunschweig Higher Regional Court in Germany dismissed a case brought by a number of European pension funds against Volkswagen (VW) relating to whether or not the executive board has to report on climate change-related lobbying activities.

The case was rejected by the court, which also denied the investors the right to appeal the decision. VW had refused to table the lobbying proposal, arguing that shareholders lack the authority to address the issue. Based on the German law principle that shareholders are not permitted to give detailed instructions to the board, the court stated that the request went beyond seeking transparency and could influence the company's strategic decisions.

AP7, one of the plaintiffs, disagreed with the court's ruling asserting that every reporting duty could unduly impact strategic decision-making if one was to logically apply the court's ruling.

 **Key observations:** It is worth noting that the court’s decision does not prevent future legal action of other German companies rejecting similar resolutions and it will have to be seen whether such cases will come to different conclusions.

3. US Pension Funds sued for ESG strategy (financial-institutions)

 **What:** Three New York City pension funds face a [claim](#) in the US accusing them of breaching their fiduciary duties by divesting c.\$4 billion of assets from companies involved in fossil-fuel extraction. The plaintiffs claim the decision to divest was “*a misguided and ineffectual gesture to address climate change*”.

 **Key observations:** At the time, the trustees of the pension funds said the decision followed “*an extensive and thorough fiduciary process*.” However, the claim alleges the divestment was voted through “*to advance environmental goals unrelated to the financial health of the plans*”, and that it therefore constituted an “*unlawful decision to elevate unrelated policy goals over the financial health of the plans*,” inconsistent with the trustees’ fiduciary responsibilities. This contrasts starkly with the claim brought by ClientEarth against the directors of Shell in England & Wales, accusing the directors of breaching their statutory directors’ duties by failing to take into consideration environmental issues (see our [article](#) for the latest development in the that claim).

This claim is the latest significant development in the anti-ESG campaign in the US. As part of this movement, certain political figures are seeking to prevent asset managers, including pension funds, from including ESG factors in their investment decision making processes. At least 49 anti-ESG bills have so far been introduced across the US in 2023, and state treasurers have removed funds from asset managers who apply ESG factors. Whereas in March this year, Joe Biden vetoed a Republican-led bill designed to prevent pension fund managers from basing investment decisions on ESG factors. Further updates will be provided by our team as this claim progresses.

ESG CONSULTATION ROUND-UP

Some notable ESG policy consultations in flight across the globe that are currently open for comment. Engagement is a great opportunity to influence the direction of travel for ESG matters.

1. Science Based Target Initiative (SBTi) financial sector resource consultation (financial services)

 **What:** The Science Based Targets initiative (SBTi) is a standard-setter and validation body that provide companies with a clearly-defined path to reduce emissions in line with the Paris Agreement goals. On the 15 June, SBTi released [three new draft resources](#) for the financial sector for public consultation which include:

- [SBTi Financial Institutions Net-Zero \(FINZ\) Standard](#): Outlines a conceptual framework and initial criteria to enable financial institutions to establish credible near- and long-term net-zero targets across their portfolios and operations.
- [SBTi Near-Term Financial Sector Science Based Targets Guidance V2](#) and [Near-Term Criteria and Recommendations for Financial Institutions Version V2](#): A near-term framework to align with 1.5°C pathways, increasing ambition from the previous alignment to well-below 2°C pathways. Also offers additional clarifications to improve interpretation and application of criteria.
- [SBTi Fossil Fuel Finance Position Paper](#): Presents both near- and long-term criteria to address financial institutions' activities with fossil fuel companies.

 **Timing:** The SBTi is hosting a [webinar](#) on 6 July 2023 to talk through these drafts and the [consultation](#) is open until 14 August 2023.

2. European Sustainability Reporting Standards Draft Delegated Act (multi-sector)

 **What:** The European Sustainability Reporting Standards (ESRS) are the reporting standards being introduced under the EU's Corporate Sustainability Reporting Directive (CSRD). In November last year, the European Financial Reporting Advisory Group submitted the first set of draft standards to the European Commission. On 9 June, the Commission published its [revised draft of the ESRS](#). Key points to note include:

- Materiality – all disclosures other than the “General disclosures” (required under ESRS 2) will be subject to a materiality assessment. When assessing materiality, organisations will need to consider both *impact* materiality and *financial* materiality.
- ‘Comply or explain’ – where a matter is judged to be material, an organisation will be required to either disclose the information (i.e. *comply*) or, if it cannot disclose the information it must *explain* why.
- Phase in of certain requirements – for example, undertakings with less than 750 employees will not need to disclose on Scope 3 greenhouse gas emissions data.
- Alignment with global standards – further changes to ensure ESRS have a high degree of interoperability with the ISSB standards and Global Reporting Initiative.

 **Timing:** The [consultation](#) runs until 7 July 2023, with the aim for final standards to be introduced as soon as possible and ready for them to be applied by relevant organisations from 1 January 2024.

 **Our view:** The revised ESRS would, if adopted in their current form, reduce the potential burden imposed on reporting organisations, particularly smaller in scope companies. However, by giving the reporting organisations more flexibility as to the information they report, it has the potential to negatively impact consumers of that information including asset managers and other financial market participants who may require such data to meet their own reporting obligations under SFDR.

3. EU CBAM implementation regulation (multi-sector) new

 **What:** In December 2022, the EU reached agreement on the introduction of a carbon border adjustment mechanism (CBAM) to prevent carbon leakage on the importation of items such as iron, steel, cement, fertiliser, aluminium, electricity and hydrogen. The scheme will involve importers being required to buy CBAM certificates to compensate for carbon emissions in the country of production. Details of the scheme can be found in our [article here](#).

