State Street’s letter to boards calls for action on sustainability

On January 28, State Street Global Advisors (SSGA) issued its annual letter to boards. The letter, written by Cyrus Taraporevala, President and CEO of SSGA, outlines its 2020 proxy voting agenda, with sustainability as the focus.

The letter starts by providing some background on SSGA’s engagement priorities, noting that environmental, social and governance (ESG) has been an engagement topic for the past three years. And through that engagement, SSGA has seen progress on ESG matters. The letter states that many boards understand the importance of ESG, and that it should be built into the company’s long-term strategy. In addition, directors understand the associated risks and in general, are more aware of ESG. However, the letter goes on to say that less than 25% of the companies that SSGA evaluated have identified, incorporated and disclosed material ESG issues into their strategies.

Over the past year, SSGA introduced the R-Factor™ (Responsibility Factor) to address ESG in a more comprehensive way, notes the letter. According to SSGA, the R-factor is “a transparent scoring system that measures the performance of a company’s business operations and governance as it relates to financially material and sector-specific ESG issues.” The R-Factor is used to help SSGA clients understand their portfolio exposure.

“Beginning this proxy season, we will take appropriate voting action against board members at companies in the S&P 500, FTSE 350, ASX 100, TOPIX 100, DAC 30 and CAC 40 indices that are laggards based on their R-Factor scores and that cannot articulate how they plan to improve their score,” states the letter. Beginning in 2022, SSGA will also expand its voting action to companies who have consistently been underperforming on the R-Factor scores compared with peers for a number of years, unless there has been meaningful change.
The letter includes a framework to help companies incorporate sustainability into the company’s long-term strategy.

Large US banks are asked to detail their plan addressing climate risk

US Senator Elizabeth Warren (D-Mass) has written letters to the “eight globally systemically important banks” asking them to explain how they plan to address climate change risks to the financial industry. The Senator wrote: “As climate change continues to affect our economy, it is critical to understand your bank’s adaptation and mitigation strategies.”

Warren cited research regarding the severity of climate risks to the US economy and the financial system, and asked the banks to move quickly to address these risks. Warren asked the banks to respond by February 7. In 2019, Senator Warren reintroduced the Climate Risk Disclosure Act of 2019 bill and co-sponsored the Climate Change Financial Risk Act of 2019 bill.

Goldman Sachs takes additional steps to help board diversity

According to Bloomberg, Goldman Sachs will be hiring a search firm to help its IPO clients find diverse candidates to add to their boards. This comes after Goldman’s updated policy announcement that said the investment bank will no longer take companies public without at least one female director on the board. The policy will take effect in July, with plans to expand the requirement to two directors next year.

The article states that fewer than 10% of the company boards Goldman underwrote in the last two years, both in Europe and the US, were without a female director. In addition, women only held about 25% of the S&P 500 board seats last year.

“We will partner with our clients to achieve or surpass these targets by providing access and introductions to an extensive network of potential candidates and the ability to leverage our current and future diversity partnerships,” the company said in a statement.
SEC proposes modernization and simplification of Regulation S-K items

The SEC proposed amendments to modernize and simplify certain Regulation S-K disclosure requirements. According to the press release, the proposed amendments are intended to eliminate duplicate disclosures and modernize and enhance MD&A disclosures. The proposed amendments are intended to benefit investors, while simplifying compliance efforts for companies.

Item 301 (selected financial data) and Item 302 (supplementary financial data) would be eliminated, while Item 303 (management’s discussion and analysis) would be amended. The proposed amendments to Item 303 include:

- Replacing Item 303(a)(4), Off-balance sheet arrangements, with a principles-based instruction to prompt registrants to discuss off-balance sheet arrangements in the broader context of MD&A;
- Eliminating Item 303(a)(5), Tabular disclosure of contractual obligations, given the overlap with information required in the financial statements and to promote the principles-based nature of MD&A;
- Adding a new disclosure requirement to Item 303, Critical accounting estimates, to clarify and codify existing Commission guidance in this area; and
- Revising the interim MD&A requirement in Item 303(b) to provide flexibility by allowing companies to compare their most recently completed quarter to either the corresponding quarter of the prior year (as is currently required) or to the immediately preceding quarter.

The comment period for the proposal will remain open for 60 days following publication in the Federal Register. Separately, the SEC issued interpretive guidance on disclosures relating to key performance indicators and metrics in MD&A. The guidance reminds companies to consider the current SEC requirements when including metrics in MD&A and to include additional material information and context about the metrics so as to ensure it is not misleading and can be understood by investors.

