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Diligent Market Intelligence

ESG Engagements in 2024

in partnership with

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Editor's foreword

Josh Black

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ESG oversight is a burgeoning concern for investors as climate-related transparency becomes a globally regulated phenomenon.

Welcome to the latest report from Diligent Market Intelligence (DMI), *ESG Engagements in 2024*, where we delve into the rapidly evolving landscape of environmental, social, and governance (ESG) reporting and shareholder engagement. As we write, companies face increasing pressure to prioritize ESG issues and demonstrate their commitment to stakeholders.

This report aims to equip leaders with the insights and strategies needed to navigate this complex landscape while maintaining support for their strategies and leadership.

The imperative of ESG reporting

ESG reporting has become a global phenomenon, with new regulations emerging worldwide. The European Union's Corporate Sustainability Reporting Directive (CSRD), for instance, will require all large companies to disclose comprehensive ESG data starting in 2024. Similarly, the U.S. Securities and Exchange Commission (SEC) has now finalized its climate-related disclosure rules, mandating public companies provide detailed information on their climate-related risks and opportunities.

These regulatory developments underscore the growing importance of ESG reporting. Companies that embrace ESG transparency and establish robust reporting systems will attract long-term investors, enhance their reputations and mitigate potential risks. They will also be better prepared for the next load of ESG reporting demands, including the coming wave of nature-related standards.

Institutional investors and ESG oversight

Companies increasingly see ESG risk factors as real concerns for their businesses. As this report highlights, more than three-quarters of the top 3,000 largest U.S. companies now mention climate change as a risk in their annual reports.

> "Companies increasingly see ESG risk factors as real concerns for their businesses."

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So, it's little surprise that institutional investors continue to demand more transparency and resilience from companies. While they may not always support environmental and social shareholder proposals, they are increasingly demanding robust ESG oversight. By engaging with companies and exercising their voting rights, investors are pushing for greater transparency, accountability and sustainability.

Glass Lewis, a leading proxy advisory firm, recommends that companies outline ESG oversight policies and processes in their governing documents and engage with shareholders on ESG issues.

ESG activism and board elections

ESG activism is taking center stage, with environmental and social activists increasingly participating in board elections and leveraging proxy contests to advocate for their causes.

Companies cannot afford to keep still in this rapidly evolving space, with nature-related shareholder proposals now receiving higher levels of support than climate-related proposals.

These trends highlight the growing influence of ESG activism and the need for companies to engage with stakeholders and address their concerns proactively. By incorporating ESG considerations into their strategies and decision-making processes, companies can mitigate the risk of shareholder activism and build trust with their stakeholders.

"In the era of stakeholder capitalism, ESG reporting and activism have become critical factors for companies seeking long-term success."

Navigating a new environment

In the era of stakeholder capitalism, ESG reporting and activism have become critical factors for companies seeking long-term success. By embracing ESG transparency, engaging with stakeholders and leveraging competitive market intelligence, companies can navigate the evolving ESG landscape and drive positive impact. *ESG Engagements in 2024* serves as a valuable resource for leaders committed to building sustainable and resilient organizations.

We would like to express our gratitude to our partners, Glass Lewis and Clarity AI, as well as the Diligent Institute, for their invaluable contributions to this report.

For more insights into global ESG and investor stewardship trends, download:

The Shareholder Activism Annual Review 2024

Shareholder Engagement in Q1 2024

The Proxy Season Preview 2024

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Executive summary

Key trends to emerge from ESG engagements in 2023 and Q1 2024.

1. As global regulators look to increase corporate ESG accountability, an increasing number of companies are identifying climate change as a risk in their corporate disclosures. In 2023, 76.2% of the 3,000 largest U.S. companies mentioned climate change as a risk in their 10-K reporting, up from 68.2% a year prior.

2. Scope 3 emissions, derived from a company's value chain, are becoming a standard part of U.S. corporate sustainability disclosures. Of the 500 largest U.S. companies, 98.6% voluntarily disclosed Scope 3 emissions in 2022 and/or 2023, while 65.7% of the 3,000 largest U.S. companies also provided such disclosure.

3. As climate-related disclosure requirements make their way into statute, a new frontier is rapidly emerging as investors drive nature-related issues up the agenda. The 10 biodiversity proposals subject to a vote at S&P 500 constituents averaged 24% support in 2023, compared to 65 climate change proposals securing 21% support.

4. 2024 investor policy changes placed an emphasis on director accountability and greater climate-related disclosure. Companies falling short of new minimum requirements could find their directors at risk of opposition, with shareholders looking to encourage individual accountability for ESG oversight.

5. In Q1 2024, 181 campaigns were launched at U.S.-based companies inclusive of social demands, more than double the 71 environmental campaigns launched in the same period and on track to exceed the 234 social campaigns launched throughout 2023. Labor unions are driving discussions concerning workers' rights, with seven social campaigns launched globally involving labor unions in Q1 2024, the same number as in the entirety of 2023.

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Global climate reporting requirements

Adopted | Coming soon | Voluntary

U.K. – Climate-Related Financial Disclosure Regulations 2022

Authority: U.K. Government

Disclosure requirements:
- Processes to assess and manage climate-related risks and opportunities
- Climate resilience analyses and climate-related targets

Reporting entities: Public interest entities and AIM-listed companies with 500+ employees, starting in 2022.

Switzerland – Swiss Code of Obligations

Authority: Swiss Federal Council

Disclosure requirements:
- Financial risks resulting from corporate climate-related activities
- Scope 1, 2 and 3 emissions reduction targets and implementation plans

Reporting entities: Public companies with 500+ employees and 20 million+ Swiss francs in total assets, or 40 million+ Swiss francs in turnover, starting in 2024.

Japan – Cabinet Office Ordinance

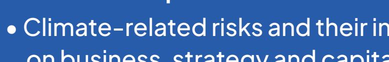
Authority: Financial Services Agency

Disclosure requirements:
- Governance of climate-related risks and related targets
- Scope 1 and 2 emissions

Reporting entities: All Japan-listed companies, starting in 2023.

Canada – CSDS 1 and 2

Authority: Canadian Sustainability Standards Board



Disclosure requirements:
- Climate-related risks and their impact on business, strategy and capital
- Climate resilience scenario analyses
- Scope 1, 2 and 3 emissions

Voluntary reporting for Canada-based companies, starting in 2025. Regulator to review making such disclosures mandatory.

Singapore – Sustainability Reporting

Authority: Accounting and Corporate Regulatory Authority

Disclosure requirements:
- Scope 1 and 2 emissions, from first reporting year onwards
- Scope 3 emissions, across various phase-in periods

Reporting entities: Singapore Exchange-listed companies, starting in FY2025 and non-listed companies with annual revenues of $1 billion+ and total assets of at least $500 million+ Singaporean dollars, starting in FY2027.

U.S. – Enhancement and Standardization of Climate-related Disclosures

Authority: Securities and Exchange Commission

Disclosure requirements:
- Board oversight of climate risks and material impacts on financial estimates
- Scope 1 and 2 emissions where material

Reporting entities: U.S. public companies starting between FY2025 and FY3031.

Europe – Corporate Sustainability Reporting Directive

Authority: European Commission

Disclosure requirements:
- Sustainability policies and targets
- Scope 1, 2 and 3 emissions

Reporting entities: EU-listed companies and non EU-headquartered companies generating €150 million in the EU, starting between 2024 and 2028.

India – Listing Obligations and Disclosure Requirements Regulations

Authority: Securities Exchange Board of India

Disclosure requirements:
- Material ESG risks and opportunities and processes to mitigate and adapt to risks
- Mandatory Scope 1 and 2 emissions, with voluntary Scope 3 disclosure

Reporting entities: Top 1,000 India-listed companies, based on market capitalization, starting in 2019.

Australia – Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill

Authority: Australian Government

Disclosure requirements:
- Processes to monitor and manage climate-related financial risks
- Scope 1 and 2 emissions

Reporting entities: Large Australia-based companies and financial institutions across various phase-in periods between 2025 and 2028.

Preparing for the new climate reporting regime

Companies should establish and strengthen climate oversight policies and processes to ensure a smooth transition to new climate reporting requirements, writes Rebecca Sherratt.

> "There is certainly a lot of ramping up that companies are going to have to do to meet the new requirements and prepare for sustainability reports to face more scrutiny."

2024 marks a new frontier for climate reporting, with many companies facing their first calls for regulated disclosure. For companies already confident in their reporting, these developments serve as an opportunity to focus on oversight and materiality.

After two years in the making, the Securities and Exchange Commission's (SEC) Climate Rule was approved in March, while 2024 marks the first data collection year for the European Commission's Corporate Sustainable Reporting Directive (CSRD). The past year also saw California call on companies doing business in the state to report on climate risks and opportunities, starting in 2026.

In 2023, 76.2% of the 3,000 largest U.S. companies mentioned "climate change" as a risk in the risk factor section of their 10-K filings, up from 68.2% a year prior. The number of companies to disclose "ESG," "ESG reporting" or "environmental regulations" as a risk increased to 72.7% in 2023, up from 71.1% in 2022, according to Diligent Market Intelligence (DMI) data.

"We've been living with companies voluntarily providing this sort of disclosure for so long that it is easy to forget that it hasn't been in effect in a regulatory context," David Zilberberg, counsel, Davis Polk & Wardwell, told DMI in an interview. "There is certainly a lot of ramping up that companies are going to have to do to meet the new requirements and prepare for sustainability reports to face more scrutiny."

What is required?

The SEC's Enhancement and Standardization of Climate-Related Disclosures Rule requires disclosure of material climate-related risks that may impact the registrant's business strategy, operations or financial conditions, as well as activities taken to mitigate climate risk, including the use of transition plans, scenario analyses or internal carbon prices. Companies with market caps of more than $75 million will also be required to provide Scope 1 and 2 reporting where deemed "material."

