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Short Circuit

Expect renewed demands for **Tesla**'s board to rein in mercurial CEO **Elon Musk** after investors belatedly realized that the electric vehicle maker had set a December 22 deadline for submitting shareholder resolutions for its May AGM—way back in October, buried on page 57 of a 60-page 10-Q. The highly unusual notice, typically done in a 8-K release, seems designed to avoid a flood of resolutions by investors already upset over Musk's distractions with **Twitter** as Tesla's shares sink. He also faces a securities fraud trial over that 2018 tweet saying he had secured funding to take Tesla private. One proposal did make the cut, calling for a succession plan at a firm with just two named executive officers alongside Musk. The evasion of shareowner scrutiny is a particular embarrassment for former **Government Pension Investment Fund** of Japan CIO **Hiro Mizuno**, a global ESG leader who joined Tesla's board in 2020 (**GPW** XXVI-28).

Briefings

Full Steam Ahead

The US **SEC** is not backing down in the face of looming attacks on its ESG rulemaking from a hostile GOP newly returned to majority control in the House. The agency's short-term agenda released January 4 projects a final climate disclosure rule by April, along with some two dozen other hot-button proposals on board diversity, human capital, share buybacks and easier thresholds for submitting AGM resolutions. A second agenda for October includes proxy plumbing and credit rating firm conflicts of interest—all "guided by economic analysis, and shaped by public input," said chair **Gary Gensler**. On Tuesday, the agency named **AARP** vice president for financial security **Cristina Martin Firvida** to be its **Investor Advocate**, succeeding **Rick Fleming**, who stepped down last July after serving in the role since its creation in 2014 following the **Dodd Frank** act (**GPW** XXVI-22).

Bank On It

Central banks struggle as calls mount for funds to accelerate climate oversight:

- **The European Central Bank** is "tilting our corporate bond portfolio towards issuers with better climate scores, with a view to removing the existing bias towards emission-intensive firms." So said board member **Isabel Schnabel** Tuesday in a speech hailed as a paradigm shift by London NGO **Anthropocene Fixed Income Institute**, a fierce critic. Schnabel conceded that the ECB's current actions "are not sufficient to ensure a decarbonisation trajectory that is consistent with carbon neutrality of our operations by 2050."
- **US Federal Reserve Board** chair **Jerome Powell** expressed nearly the opposite view the same day, arguing that "without explicit congressional legislation, it would be inappropriate for us to use our monetary policy or supervisory tools to promote a greener economy or to achieve other climate-based goals. **We are not, and will not be, a "climate policymaker."** However, Powell's assertion may be mostly aimed at fending off the GOP anti-ESG campaign, since he also defended the Fed's December proposal for climate policy requirements by the banks it oversees (**GPW** XXVI-44). Indeed, Fed staffers continue to assess bank climate risk, such as a January 5 paper concluding that despite progress, Global Systemically Important Banks are "only beginning to measure financed emissions resulting from their loans and investments, which comprise the vast majority of their emissions."
- **Voting** by **Climate Action 100+** investors is not being deployed to hold boards to account for lagging net zero policies. So concludes a report posted Tuesday by US NGO **Majority Action** analyzing the 2022 ballots cast by 104 of the CA100+ 700 investors, expanding on a similar critique in its 2021 assessment (**GPW** XXVI-06). Many funds are not yet casting votes in line with those flagged for opposition by the group's lead investors. Thirty-one funds backed 90% or more of the ten US directors flagged last year while 14 others voted for them all. "Seventeen opposed just one director, including **BlackRock**, **State Street**, **Goldman Sachs**, and **JP Morgan**, four of the largest CA100+ signatories by AUM." It did not name **Vanguard**, which is not a CA100+ signatory—and dropped out of the **Net Zero Asset Managers** initiative last month (**GPW** XXVI-44). However, Majority Action did not address explanations by BlackRock and others that some climate demands have become overly prescriptive (**GPW** XXVI-30).
- **Nature**. The **PRI** Monday added assessments of biodiversity policies to its **Inevitable Policy Response** climate forecasts in the wake of the COP15 framework, with an initial focus on land use (**GPW** XXVI-46). An initial estimate projects annual revenue from all "Nature Based Solutions" at US$22 billion by 2030 and US$204 billion by 2050 "as corporates and governments

pursue cost-effective carbon mitigation options that also produce nature co-benefits."