The CBAM is to commence from October 2023, but with an initial period of reporting only. During the initial period, importers will be required to make CBAM reports on a quarterly basis, no later than one month after the end of each quarter. Accordingly, the first report will be required to be made by end January 2024. Much of the detail on the required reports was left to be determined by implementing regulations.

 **Consultation:** The Commission has now published those [draft implementing regulations](#) for the initial reporting period for public consultation. These include details of how reports are to be made, the information to be included and how the necessary emission calculations are to be made. They also provide for penalties in the event of failure to report and failures to correct inaccuracies in reports of between EUR 10 and EUR 50 for each tonne of unreported embedded emissions.

 **Timing:** The consultation closes on the 11 July 2023.

The introduction of the EU CBAM is just one link in the chain of measures designed to move the EU towards net zero. Read the [latest report](#) from Simmons & Simmons that looks at the approach to date in a number of European jurisdictions, considering the ways in which tax systems incentivise expenditure on carbon reduction measures, approaches to R&D on carbon reduction developments and the tax treatment of electric vehicles (EV) more generally, as well as asking what measures are expected in the near future.

4. UK consults on Non-Financial Reporting Requirements (multi-sector)

 **What:** On 8 June, the Department for Business and Trade (DBT), and the [Financial Reporting Council](#) (FRC), [announced](#) plans to review the non-financial reporting requirements UK companies will need to comply with to produce annual reports and to meet broader requirements that sit outside of the UK Companies Act.

 **Key proposals:** The review will consider if current company size thresholds (micro, small, medium and large) that determine certain non-financial reporting requirements are suitable, and whether the preparation and filing of accounts with Companies House remain fit for purpose.

In addition to refreshing current reporting practices, the government is also asking for stakeholder views on wider reporting requirements that sit outside of the annual report, including gender pay gap and modern slavery reporting. The [consultation](#) is open for comment until 16 August 2023.

5. UK consults on Corporate Governance Code (multi-sector)

 **What:** The Financial Reporting Council (FRC) has published a [consultation paper](#) on proposed changes to the UK Corporate Governance Code (the Code). Revisions to the Code form part of a series of reforms contemplated by the Government in its [response](#) (published in May 2022) to its consultation on restoring trust in audit and corporate governance in the UK.

The key focus of the reforms is strengthening the governance systems of companies. Most notably, the board will be required to establish and maintain an effective risk management and internal control framework and make a declaration on the effectiveness of the company's risk management and internal controls throughout the last financial year.

There are also a number of other changes with an ESG influence:

- Sustainability reporting – a requirement for the board committee to monitor the integrity of this (as part of the monitoring of narrative reporting).
- Diversity and inclusion – encouraging board diversity beyond gender and ethnicity.
- Remuneration – a requirement to align remuneration to the company's long term strategy, including

 **Timing:** The consultation closes on 13 September 2023, with changes to the Code expected to apply for reporting periods beginning on or after 1 January 2025.

You can read further detail on the proposed changes to the Code, along with information on the new minimum standards for audit committees of FTSE 350 companies and the upcoming review of non-financial reporting in our [insights article](#). ESG objectives.

6. Hong Kong Taxonomy for Climate Change Mitigation (financial services)

 **What:** The Hong Kong Monetary Authority (HKMA) released a [discussion paper](#) titled “Prototype of a Green Classification Framework for Hong Kong” on 30 May 2023 to outline its current views on taxonomy and seek feedback from various stakeholders.

The prototype taxonomy: (a) is intended to provide financial sectors professionals with consistent and internationally recognised definition of “green” and “environmentally sustainable” economic activities; (b) proposes to have three layers of depth to provide green definitions of varying extents of precision; and (c) aims to achieve interoperability with other reference taxonomies.

While the current prototype is focused on specific activities in the energy, transport, buildings, waste and water sectors, other sectors important for climate change mitigation will be considered in the next phase. HKMA is requesting feedback from stakeholders broadly on the Taxonomy design and structure, the metrics and technical screening criteria and on implementation and future priorities relating to the Taxonomy.

 **Timing:** Responses should be submitted on or before 30 June 2023, as outlined at the end of the discussion paper.

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- [Webinar - 'Mining Companies and the Carbon Markets – Challenges and Opportunities'](#)
- [Podcast – 'Financing the Growth of the Blue Economy'](#)

Recent Publications

- [Tax policies and the road to net-zero](#) (Summer 2023)
- [ClientEarth v Directors of Shell: Key takeaways – an ESG perspective](#) (25 May 2023)
- [UK Corporate Governance update – May 2023](#) (9 June 2023)
- [The EU pharmaceutical package: Environmental aspects](#) (13 June 2023)
- [ESMA publishes follow-up report on Guidelines on ETFs and UCITS issues](#) (14 June 2023)
- [ESG: The Commission publishes a new package of measures](#) (14 June 2023)
- [The Commission's further guidance on the Taxonomy Regulation and SFDR](#) (15 June 2023)
- [Implementing the EU CBAM](#) (19 June 2023)
- [Insights on UK efforts to combat greenwashing claims](#) (19 June 2023)
- [Limitation in environmental damage claims](#) (19 June 2023)

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Our ESG approach is not to have an ESG practice but to adopt an integrated, holistic, cross-discipline approach so that we can combine ESG experts and deep technical knowledge with product/business line expertise.

If you need help understanding the current and upcoming ESG legislative and regulatory landscape or your supply chain obligations or supply chain best practice, or you would like assistance in mitigating your supply chain risk, we can help.



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