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California rule SB 253 calls on companies conducting business in the state to annually disclose Scope 1, 2 and 3 emissions. Companies will be required to strengthen their qualitative reporting under SB 261, which mandates large businesses operating in California to bi-annually disclose climate-related financial risks and mitigation strategies. It is expected these rules will affect upwards of 5,000 and 10,000 companies, respectively.

"California's climate disclosure laws will be more far-reaching in certain respects than the SEC's climate rules," Paul Barker, partner at Kirkland & Ellis, told DMI in an interview. "Whereas SB 261 requires Task Force for Climate-related Financial Disclosures-aligned (TCFD) reporting, the SEC's rules diverge from TCFD and require detailed financial statement disclosures."

Europe's CSRD, which calls on companies to disclose their impacts on the environment and related target setting, is estimated to impact 10,000 international companies, 3,000 of which will be based in the U.S. CSRD's "double materiality" approach means companies must disclose information on the impacts of their business on the environment and society, irrespective of the positive or negative effects of such impacts on companies' financials.

Despite varying approaches toward emissions reporting, Scope 3 disclosure is becoming the standard. Of the 500 largest U.S. companies, 98.6% voluntarily disclosed Scope 3 emissions in 2022 and/or 2023, while 65.7% of the 3000 largest U.S. companies also provided such disclosure.

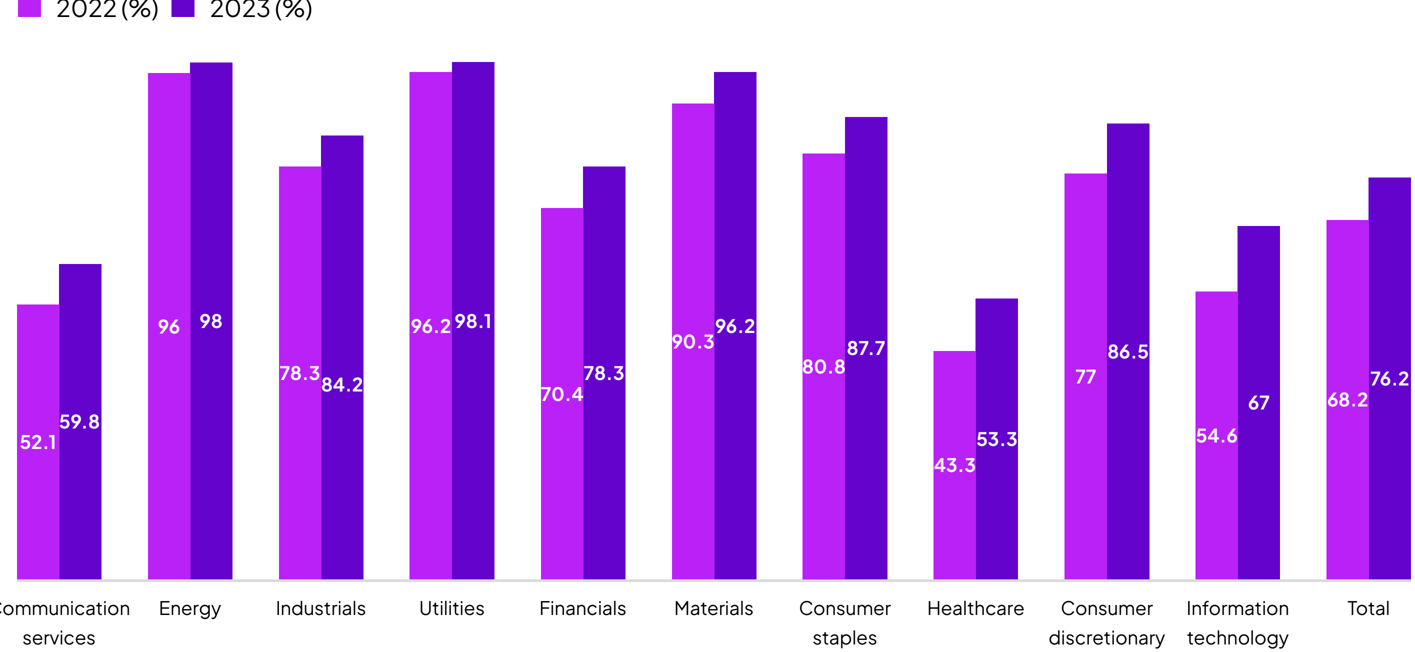
How can boards prepare?

One key takeaway for boards is the need to strengthen and disclose their climate oversight policies and processes.

The SEC Climate Rule calls on companies to disclose board oversight of climate-related risks, management's role in assessing and managing risks and how processes are integrated into broader risk management systems. Both California's SB 261 and Europe's CSRD draw on TCFD recommendations, seeking disclosure on processes and policies in place to mitigate climate risk.

On Diligent's Corporate Director Podcast, Abbey Raish, Partner at Kirkland & Ellis' ESG and Impact Practice, said boards should be asking themselves key questions concerning ESG oversight; "Who is responsible for this? Is it an individual, a committee or a task force? How is that group engaging with boards in these issues? Who is reporting up and how often are they reporting up?"

Proportion of the 3,000 largest U.S. companies to mention "climate change" as a risk in the risk factor section of 10-K filings



Source: Diligent Market Intelligence

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Director accountability and enhanced climate transparency were recurring themes in investor policy changes ahead of the 2024 season. Vanguard Group updated its U.S. and U.K. policies, stipulating that the $7.2-trillion asset manager may withhold support from directors "deemed responsible" where the board has "failed in its oversight role."

"This again varies based on market and industry, but our clients typically expect to see boards outlining ESG oversight policies and processes in their governing documents," Patrick Fiorani, research and engagement specialist at Glass Lewis, told DMI. "While boards often disclose the ESG topics discussed in board meetings, this does not necessarily mean they are a principal responsibility for the board."

> "If companies haven't already, now is the time to clearly define rules and responsibilities, ensuring a clear path for reporting up to the board."

What constitutes decision-useful disclosure?

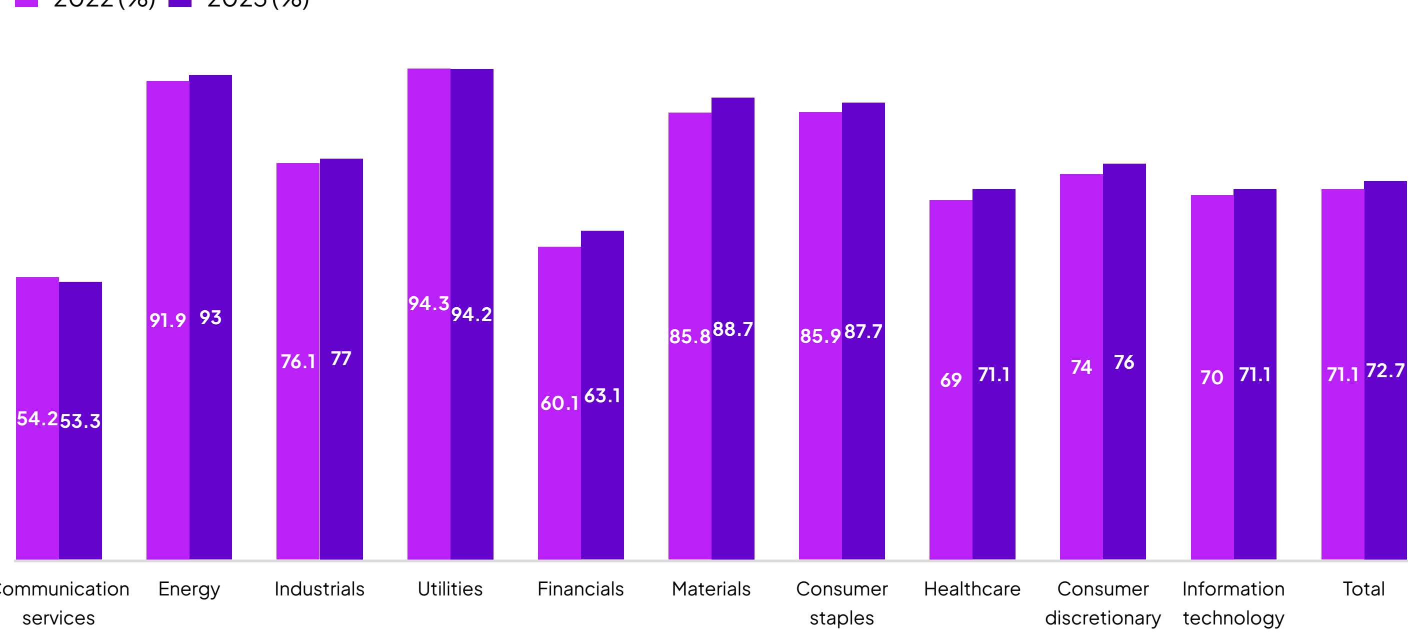
For companies looking to familiarize themselves with the new regulations and provide the information investors want, materiality is key. Providing robust and transparent reporting, both qualitative and quantitative, helps shareholders understand emerging risks and opportunities, as well as the steps companies are taking to minimize the impacts of these factors on corporate strategy or operations.

"Many of the disclosures contemplated by the final [SEC] rules are expressly tied to materiality," Michael Littenberg, partner at Ropes & Gray, told DMI. "That's great in concept, since it will enable registrants in many cases to exclude disclosures that they determine to be immaterial. On the flipside, registrants will need to go through the exercise of assessing materiality, which is sometimes easy but other times much harder."

If companies haven't already, now is the time to clearly define rules and responsibilities, ensuring a clear path for reporting up to the board. Once boards feel confident in their systems, they should engage shareholders to ensure that their disclosures adequately inform the market about the work that is being done.