- **Canadian** issuers prioritize carbon emission reduction goals among E&S factors, finds an assessment of 82 large firms published Monday by the law firm **Fasken**. Still, only 52% have set net zero targets so far while 46% have set one for absolute emission reductions.
- **GRESB** opened applications Monday for two net zero working groups, on real estate and infrastructure, to sort out diverging understandings and devise a common definition for its standards. Conclusions, due by May, will further the new net zero standards the **Global Real Estate Sustainability Benchmark** introduced in October (**GPW** XXVI-40).

Follow the Money

US firms face heightened scrutiny of their political spending:

- **Issuers** will be thrust further into the political divide heightened from a resolution calling on them to require and disclose reports from trade associations and political action committees they fund detailing exactly where their money goes. The resolution, based on the **Center for Political Accountability**'s **Code of Conduct for Corporate Political Spending**, has been filed so far at **Amazon**, **Coca-Cola**, **Elevance Health**, **Eli Lilly**, **Merck**, **PayPal**, **Travelers** and **Walgreens**. The goal: to prompt companies to take ownership of spending that does not align with their "stated values, goals, and mission." See the resolution, which the Center intends to file at 40-plus more issuers this year, as an escalation of its highly successful approach of requesting disclosure of the company's own spending (**GPW** XXVI-46).
- **An InfluenceMap** platform unveiled this week grades 130-plus US issuers on their climate policies as well as those of the trade associations they fund. The US platform, still in beta mode, covers all the firms targeted by the CPA except Elevance and Travelers. It adds to similar lobbying trackers the London NGO maintains for Australia, the European Union, Japan and South Korea. The group plans to extend them to US states, starting with California, Texas, New York, Florida and Illinois.

China Policy

Does the **International Sustainability Standards Board**'s December 29 agreement with China's **Ministry of Finance** to open a Beijing office to pose a long-term risk of greenwashing by an authoritarian government increasingly intolerant of criticism? The office, opening this year to serve as "a hub for stakeholder engagement in Asia," widens the role in global ESG standard-setting China now plays through its membership on the **International Platform on Sustainable Finance**. The risk, already a mounting investor concern, is heightened by China's multiplying ESG shortfalls: it scores near the bottom on **Robeco**'s 2023 country sustainability ranking published January 5.

ESG D&O

Innovations in incorporating ESG into directors and officers insurance:

- **Corporates**. Insurers are increasingly tapping ESG risk assessments to set D&O premiums and limit or even deny coverage, finds a paper posted January 6 by **Amelia Miazad** of the **University of California Davis**. ESG, she argues, may run counter to the conventional view that D&O reduces the deterrent effect of litigation. Why? Because systemic risks like climate impact both sides of insurers' balance sheets—the liabilities of D&O claims as well as the shares they hold as asset owners. **Given their leverage over coverage, "D&O insurers are uniquely positioned to encourage companies to reduce their environmental externalities and minimize ESG risks."**
- **Funds** now can get ESG risk included in D&O coverage from **Apex Protect**, unveiled Monday by financial services provider **Apex**, specialty insurer **Mosaic Insurance** and corporate consultancy **Aon**. Fund compliance with global rules are assessed by ESG Invest Check complemented by an ESG Ratings service. The carrot: "improving ESG scores will result in premium benefits."

Spend More!

Funds should ramp up spending to reach the still largely unfulfilled potential of stewardship, says a Tuesday post by **PRI** stewardship specialist **Clara Melot**. One way forward: move past simply counting engagements or even staff by measuring "an engagements-per-analyst or an analyst-per-portfolio company ratio (that) might provide a much-needed reality check." See the suggestion as a preview of a stewardship resource benchmarking the PRI commissioned last month from the **Thinking Ahead Institute**, which is due in July.

Services

A proxy advisory service launched Tuesday by boutique Ohio investment manager **Strive** aims to capitalize on the GOP's anti-ESG campaign with advice intended to counter what it calls the "political orthodoxies" of **ISS** and **Glass Lewis**. See the service, which grew out of Strive co-founder **Vivek Ramaswamy**'s 2021 book titled *Woke, Inc.: Inside Corporate America's Social Justice Scam*, as an attempt to attract investors to the US$500 million fund.

Toolkit

A Systems Map published by the **Impact Management Platform** Tuesday offers investors and financial institutions an overview of tools and guidance available to help them manage ESG impacts, alongside a similar map for companies and other organizations. A searchable resource list provides access to everything on both maps.