AEGON Asset Management

Sustainability Snippets

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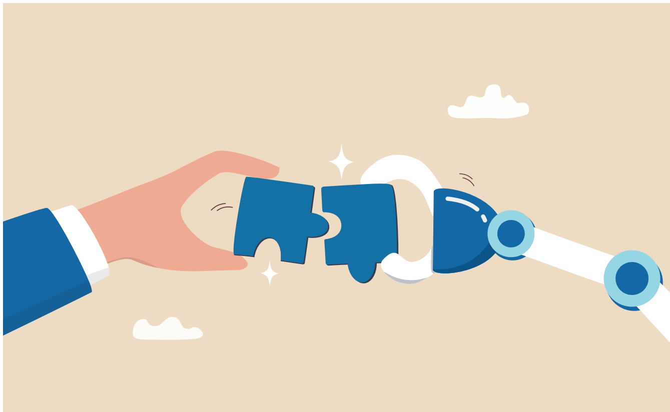
AI Global Summit

Earlier in November, the UK government hosted the first Global AI Summit at Bletchley Park, welcoming political leaders from 28 governments, representatives from top tech companies and researchers from around the world. UK Prime Minister, Rishi Sunak commended the summit for its diplomatic success, following its outcomes of an international declaration addressing technological risks and a multilateral agreement to conduct tests on advanced AI models.

A lot of the talk from the summit came from the US. The day prior to the summit, President Biden issued an executive order mandating companies with AI models that could compromise national security to disclose their safety management practices. Biden's order represents the most comprehensive measure enacted by the administration in addressing AI threats, encompassing concerns ranging from national security to competition and consumer privacy.

There was a lot of debate about the agenda's lack of focus on the current impacts and risks of AI. There are worries that the upcoming elections in the US, India, and the UK next year might face disruption due to the malicious manipulation of generative AI, as well as potential biases these models may exhibit.



Another observation was the various levels of progress on regulation among the delegations. The EU is a standout and well into the process of implementing its EU AI Act, which is expected to become law in June 2024. The act has a focus on enhancing regulations related to data quality, transparency, human oversight, and accountability. There are similarities between the AI Act and GDPR in terms of ambition, extra-territorial scope, and the structure of fines.

It will adopt a risk-based approach, classifying models based on their level of risk. This categorisation will then determine specific constraints, including risk management and data governance. These categorisations are a hotly debated topic among member states.

Trash talk: plastics greenwashing allegations

Three of the biggest plastic polluters have been accused of greenwashing by the European consumer organization, the BEUC. Coca Cola, Nestlé, and Danone claim their plastic water bottles are 100% recycled or are recyclable. However, the BEUC has filed a complaint with the EU Commission claiming that the bottles from these brands contain items that cannot be made from recycled materials in Europe (e.g. lids), and that the 'recyclable' claim does not account for lower recycling rates in the EU.

Lawyers for the BEUC claims this means that consumers may be misled into viewing single-use plastic bottles as a sustainable choice. Acting in a similar way as the Advertising Standards Authority, the BEUC issues formal complaints, but it is up to each individual EU member country to fine companies in breach. How this plays out in the near future could provide insight into the EU's developing approach to greenwashing.

FRC to water down various changes

In our October Snippets, we discussed the prospect of the Financial Reporting Council (FRC) being overhauled and welcomed the proposal of a more powerful regulator, the Audit, Reporting and Governance Authority (Arga) alongside some key reforms on accountability of directors on internal controls and the shape of the audit industry.

Regrettably, earlier this month, the confirmation of delays in the reforms indicated that the overhaul of the UK's audit and corporate governance systems is unlikely to be implemented within the current Parliament – which ends in January 2025. The regulator now intends to advance only a select number of the proposals outlined in its May consultation. A statement from the FRC emphasised the commitment to ***"continue to utilise its current regulatory toolkit"*** striving to maintain a balance between its public interest alongside ***"promoting UK corporate growth and competitiveness"***.

This decision has disappointed many in the accounting and investment industry. Michael Izza, Chief Executive of the Institute of Chartered Accountants in England and Wales (ICAEW) stated: *"Carillion's collapse almost six years ago marked a watershed moment for UK audit and corporate governance, but it appears that the Government's promise of comprehensive reform will remain unfulfilled due to a lack of political will."*

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Gender Diversity is good for corporate performance – or is it?

Blackrock released a study this month which claimed that gender-balanced companies outperform their least-balanced peers by up to 2% per annum. Much as I would love for this to be true, another academic, Alex Edmans, in his blog "May Contain Lies" has outlined the failings in the study, such as the use of a single accounting factor, failure to use controls and cherry picking of measures of "female friendliness". This shows the importance of not blindly believing academic studies that confirm one's own beliefs – in fact Alex Edmans himself has done studies on diversity and inclusion which have positive outcomes.

What does catch my attention though is this desire to prove that diversity makes money. With such a multifaceted issue it may be difficult to prove that this is the case. However, using a bit of common sense would suggest that if companies have a wide range of perspectives going into decisions and an inclusive culture that will lead to people feeling free to contribute fully, the result is more likely to be positive in terms of corporate performance – as well as a well engaged workforce and lower turnover.

US Foreign Pollution Fee

In the US, a bill named the "Foreign Pollution Fee Act" was introduced early in November, which would impose a fee on products imported from high greenhouse gas-emitting countries. Its aim is to protect US companies from cheap imports from countries that lack robust greenhouse gas regulations

It is similar to the EUs approach; it has already launched its initial phase of the world's first carbon border tariff scheme, which we covered in the previous Snippets edition.

The interesting thing about this piece of legislation is that the bill was introduced by three Republicans. Initial products included in the bill were energy products (from oil to solar panels) as well as industrial products (aluminium, cement, steel, etc).

It goes to show that Republicans will support climate action when it's aimed at China and protects their own manufacturing.

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