Proportion of the 3,000 largest companies to mention "ESG," "ESG reporting" or "environmental regulations" as a risk in the risk factor sections of 10-K filings

2022 (%) 2023 (%)



Source: Diligent Market Intelligence

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Highest performing environmental shareholder proposals at U.S.-based companies in 2023

Proposal type	No. resolutions	Average support (%)
Assess impact of a two-degree scenario	26	29.3
Create energy report	1	26.5
Create industrial waste/pollution report	7	22.6
Adopt/amend environmental policy	4	21
Create climate change report	40	20.8

Source: Diligent Market Intelligence / Voting

Climate reporting regulations for U.S.-listed companies

Rule name	Enhancement and Standardization of Climate-related Disclosures	Climate Corporate Data Accountability Act (SB 253)	Climate-related Financial Risk Act (SB 261)	Corporate Sustainability Reporting Directive (CSRD)
Authority	Securities and Exchange Commission	California Air Resources Board	California Air Resources Board	European Commission
Status	Adopted March 2024	Adopted October 2023	Adopted October 2023	Adopted January 2023
Disclosure requirements	Board oversight of climate-related risks, progress made toward related targets and material impacts on financial estimates	Full greenhouse gas emissions data	Bi-ennial climate financial risk report outlining risks and adopted measures to reduce risk	Sustainability policies and targets, incentive schemes linked to sustainability goals
	Disclose Scope 1 and 2 emissions where deemed "material." Applies to large accelerated filers (LAF) and accelerated filers (AF) beginning 2026 and 2028, respectively	Annually disclose Scope 1 and 2 emissions		Annually disclose Scope 1 and 2 emissions
	Scope 3 emissions disclosure is not required	Starting in 2027, annually disclose Scope 3 emissions		Annually disclose Scope 3 emissions
Reporting entities and compliance deadlines	Applies to U.S. public companies across various phase-in periods between FY2025 and FY2031	Companies with total revenue of $1 billion+ that conduct business in California, starting in 2026	Companies with $500 million+ in annual revenue that conduct business in California, starting in 2026	Companies with securities listed on EU-regulated markets and non-EU headquartered companies generating €150 million in the EU with EU subsidiaries/ branches. Across various phase-in periods between 2024 and 2028.

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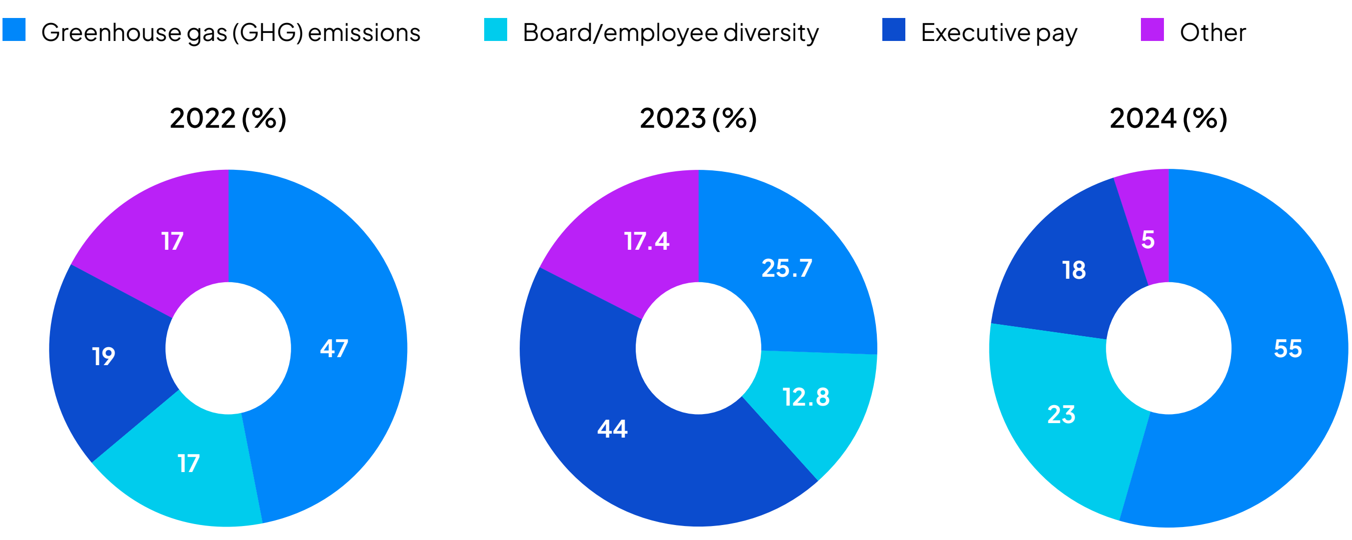
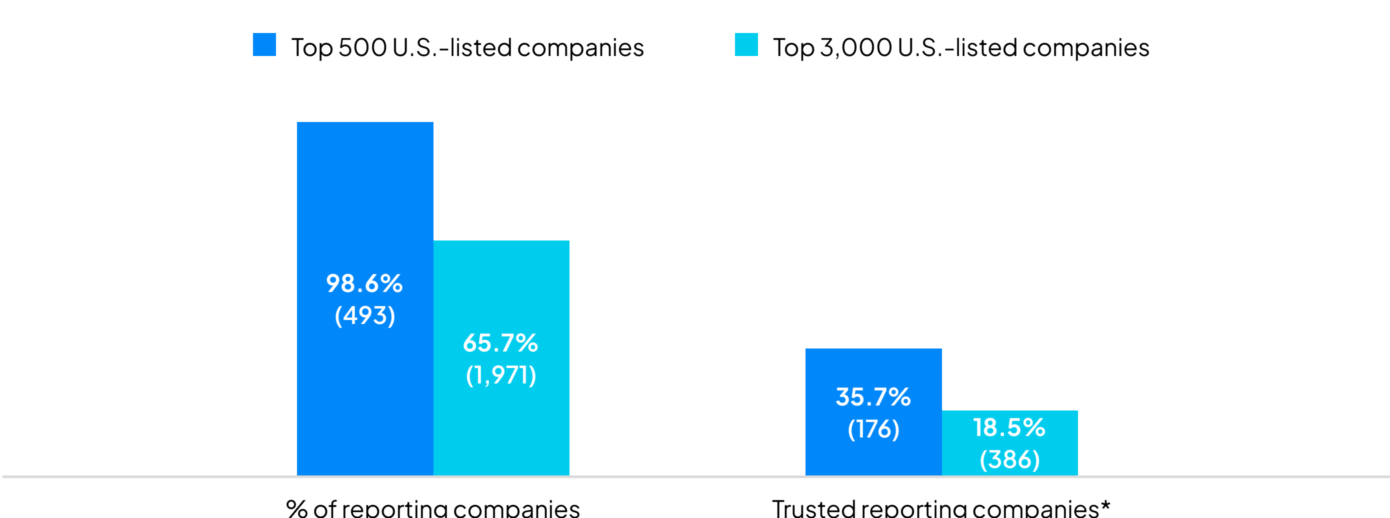
What do you think is the biggest ESG issue right now?

Climate change has become a priority concern, with 55% of respondents to a Diligent survey selecting greenhouse gas emissions as the biggest ESG issue in 2024, more than double the 25.7% seen a year prior.



*Results of polls presented to Diligent readers held on July 26, 2022, April 24, 2023, and March 21, 2024

Proportion of US companies to voluntarily disclose Scope 3 emissions in 2022 and/or 2023



*"Trusted" refers to a company's reported Scope 3 emissions value having passed Clarity AI's reliability criteria.

For a company to be considered "Reporting" they need to have reported data for 2022 and/or 2023

Source: Diligent / Clarity AI

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Navigating emissions reporting requirements

An interview with Tom Willman, regulatory lead at Clarity AI.

Tom Willman
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> “Despite Scope 3 emissions not being included in the SEC’s rule, several companies are voluntarily moving forward with such assessments. This will likely become the new normal.”

The Securities and Exchange Commission’s (SEC) Climate Rule has now been finalized. What are the broader implications of this rule for reporting companies?

One of the immediate implications for reporting companies relates to the increase in indirect costs, due to adjustments companies might have to make in how they conduct their operations. There is also a likelihood that the benefits accruing to investors may be small, since companies which believe they have a competitive advantage in their ESG performance and would attract additional capital on that basis are already voluntarily reporting and disclosing emissions information, as well as plans to reduce their overall emissions.

There is also potential for the effects of the disclosure rule to impact companies unequally, where smaller companies see a larger impact, considering they didn’t have a voluntary disclosure rule in place before.

Although the SEC did not mandate Scope 3 reporting, derived from corporate value chains, various global- and state-level policymakers are looking to make such reporting mandatory. Do you think Scope 3 reporting is becoming “the new normal”?

Despite Scope 3 emissions not being included in the SEC’s Climate Disclosure rule, several companies are voluntarily moving forward with such assessments. This will likely become the new normal for larger multinational enterprises with extensive relationships with suppliers, material providers and transporters.

The Corporate Sustainability Reporting Directive (CSRD), International Sustainability Standards Board (ISSB) and California state rules SB 253 and SB 261 all include provisions around Scope 3, while Clarity AI research show that 80% of emissions produced globally fall into the category of Scope 3.

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How can companies effectively use estimations in their emissions reporting, in the absence of reported data?

There are clear challenges with allocating emissions across a company's entire value chain, often requiring identifying a way to link emissions to certain processes, goods or value chain participants.

In order to measure greenhouse gas (GHG) emissions, firms can first establish baseline emissions. These baselines can then be used as a benchmark for measuring progress, establishing reduction goals and assessing the success of emission reduction programs.

A lack of standardization has been cited as a challenge for companies looking to report their comprehensive emissions profile. What tools or reporting frameworks can companies use to remedy this?

For companies planning to report Scope 1, 2 or 3 emissions, it can be a struggle to collect and measure this information accurately. Besides tracking down information from various suppliers and third parties, firms then have to align the information in a standardized format and account for variation in reporting methodologies.

Luckily, there are resources available to learn from industry peers and share best practices. These can include collaborative platforms and networks like the CDP (formerly the Carbon Disclosure Project), the GHG Protocol Corporate Value Chain (Scope 3) Standard, Global Reporting Initiative (GRI) and sector specific initiatives.

> “High quality, comparable reported data from companies will increasingly be an important input into investment decisions.”

What advice do you have for companies preparing to comply with the SEC climate rule?

