Bringing the Outside in: ESG and Investor Relations

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The ESG Integration Forum, organized by *IR Magazine* and *Corporate Secretary* last week in New York, brought over 70 companies together to discuss ESG trends of the 2023 proxy season. The distinct group of participants – among them investor relations directors, sustainability officers, governance professionals, board members and C-suite leaders from corporations large and small in various sectors – had a consistent message to share: Companies and investors are staying the course on implementing sustainability in their respective business and investment strategies, despite the growing backlash against ESG in the US. With greater scrutiny around ESG, however, comes a greater and urgent need to demonstrate what is material to long-term financial growth.

What we heard

The conservative backlash against ESG in the US is top of mind.

- While boards, executives and large institutional investors have taken notice of the anti-ESG pushback, companies are not changing course.
- Some companies are leaning away from ESG as a term, but not as a strategy. It continues to be perceived as an influential investment factor, a driver of business resilience and opportunity and an economic "mega-trend."
- Companies face growing challenges in squaring their US and European positioning, because European investors and stakeholders are likely to expect more action on ESG than those in the US.

Shareholder proposals and legislative actions against ESG in the US have had limited success.

- While the number of anti-ESG shareholder proposals has more than doubled in the past three years, support levels have remained very low and decreased when compared to last year (from 3.5 to 2.8 percent, according to the Sustainable Investment Institute). Support for pro-ESG resolutions has broadly declined, too, although calls for transparency on climate transition plans and labor policies continue to consistently attract a significant minority of shareholder votes.
- 165 anti-ESG pieces of legislation in 37 states have been proposed across the US, but of those only 22 passed in 16 states, with several defeats happening in "red" states (according to research from Pleiades Strategy).

- The lack of support for anti-ESG shareholder proposals will likely result in a steady reduction of such proposals going forward. On the flip side, the increase in ESG-resistant legislation at the state level could motivate the Biden administration to create more pro-ESG rules at the federal level.

Public companies in the US will have to shift toward disclosure of scope 3 emissions.

- The Securities and Exchange Commission (SEC) is set to announce new Climate-Related Disclosure Rules for Investors in October. Participants and panelists at the forum were generally complimentary of the proposed rules (published in March 2022), calling them "common sensical." The consensus was that despite being one of the most controversial requirements, disclosure of scope 3 emissions in some form will remain in the final rule (even if deferred or watered down). Regardless, given the recent inclusion of scope 3 in the ISSB's new standards as well as the expected passage of California's Senate Bill 253, most companies will eventually be required to report so-called value chain emissions.

What the opportunity is

The pushback against ESG represents a chance to:

- **Prioritize action and engagement on ESG risks and opportunities** that materially affect corporate strategy.
- **Frame ESG data as pre-financial and financial** – rather than non-financial – where ESG factors do impact sustainable value creation, and bring more rigor to what you measure and report.
- **Bring boards and stakeholder audiences on the journey** of how you'll deliver resilient long-term growth.

To continue the conversation

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