SEC Chairman Jay Clayton also issued a statement summarizing the SEC’s ongoing work related to environmental and climate-related securities law disclosures. He did so to provide market participants with efficient access to information about what he characterized as “this evolving and complex area.” He noted the SEC’s “ongoing commitment to ensure that our disclosure regime provides investors with a mix of information that facilitates well-informed capital allocation decisions.”
Deals 2020 outlook: what boards should know

What does the deals landscape look like, and what should your board know? Mergers and acquisitions activity will likely remain steady in 2020, driven largely by the desire to increase scale and the pursuit of technology. But there will be challenges to overcome, from a potential downturn in the economy to a continually fragmented regulatory environment. And, of course, a US presidential election, which naturally causes uncertainty. While your board may continue to hear about a looming slowdown, that doesn’t mean you should stop thinking about M&A. In fact, quite the opposite—your company should think about how to take advantage of M&A in the next downturn. Here’s why and what we think will happen in 2020.

See the full paper here

Initial public offerings: When governance becomes a red flag

When private companies prepare to go public, they start feeling the glare of public scrutiny. This includes review of the company’s financial performance and risk factors, of course. But it also includes probing their governance practices. Corporate governance concerns alone may not derail a planned IPO. But red flags in corporate governance can bring unflattering media coverage, and complicate investor relations.

See the full paper here

The 2020 landscape: What boards should expect

The dialogue and sentiment around business is changing, and your board is likely paying attention. You’ll be hearing more conversations about the role of the corporation as you go into 2020, as expectations grow for companies to define their purpose and balance the interests of their broader stakeholder group. Topics like social issues, talent matters, and corporate culture will set the tone for 2020—as well as crisis management, because any topic can easily manifest into a crisis, and your board needs to be prepared. This article provides a snapshot of the atmosphere right now and what your board needs to know to get your arms around this changing sentiment.

See the full article here

PwC’s 2019 Annual Corporate Directors Survey

The survey captures views from over 700 public company directors across the United States on a spectrum of governance topics, such as board composition, board diversity, social issues, and culture and talent management. One key finding is that nearly half of directors (49%) say that one or more directors on their board should be replaced.

See the full report here
Education

**What companies need to know about the role audit committees play**
The audit committee is one of the busiest committees on the board and has a wide range of responsibilities beyond financial reporting oversight. So, as listeners prepare for year-end audit committee conversations, host Heather Horn talks to PwC’s governance leader, Paula Loop, about the role of the audit committee and how management can help facilitate their oversight responsibilities.

**Highlights from PwC’s 2019 Annual Corporate Directors Survey**
In this video, PwC’s Governance Insights Center Director Leah Malone highlights the key takeaways from the 2019 report.

**Washington politics, public policy and financial reporting**
In this podcast, PwC’s US Public Policy Leader Roz Brooks joins Heather Horn to discuss Capitol Hill and the impact of politics and public policy on the financial statements.

**Talent management: The new board imperative**
In this video, PwC’s Governance Insights Center Principal Paul DeNicola discusses the board’s role in overseeing talent management—and why it’s being labeled as a new imperative.

**Investor perspectives on reporting: 5 things you need to know**
What do investors and analysts really want to learn from your financial statements? And what are their areas of focus? On this podcast, we answer these questions and discuss more of what’s on the minds of investors.

Events

Join our team for engaging discussions at these upcoming governance events:

**NACD NJ Chapter: Politics, Policy, Risk & Regulatory Updates**
Florham Park, NJ
February 13, 2020
Join Carl Holshouser, a leader in PwC’s Strategic Policy Advisers Group, as he addresses how businesses should proactively identify and manage emerging policy, regulatory and legislative issues that could directly impact business growth. The discussion will explore how organizations can establish governance, processes and metrics to create and measure the effectiveness of government & regulatory affairs, public affairs and compliance organizations and how to imbed policy, regulatory and legislative information into product, sales and engineering teams as products and services are rolled out.

**Inbound Insights: US Business, Policy and Trade Webcast**
Webcast
February 25, 2020
Register to join us on February 25th at 12:00 PM Eastern. PwC industry leaders will highlight trends affecting foreign direct investment and the US operations of global companies. Panelists will provide a view of 2020, including expected policy, trade and political developments.
Join PwC’s Governance Insights Center Managing Director Barbara Berlin at the 2020 Corporate Governance Symposium. This year’s symposium will focus on governance issues of critical importance to boards and investors in 2020.

Join PwC’s Governance Insights Center team at the Equilar Board Leadership Forum. The Board Leadership Forum aims to encourage participants to adopt effective techniques and strategies for implementing ESG initiatives, organizing human capital management, dealing with activism and balancing board composition. This event is a great opportunity to network with industry professionals and stay up to date on the corporate governance landscape.

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