Given the legal and political uncertainty, it might be difficult to prepare effectively for the rule. However, high quality, comparable reported data from companies will increasingly be an important input into investment decisions. And other rules - be that CSRD, ISSB-style frameworks or state rules - will begin to bite on U.S. companies in the meantime. It is, therefore, never too soon to start collecting and reporting that data.

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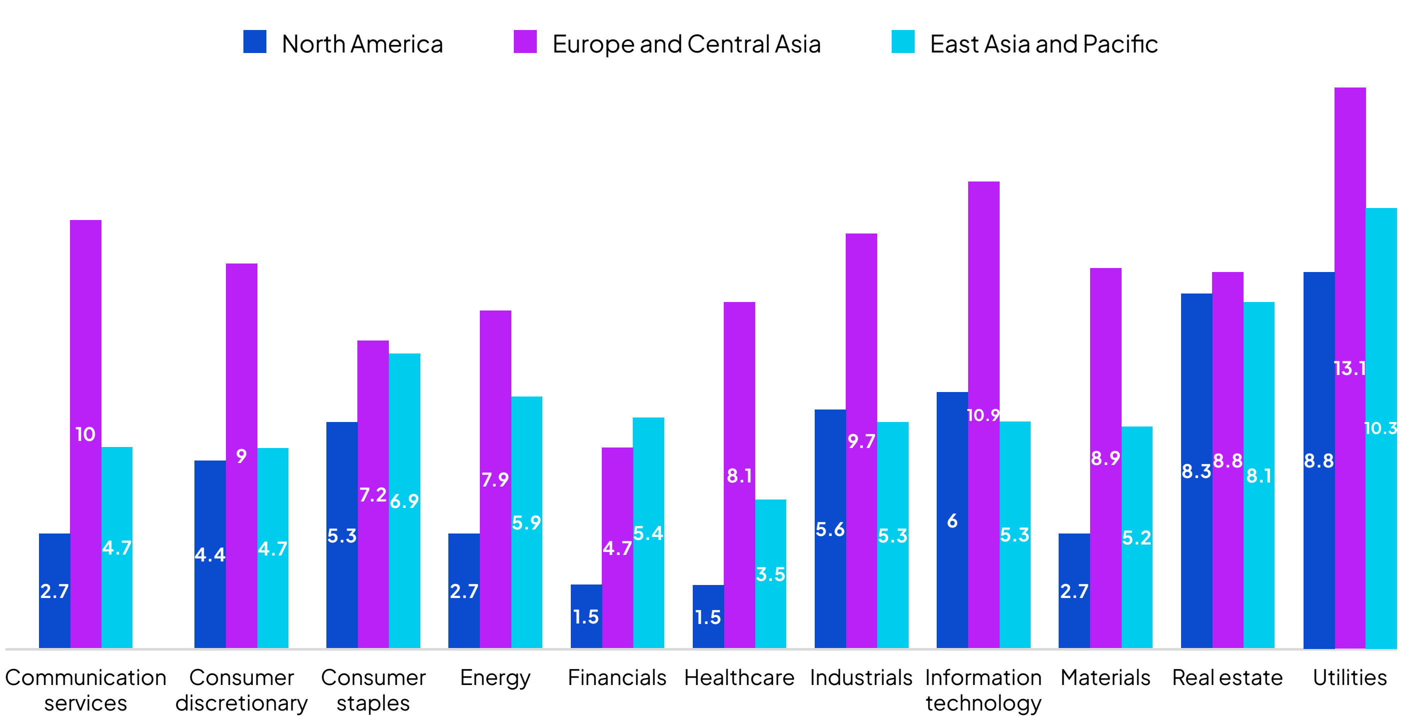
No. and proportion of companies providing Scope 3 reporting by region and sector

	No. companies disclosing Scope 3 emissions		
Sector	North America	Europe and Central Asia	East Asia and Pacific
Communication services	29	91	53
Consumer discretionary	92	217	161
Consumer staples	44	107	115
Energy	44	51	46
Financials	84	314	163
Healthcare	40	95	60
Industrials	121	384	293
Information technology	112	143	204
Materials	66	136	178
Real estate	56	116	127
Utilities	47	97	54



Source: Diligent / Clarity AI

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The proxy advisor perspective on investment stewardship today

An interview with Patrick Fiorani, research and engagement specialist at Glass Lewis.

Patrick Fiorani
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> "Investors need to see companies outline clear, measurable goals and objectives, which tends to happen once an issue is either obviously material financially or if the discussion has reached a certain level of maturity."

Can you provide a brief rundown of what Glass Lewis does?

Glass Lewis provides independent corporate governance, stewardship and proxy voting solutions to the world's leading investment managers and pension funds. We also help companies to understand corporate governance best practices and how investors view them. While industry stakeholders know us best for our high-quality governance research, Glass Lewis has actually been engaging with companies for more than 15 years. In fact, in 2023 we conducted approximately 1,300 engagements with over 1,000 companies on a wide variety of corporate governance and ESG topics.

Given our extensive stewardship experience, we know investors have varying priorities and time horizons as it relates to engagement. There is not a one-size-fit-all approach. Recognizing the uniqueness – and growing demands – of investment stewardship, we introduced a comprehensive suite of stewardship solutions last year. Our solutions cater to the diverse needs of investment managers and pension funds.

As a part of our suite, we offer varying levels of custom engagements, ranging from vote-driven campaigns tied to our clients' voting policies to research-driven, multi-stage, thematic engagement programs. Our Active Stewardship Engagement offering serves as a ready-made engagement program, where we address predominantly controversial issues, but also material governance issues.

We believe our custom engagement approach is unique in the market, as is our ability to leverage our governance analysis and vote results data to identify companies that have historically had issues. Investors can also leverage our platform to manage, organize and report on their engagement activities.

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From your experience working with stewardship clients, what are the most pressing ESG themes that shareholders want to engage their investee companies on?

Key engagement topics vary based on a company's business as well as shareholders' priorities. There is also a geographical component.

In North America, governance and social issues are typically top engagement priorities for investors. Executive compensation is still the leading engagement topic for us as concerns persist around pay structures and pay/performance alignment at many companies. On social issues, labor rights and human capital management are what we discuss most frequently. While we engage less frequently on environmental issues in North America, we still support investors in achieving their climate objectives, for example net-zero targets.

In Europe, our Stewardship team primarily engages on climate issues, namely the disclosure of clear and comprehensive transition plans and capital expenditure alignment with decarbonization plans. The focus on these issues is fueled in part by the regulatory environment that mandates disclosures for both issuers and investors alike.

> "The sustainability committee should also engage with other committees that may tangentially deal with related topics, such as remuneration committees that may discuss ESG-related metrics in pay."

In contrast, investors and companies in certain Asia-Pacific markets are newer to engagement, and our discussions primarily focus on governance topics. However, as concerns over the climate crisis increase, more industry bodies are calling for greater disclosure of climate-related issues. This has led us to engage more with companies on climate change and deforestation risks, particularly in Australia, Hong Kong, Indonesia, Japan and Malaysia. In markets such as China, Malaysia and Indonesia, human rights and labor rights issues are focus engagement topics for us.

How do ESG engagement priorities differ among sectors, and what trends are you observing in terms of sector-specific engagements?

Our Stewardship team engages with companies on the most material ESG issues for their sector. For example, companies in the oil & gas and energy sectors often face requests for disclosure of their decarbonization plans, specifically their net-zero targets.

Agriculture and food production is another industry of note. Investors may call on companies involved in the production of commodities to enhance reporting around biodiversity, deforestation and labor rights, while ingredient and food manufacturers tend to face requests for supply chain reporting.

When it comes to technology or social media companies, we primarily engage on data privacy and security issues. However, artificial intelligence is also becoming an engagement focus area for our team.

Greenwashing is a growing concern among investors. How can they discern genuine ESG commitments from superficial ones?

The devil is in the details. Investors need to see companies outline clear, measurable goals and objectives, which tends to happen once an issue is either obviously material financially or if the discussion has reached a certain level of maturity. Methodologies around measuring greenhouse gas (GHG) emissions have evolved, for example, so we are seeing more disclosure of clear goals. Therefore, when reporting lacks clarity that can be an indicator of greenwashing.

The footnotes and small print are where a lot of key information tends to hide and any ambiguity surfaces. Ambiguity does not necessarily imply greenwashing – the various kinds of sustainability reports companies publish are often long and detailed, so it's not surprising that at

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times they might not be perfectly clear. This is why having a conversation with the reporting company is so valuable because it can clarify the issuer's intentions as much as it allows investors to communicate their viewpoints and expectations.

In areas such as biodiversity, distinguishing leaders from laggards can be challenging because there is not a consensus on how to measure related impacts. We expect to see a firming up of targets and disclosures soon thanks to emerging frameworks like the Task Force on Nature-related Financial Disclosures (TNFD) and the Science Based Targets Network (SBTN).

Regulators are on the lookout for greenwashing, both on the issuer and investor sides. In fact, the European Securities and Market Authority (ESMA) published a greenwashing report last year, identifying misleading claims about engagement as a high-risk area.

Similarly, the U.S. Securities and Exchange Commission (SEC) expanded its Investment Company Act Naming Rule in September to include "sustainability" and "green" as terms which can only be used in fund names where funds have at least 80% of the value of their assets in those investments.

To adhere to the new fund labeling requirements and to avoid greenwashing, fund managers should have in place genuine and well-articulated disclosures about their engagement programs. This entails not only transparency in engagement activities but also ensuring these activities are substantiated by an escalation policy. In turn, well documented engagement activities can better inform and align to proxy vote decisions. In terms of disclosure, best practices include providing reports that clearly detail objectives, methodologies, outcomes and how accountability and oversight is exercised.

How does Glass Lewis measure the effectiveness of its engagements with companies?

In our Active Stewardship Engagement Program, we first identify target companies and set one or more specific objectives. These objectives are tailored to each company and depend on its sector, its current situation, and the material governance and ESG risks and opportunities it faces. Our engagement process itself is long-term and ongoing. We engage in constructive dialogue with board members and company executives to address the objectives and understand the company's views and efforts.

