February 2024

On 8 February, the three largest financial markets in China announced obligatory sustainability reporting for Chinese companies, tempering the prophecies of a major step backwards in ESG globally.

The signs threatening ESG have multiplied in recent months, and the news to come in 2024 looks set to deal it such terrible blows that talk of an anti-ESG backlash is becoming commonplace. After the euphoria of the rise of ESG matters up the corporate agenda, it seems it is time to get back to business as usual.

It is true that in the United States, the Republicans' attacks against ESG resemble a veritable crusade. In November 2023, the House of Representatives took legal action against two organisations aiming to accelerate the decarbonisation of financial institutions and companies: the Glasgow Financial Alliance for Net Zero (GFANZ) and As You Sow. These organisations have been accused of potentially breaching antitrust law by promoting corporate agreements on the subject of carbon neutrality. In another case one month later, the state of Tennessee filed a lawsuit against BlackRock, the world's largest asset manager with 9.1 trillion dollars in investments, because it 'uses aggressive strategies to push controversial ESG objectives in the assets it manages'. As a consequence – or perhaps a coincidence – in February 2024, BlackRock effectively reduced its involvement in Climate Action +100, the global coalition bringing together more than 700 investors to encourage the most carbon-intensive companies to reduce their emissions; at the same time, JP Morgan AM and State Street Global Advisors announced that they were not renewing their membership at all. And what can we say about the possible re-election of Donald Trump to the White House in November 2024? He patently stated his intention to roll back all environmental regulations in the name of corporate freedom and defence of the American way of life!

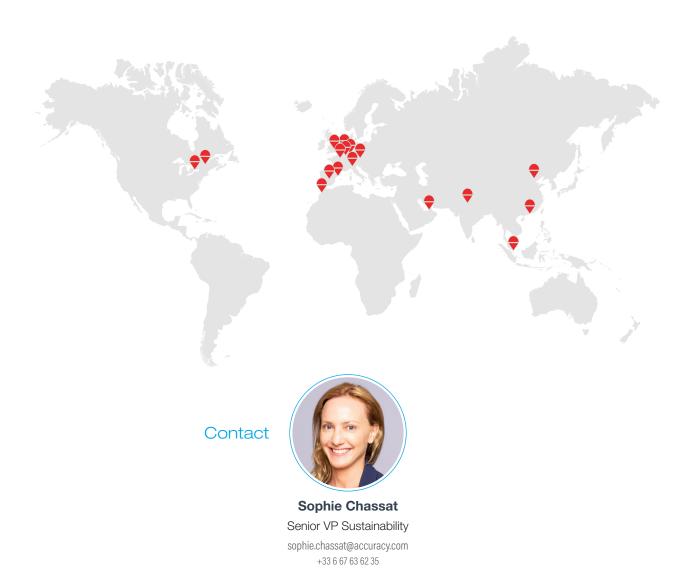
The saying goes 'what happens in Vegas stays in Vegas', but nothing could be less sure. We thought Europe protected from these debates, but the rise of popular or populist movements explicitly rejecting European ESG regulations is calling into question this preconception. In the Netherlands, the Farmer–Citizen Movement was formed directly in response to the national nitrogen plan that intended to halve emissions by 2030: the party garnered 19% of the votes in the March 2023 provincial elections, making it the country's top electoral force. In France, the mobilisation of farmers in January 2024 resulted in the Ecophyto plan to reduce the use of pesticides being put on hold, much to the anger of environmental associations. And on 9 February, the deferral of the European Council's vote to approve the definitive text of the Corporate Sustainability Due Diligence Directive (CSDDD), due to the likely abstention of Germany and Italy, shows that the ESG issue is becoming a fault line in Europe too. In this climate, the European elections in June 2024 may see the rift widen.

But now China has woken up, and the anti-ESG backlash is trembling. On 19 February, the three stock exchanges of Shanghai, Shenzhen and Beijing announced mandatory sustainability reporting requirements for listed companies to be put in place from 2026. Contrary to what we might think at first, China is proposing a maximalist version of these ESG reporting requirements – they borrow more from the European CSRD model than from the minimalist ISSB model and its two IFRS S norms (S for Sustainability). The Chinese reporting requirements will therefore take a 'double materiality' approach, that is, one taking into account not only the risks and opportunities that ESG topics present for a company, but also the impacts or negative externalities that the company's operations can have on the environment and on society – something for which, until now, Europe was the only standard bearer. And not only do the reporting themes include the climate, with obligatory reporting on scope 3 carbon emissions in particular, but they also include broader ESG issues, like biodiversity, the circular economy, business ethics and subjects specific to China's social model, like rural revitalisation. Just as in Europe, the main risks and impacts of a company's value chain are incorporated. This decision by the Chinese financial markets, affecting over 5,000 listed companies, will



have a major impact on ESG integration in corporate strategy and governance. The argument that Europe imposes constraints on itself that no one else will do no longer stands up. China may also take this as an opportunity to assume another ideological position in opposition to the United States.

In any event, ESG has not had its last word – not in China or elsewhere. In the United States, defeats of anti-ESG actions are putting the ball back in play. On 8 February 2024, the New Hampshire House of Representatives Commission unanimously rejected, for example, a bill that would have made the investment of state funds in ESG a crime punishable by up to 20 years in prison. Further, the US Securities and Exchange Commission is preparing to publish its future sustainability reporting requirements, as are other jurisdictions including Australia, Brazil, Singapore and the UK. The much-publicised anti-ESG backlash may well not happen.



Accuracy partners and professionals are available to discuss your needs and design an appropriate solution with the relevant experts.