Company progress is systematically tracked through our four-stage system, where each stage has clearly defined targets before advancing to the next level. It starts with our initial outreach and is then followed by the company developing and implementing a plan to resolve the issue. The last stage is when the company successfully resolves the issue. We regularly assess progress against the stage targets in relation to the initial engagement objectives, and each time a company progresses to the next stage, we provide clients with the rationale and the relevant disclosure to maintain a high degree of transparency. Finally, we report engagement outcomes on a quarterly and annual basis.

In terms of board oversight of ESG, what best practices can you recommend?

This again varies based on market and industry, but our clients typically expect to see boards outlining ESG oversight policies and processes in their governing documents. While boards often disclose the ESG topics discussed in board meetings, this does not necessarily mean they are a principal responsibility for the board. Putting these topics in a charter helps to reassure investors that these issues are being regularly addressed and managed.

It is important to remember that every company will have a unique set of ESG risks, so we will see different kinds of oversight structures. But regardless of the structure a company employs, it is important for independent directors to be involved in the oversight of these policies and processes.

Where oversight of ESG has been delegated to specific committees, collaboration across the board is still valuable. For example, the sustainability committee should also engage with other committees that may tangentially deal with related topics, such as remuneration committees that may discuss ESG-related metrics in pay. In these instances, the sustainability committee can provide valuable input in approving the setting of related targets.

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Holding companies to account on biodiversity

With best practices for climate reporting now established, standard setters and shareholders are turning their attention to nature-related reporting and oversight, writes Rebecca Sherratt.

As climate-related disclosure requirements make their way into statute, a new frontier is rapidly emerging as investors, regulators, and non-governmental organizations use the same playbook to drive nature-related issues up the agenda.

Amid the increased focus on corporate reporting, nature-related shareholder proposals are winning higher levels of support than their climate-related counterparts. The 10 nature proposals subject to a vote at S&P 500 constituents in 2023 averaged 24% support, compared to 65 climate change proposals securing 21% support.

"Concern over nature has been building for some time," Andrew Shalit, shareholder advocate at Green Century Capital Management, told Diligent Market Intelligence (DMI). "It is a systemic risk, similar to climate change, but even more broad. Companies need to understand how they rely on nature and how they impact nature, and they need to share these assessments with the investment community."

Putting the pressure on

As of April 30, five nature-related shareholder proposals have been subject to a vote this year globally, securing 16% average support, compared to 21 averaging 18.8% support throughout 2023, according to DMI's *Voting* module.

Three proposals, seeking reporting on pesticide and/or water use, have won above 20% support.

Consumer defensive industries are bearing the brunt of demands for enhanced biodiversity reporting and commitments. In an interview with DMI, Patrick Fiorani, research and engagement specialist at Glass Lewis, noted that companies involved in commodities production often face calls "to enhance reporting around biodiversity, deforestation and labor rights, while ingredient and food manufacturers tends to face requests for supply chain reporting."

Since the start of 2023, eight (44.4%) of the 18 nature proposals voted on globally have been directed toward the consumer defensive sector. 2024 proposals asking Dow to report on plastic use and Barrick Gold to commission a water impact report received 26.3% and 25% support, respectively.

> "The 10 nature proposals subject to a vote at S&P 500 constituents in 2023 averaged 24% support, compared to 65 climate change proposals securing 21% support."

Conscious of the growing demand for biodiversity disclosure among shareholders, more consumer defensive companies are proactively strengthening their reporting. In March, U.S. food giant Kellanova, formerly known as Kellogg, committed to report on its impacts on the natural world, while a month later ADM released a third-party assessment on deforestation, both following engagement with Green Century Capital Management.

A busy year for standard setters

While corporate nature-related disclosures are largely voluntarily and unstandardized, this is set to change, thanks to emerging reporting frameworks by well-established and trusted ESG reporting authorities. Both the Taskforce on Nature-related Financial Disclosures (TNFD, following the Taskforce on Climate-Related Financial Disclosures, or TCFD) and the Science Based Targets Network (SBTN) published recommendations for corporate biodiversity

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reporting in 2023, while the International Sustainability Standards Board (ISSB) revealed in April its intention to research and potentially develop establish biodiversity-related reporting standards.

"In areas such as biodiversity, distinguishing leaders from laggards can be challenging because there is not a consensus on how to measure related impacts," Fiorani told DMI. "We expect to see a firming up of targets and disclosures soon, thanks to emerging frameworks like TNFD and SBTN."

"The release of TNFD and SBTN are an important signal about the importance of comprehensive disclosure of nature impacts and dependencies," Shalit said. "They help companies produce reports that are comprehensive and comparable to each other. It will take time for these reporting frameworks to evolve, and for companies and investors to best learn how to use them but companies can get started now."

TNFD published its recommendations in September 2023, providing a risk management and disclosure framework for nature-related impacts, dependencies, risks and opportunities. Among other things, TNFD recommends companies disclose metrics and targets used to assess and manage material risks and disclose the effects of nature-related dependencies and impacts on business strategy and financial planning.

320 companies across 46 countries have committed to start making TNFD-aligned disclosures by 2025, including Bank of America, Moody's and Standard Chartered.

In April, the International Sustainability Standards Board (ISSB) also revealed it is commencing research on nature-related risks and opportunities, with the view to establish a voluntary corporate reporting framework, drawing from TNFD guidance.

> "The release of TNFD and SBTN are an important signal about the importance of comprehensive disclosure of nature impacts and dependencies."

SBTN is also in the first stage of a multi-year plan to provide companies with science-based targets for nature. The guide provides insight on sector-level materiality assessments and target-setting, with additional guidance governing disclosures expected in 2025.

"I would recommend that companies begin with one portion of their supply chain. Use a framework that is close to what they are familiar with – so if they currently use TCFD, they could use TNFD for nature reporting – and apply that framework to one component of their supply chain," Shalit told DMI. "Running pilots will help them understand the framework, and how to begin putting nature management into their company governance, operations and risk assessment."

Nature-related voting policy updates in 2024

Investor	Region	Policy change
BlackRock	Global	We look for companies to disclose how they manage any reliance and impact on natural capital, including appropriate risk oversight and relevant metrics and targets, to understand how these factors are integrated into strategy.
Fidelity International	Europe	May vote against companies in high-risk sectors that do not meet minimum standards of deforestation-related practices and disclosure.
Neuberger Berman	Global	We expect companies to proactively identify, evaluate and mitigate financially material biodiversity risks within their operations and across supply chains and to provide transparency to shareholders regarding these efforts.

More insights on investor voting policies are available on Diligent Market Intelligence's *Voting* module.

Source: Diligent Market Intelligence / Voting

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Nature-related voluntary reporting frameworks

Reporting framework	Taskforce for Nature-related Financial Disclosures (TNFD)	Science Based Targets Network (SBTN)
Publication date	September 2023	Guidelines governing target-setting and materiality assessments published May 2023, with guidance on disclosure expected in 2025
Framework structure	Based on four pillars; governance, strategy, risk and impact management and metrics and targets	Based on five pillars; assess, interpret and prioritize, measure, set and disclose, act and track
Disclosure recommendations	Board oversight of nature-related dependencies, impacts, risks and opportunities	Conduct materiality screening and value chain assessment
	Effects of nature-related dependencies, impacts and risks on business model, strategy and financial planning	Prioritize locations and business components to include in targets
	Processes to identify, assess and monitor impacts, risks and opportunities	Measure baseline values and set targets across land and freshwater use
	Metrics and targets used to assess and manage dependencies, impacts and risks	Track and report on progress over time
Current scope	300+ global companies have committed to making TNFD-aligned disclosures by 2025	17 global companies piloted first targets in 2023

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Investor expectations for board oversight of ESG

2024 investor voting policy updates centred around ESG accountability, a trend which could foster increased opposition toward directors, writes Miles Rogerson.

By the end of Q1 2024, Diligent Market Intelligence (DMI) added 270 new investor policy documents to its *Voting* module ahead of the 2024 season, many of which indicated a move to enhance director accountability for ESG concerns and push for greater climate-related disclosure.

"Investors expect boards to manage risks related to an array of issues like climate change, human capital management and cybersecurity, so when they consider there's a lack of oversight of these material items, they are increasingly communicating discontent through director votes," Alliance Advisors' Managing Director Etelvina Martinez told DMI in an interview. "Some investors are also using vote-no campaigns to gain traction on certain items and we're seeing more of them as advocacy groups organise vote-no's on ESG issues."

In its 2024 policy update, Vanguard revealed it may withhold support from "responsible" directors where the board has "failed in its oversight role." The New York State Comptroller similarly announced that it will withhold support from audit committee members when the company fails to "disclose and appropriately manage" climate risks.

Where a company has not responded adequately on climate or human capital concerns, Amundi Asset Management revealed it may now vote against the company's chair. The $2-trillion asset manager also now expects companies to disclose "comprehensive" targets, baseline figures and scenarios across Scope 1, 2 and 3 emissions.

For the first time this year, Glass Lewis will look for robust sustainability disclosure at S&P 500 and FTSE 100 companies operating in industries where the Sustainability Accounting Standards Board (SASB) has determined that emissions represent a financially material risk. Glass Lewis will look at companies in markets outside the U.S. and U.K. as well. Such disclosures should align with Task Force for Climate-related Financial Disclosure (TCFD) recommendations and outline board-level oversight responsibilities. When TCFD disclosure and clear disclosure concerning board oversight of climate is lacking, we will generally recommend against members of the board, it said.

Consequences for noncompliance

Companies falling short of new minimum requirements could find their directors at risk of opposition, with shareholders looking to encourage individual accountability for ESG oversight.

> "Make sure you evolve your disclosures because it's always a moving target. There's always something new to keep your shareholders apprised of."

One such example arose at AO Smith's April 9 annual meeting, where directors Ilham Kadri and Victoria Holt received 66.8% and 55% opposition to their re/elections, respectively. In its rationale, the State Universities Retirement System of Illinois cited the U.S. industrial company's failure to provide SASB-aligned reporting.

In March, Woodside Energy Chair Richard Goyder found himself the subject of a withhold campaign, after HESTA suggested a board refresh to ensure the Australian energy giant is "well-placed for a low-carbon future." Goyder's

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reelection faced 16% opposition, while the company's climate plan was rejected by 58% of votes cast.

And driven by declining support for non-binding shareholder proposals, some ESG advocates are focusing on opposing director elections. A test case against ExxonMobil, which sued Arjuna Capital and Follow This for filing a climate-related proposal, was due to climax on May 29.

"We have been very actively working in our one-to-one advocacy with investors to promote director no-votes as a tool we should all be deploying a lot more freely than we are and not shying away from it because of notions of gentility," Sara Murphy, chief strategy officer at The Shareholder Commons, told DMI. "There is a plausible future, at least in the U.S., of a dismissal of Rule 14a-8, the very mechanism by which we file shareholder proposals in this country, and I think some people are reading the tea leaves and realising that we ought to be prepared for being forced to use other strategies."

Clear communication between shareholders and directors remains key to ensuring both parties understand what is expected and what is being done about ESG concerns.

"You make sure that your company is working within the guardrails that investors define to protect their diversified portfolios and you'll have no problem," Murphy warned. "We are doing our very best to make sure that our expectations are clear and transparent, so there is no guesswork for boards as to what's expected of them."

"Staying ahead of potential issues and having regular engagement with your top shareholders are really important things" for boards, Martinez advised. "Also being open to engagement with some of the smaller shareholders and stakeholders because, often, they are the ones that are at the forefront of emerging issues. Make sure you evolve your disclosures because it's always a moving target. There's always something new to keep your shareholders apprised of."

Common terms in voting rationales for director no-votes

When justifying votes against U.S. director elections, shareholders commonly cite insuffcient ESG-related disclosure or a lack of climate-related target-setting.

*Based on voting rationales for votes against director re/election proposals at Russell 3000 companies in 2022 and 2023.

Source: Diligent Market Intelligence / Voting

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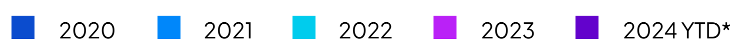
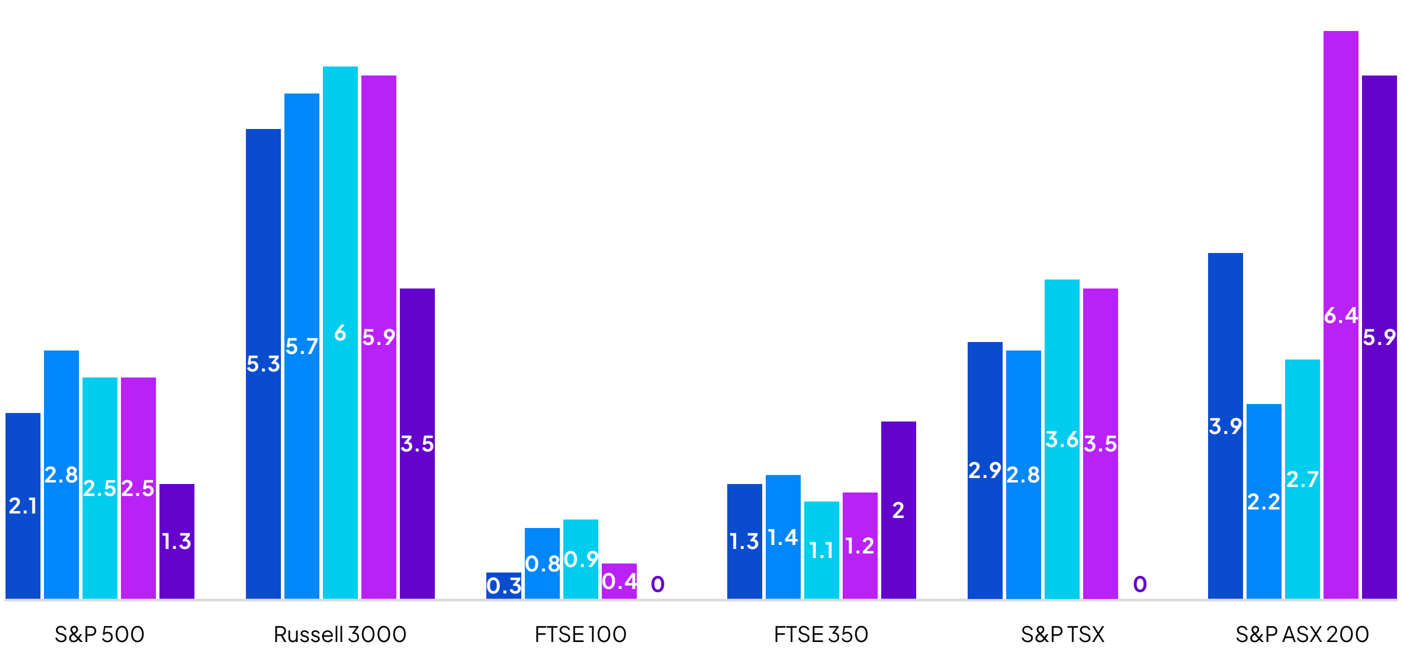
No. and proportion of director re/election proposals to receive less than 80% support by index

	No. proposals				
	2020	2021	2022	2023	2024 YTD*
S&P 500	102	134	122	125	5
Russell 3000	855	990	1,115	1,136	44
FTSE 100	3	8	9	4	0
FTSE 350	35	39	30	35	5
S&P TSX	57	56	74	76	0
S&P ASX 200	19	11	14	34	1

Proportion (%)





*As of March 31, 2024

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Sample voting rationales for ESG director no-votes

Investor	Company sector	Country	Meeting date	Rationale
Legal & General Investment Management	Energy		Apr-24	We remain concerned about insufficiently robust emissions targets, lack of quantifiable disclosure on climate-related risks and the quantum of capital to be allocated to low-carbon solutions
State Universities Retirement System of Illinois	Consumer cyclical		Mar-24	Will vote against the chair of the nomination committee if the company does not disclose EEO-1 reporting
Aviva Investors	Consumer defensive		Feb-24	Insufficient policies and targets on biodiversity
BlackRock	Utilities		May-23	Disclosures do not provide sufficient understanding of how management plans to mitigate the risk posed by a transition to a lower carbon economy, whilst delivering long-term financial value
State Street Corp.	Industrials		May-23	Voted against all safety committee members to express our concerns regarding the committee's ability to properly oversee safety program and practices

More insights on investor voting rationales, searchable by investor and/or company, are available on Diligent Market Intelligence's *Voting* module.

Source: Diligent Market Intelligence / Voting

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Labor unions drive social activism

Workers' rights initiatives are gaining momentum, in tandem with an increase in engagement from U.S. labor unions, writes Will Arnot.

Amid cost-of-living concerns, shareholders have enhanced their focus on workers' rights, prompting an increase in human capital-related demands. In Q1 2024, 181 campaigns were launched at U.S. companies inclusive of social demands, more than double the 71 environmental campaigns in the same period. Just 234 social campaigns were launched throughout 2023 at U.S.-based companies.

Labor unions are playing a bigger part in driving companies to enhance workers' rights and freedoms, both launching proxy contests and filing shareholder proposals this season. In Q1 2024, seven social campaigns were launched globally involving labor unions, the same number as in the entirety of 2023, according to Diligent Market Intelligence's (DMI) *Activism* module.

"In recent years, there has been a massive shift in the employee-employer relationship, largely accelerated by COVID-19," Geoff Serednesky, founder of Fishbone Advisors, told DMI. "Many of these trends were directionally occurring before the pandemic but intensified due to the changing workplace environment. Labor unions have become more involved as public awareness has increased around social justice issues, aging workforce demographics and the importance of worker rights."

Adopting the activist toolkit

Among the most high-profile human capital campaigns of 2024 was SOC Investment Group's proxy contest at Starbucks, aimed at remedying what the labor coalition described as the U.S. coffee giant's "severe human capital mismanagement." Less than a year prior, a shareholder proposal seeking a workers' rights assessment secured 52% support.

SOC's campaign did not go all the way to a vote, the union pulling its nominees after Starbucks established a new ESG oversight committee and agreed to work toward providing employees with collective bargaining rights.

"More companies are willing to have a conversation on these topics," Edgar Hernández, assistant director of Service Employees International Union's (SEIU) strategic initiatives department, told DMI. "In some cases, companies understand you're not singling them out, there is a legitimate concern that could pose a risk for investors that merits further consideration. In some cases, companies are willing to meet and engage in a discussion and that can be productive. And that, I believe, is a good thing for the company and investors."

> "In Q1 2024, 181 campaigns were launched at U.S. companies inclusive of social demands, more than double the 71 environmental campaigns in the same period."

Richard Clayton, research director at SOC, told DMI that the Starbucks campaign demonstrated that campaigns with an ESG lens have the potential to "present a very credible case to shareholders and get boards of directors and senior management to change their minds, as a consequence."

Labor unions also played a pivotal role in another of 2024's highest-profile activism campaigns, in which Ancora Advisors secured three board seats at U.S. railroad operator Norfolk Southern.

While labor unions have historically not been vocal about third-party activist campaigns, the Brotherhood of Maintenance of Way Employes Division and the Brotherhood of Locomotive Engineers and Trainmen advocated for Ancora, believing change to the company's leadership is the best path forward for its members. In contrast, the American Federation of Labor and Congress

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of Industrial Organizations (AFL-CIO) endorsed Norfolk Southern's management team, believing the activist's proposed strategy is "not fit for purpose."

Requests for enhanced reporting

Both labor unions and institutional investors have also seen success with shareholder proposals seeking to enhance workers' rights. As of April 30, the three proposals subject to a vote at U.S.-listed companies seeking reporting on freedom of association and collective bargaining have secured 34.2% average support. Eight similar proposals secured 35.8% average support throughout 2023.

AFL-CIO's proposal seeking a party assessment of Warrior Met Coal's workers' rights policies secured 46% support at its April 25 annual meeting, despite being opposed by management. A similar proposal won 30.6% support at Wells Fargo's April 30 annual meeting.

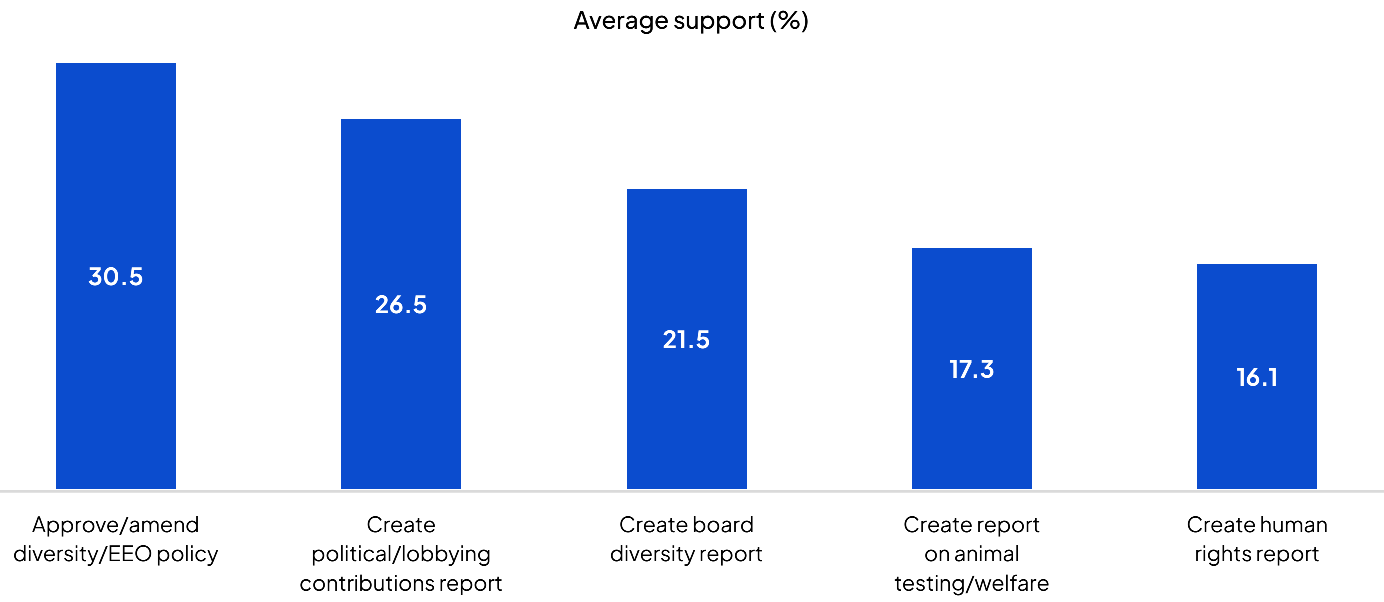
"It's important for shareholders to look at the reputational risks associated with human rights violations; I think investors are learning more about these issues and, in some instances, they are willing to take action." Hernández said.

Regulations may also be advancing investor engagements on human capital. The Corporate Sustainability Due Diligence Directive (CSDDD), approved in European Parliament in April, requires non-EU companies generating upwards of 450 million euros in turnover in the EU to develop due diligence assessments governing human capital-related risks. U.S. companies doing business in Europe will also be required to disclose steps taken to identify and mitigate human capital-related risks in their own operations, as well as those of their suppliers and business partners.

"I think [human rights] has moved from being, at best, a marginal concern to being something that many, many investors - even those that don't have any particular connection to the labor movement - recognize as something that they have to take seriously in a way that they potentially did not a decade or so ago," Clayton said.

Highest performing social shareholder proposals at U.S.-based companies in 2023

No. resolutions				
Approve/amend diversity/EEO policy	Create political/lobbying contributions report	Create board diversity report	Create report on animal testing/welfare	Create human rights report
17	53	10	11	27



Source: Diligent Market Intelligence / Voting

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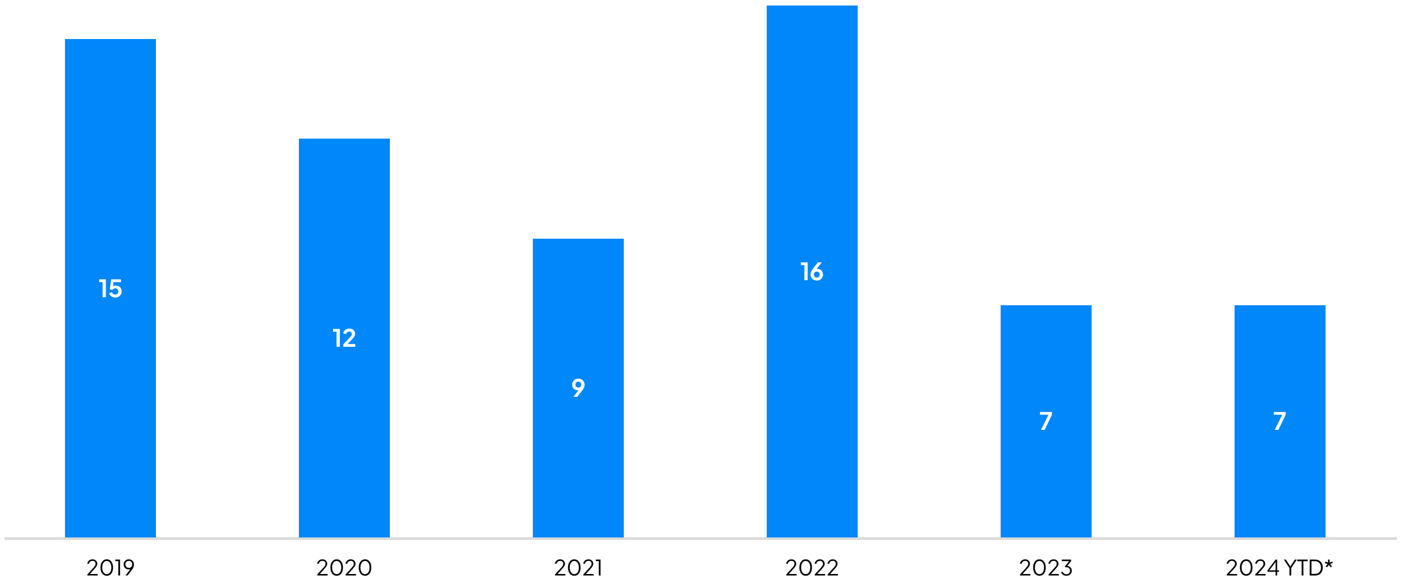
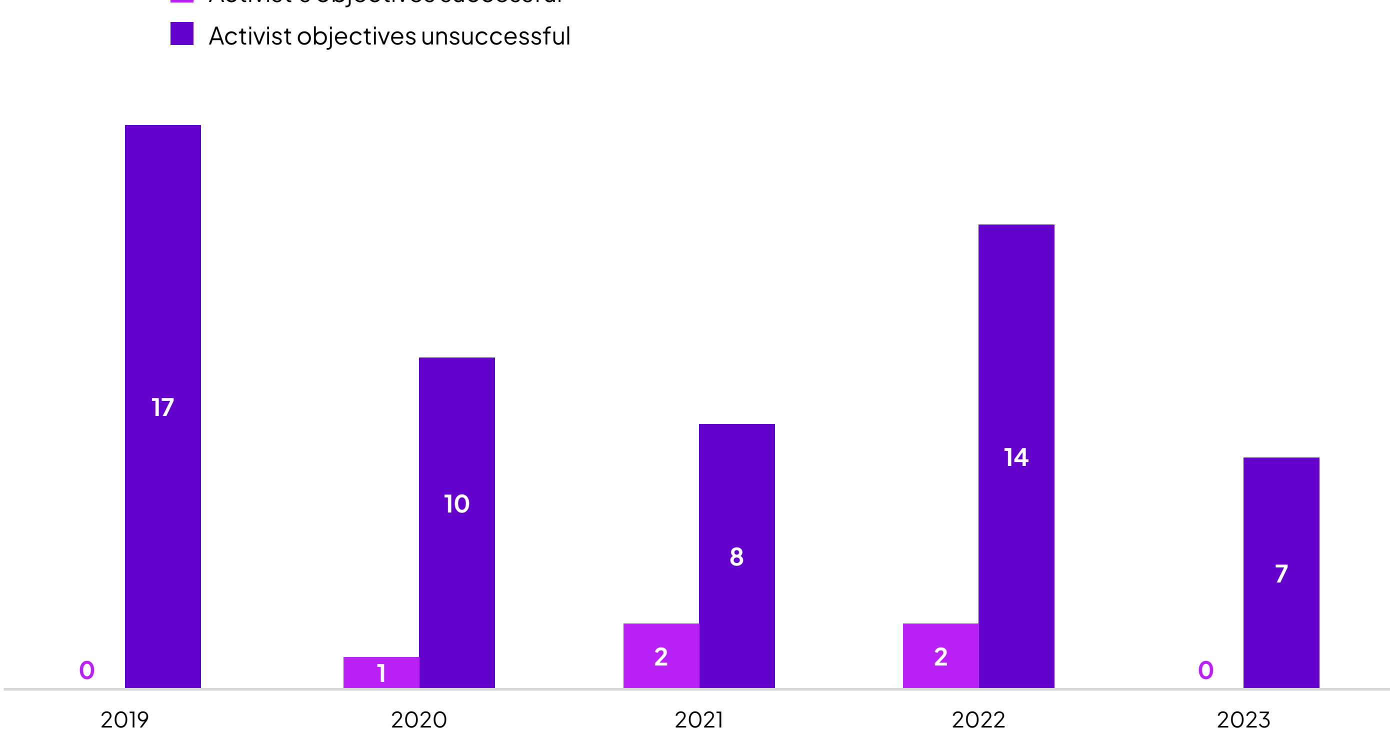
No. social campaigns involving labor union(s) globally, by campaign start year



*As of March 31, 2024

Source: Diligent Market Intelligence / Activism

No. social campaigns involving labor union(s) globally, by outcome year and success



Source: Diligent Market Intelligence / Activism

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Regional breakdown of activist campaigns launched inclusive of environmental demands

Region	2020	2021	2022	2023	2024 YTD*
U.S.	45	47	122	138	71
U.K.	3	3	5	2	2
Europe (excluding U.K.)	11	9	16	15	0
Canada	7	10	17	21	14
Asia	1	5	21	16	1
Australia	10	21	27	10	1
Other	0	3	1	0	0
Total	77	98	209	202	89

*As of March 31, 2024

Source: Diligent Market Intelligence / Activism

Regional breakdown of activist campaigns launched inclusive of social demands

Region	2020	2021	2022	2023	2024 YTD*
U.S.	142	124	223	234	181
U.K.	0	3	3	1	0
Europe (excluding U.K.)	7	10	9	11	1
Canada	14	14	23	13	2
Asia	1	3	7	5	8
Australia	5	2	6	2	0
Other	0	2	0	0	0
Total	169	158	271	266	192

*As of March 31, 2024

Source: Diligent Market Intelligence / Activism

Regional breakdown of activist campaigns launched inclusive of governance demands

Region	2020	2021	2022	2023	2024 YTD*
U.S.	298	287	312	308	110
U.K.	2	10	7	11	0
Europe (excluding U.K.)	60	45	34	35	2
Canada	16	18	23	22	19
Asia	52	53	92	114	33
Australia	17	21	20	11	0
Other	6	11	3	3	0
Total	451	445	491	504	164

*As of March 31, 2024

Source: Diligent Market Intelligence / Activism

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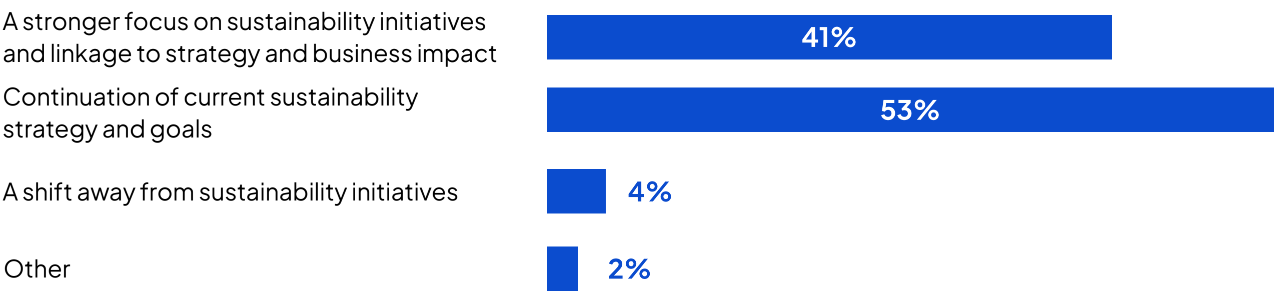
Sustainability in the Spotlight 2024

The Diligent Institute, together with Spencer Stuart, asked 801 global company board members from a wide range of backgrounds whether their organizations are ready to grasp opportunities emerging from their sustainability strategies and to provide their perspectives on their organization's ESG vision and processes.

Key findings:

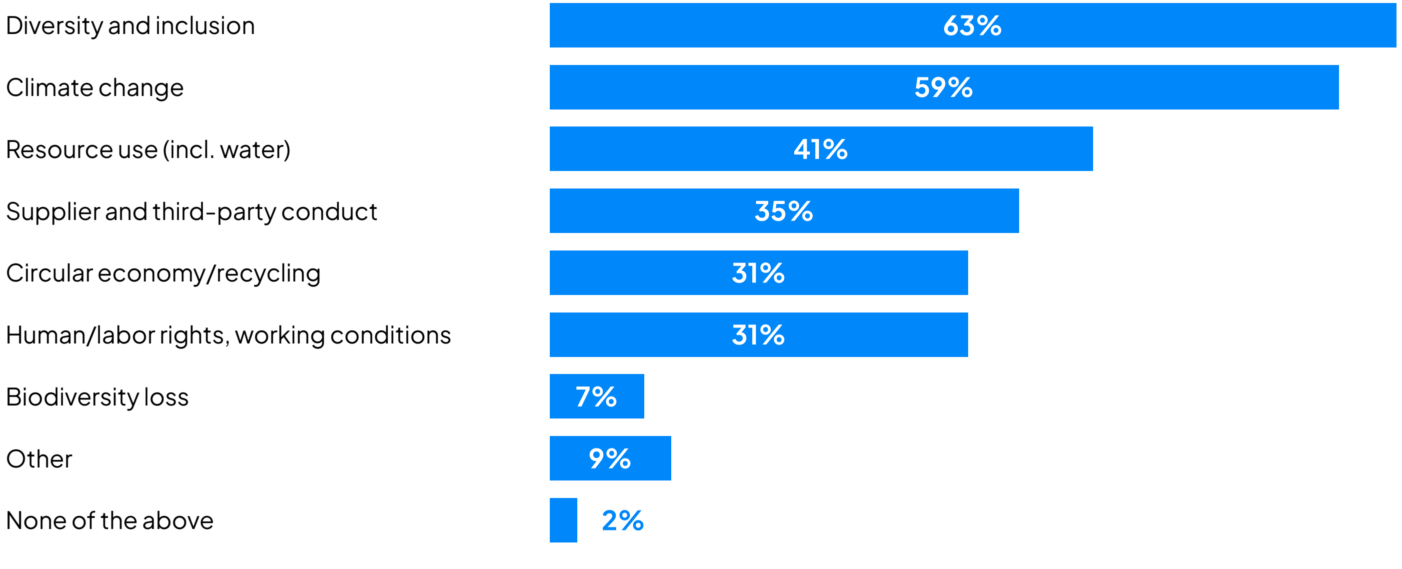
Nearly 96% of directors expect a continued or stronger focus on ESG in the next five years

How do you envision your organization's sustainability efforts changing over the next five years?



Diversity & inclusion and climate change top the list of ESG priorities for directors

What are the top three most important sustainability issues for your organization's business strategy?



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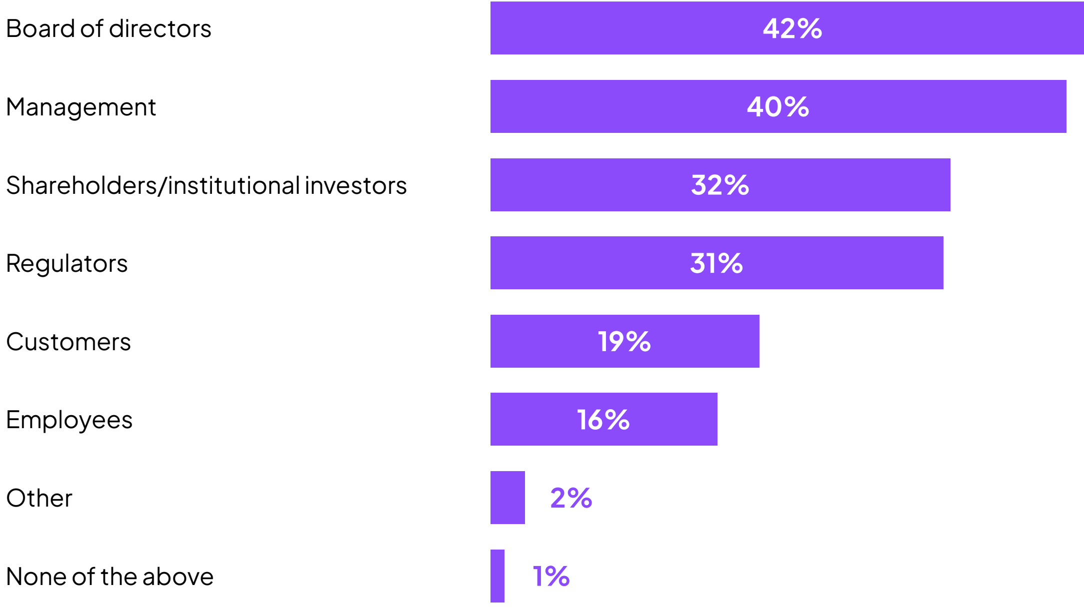
Shareholders rank in the top three biggest drivers of sustainability strategy adoption

Which of the following groups are the biggest drivers of adoption of a sustainability strategy at your organization?



Greater transparency is the top response to ESG legislation

What actions is your board taking in light of current or upcoming regulatory requirements related to ESG issues?

Action	%
Enhancing ESG disclosures, reports and filings	63%
Installing monitoring solutions for ESG oversight	33%
Training/education programs for individual directors or the full board	30%
Bringing in outside consultants or advisors	27%
Identifying boardroom skill gaps	24%
Retaining third-party for assurance of ESG metrics	23%
Conducting scenario planning around ESG risk	20%
Looking to appoint directors with ESG expertise	13%
None of the above	11%
Other	3%

Totals may not add to 100 due to rounding and multiple choice options.

Download Sustainability in the Spotlight here

*Spencer Stuart and the Diligent Institute surveyed 801 qualifying board members at public, private and pre-IPO organizations across all 14 industries. U.S.-based companies account for 42% of the respondents; 36% represent companies based in the European Union or the U.K. and the remainder represent companies based elsewhere across the globe.

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About Diligent Market Intelligence

Diligent Market Intelligence is the leading provider of corporate governance, shareholder engagement and investor stewardship data. Trusted by advisors, investors and issuers globally, the Diligent Market Intelligence platform equips firms with the necessary information to proactively manage shareholder pressures, mitigate governance risks, and maintain a competitive edge in the market.

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