Compliance & Risks

THE ULTIMATE GUIDE TO

ESG Compliance in 2023

This guide was originally published on 28th April, 2023. Further regulatory developments may have occurred after publication. To keep up-to-date with the latest compliance news, sign up to our newsletter.

Table of contents

'Where do we start?'

ESG is a term that needs no introduction in 2023. While there is much talk around the looming deadlines and mounting pressures, there is still a lack of clarity about what exactly needs to be done to be on the safe side of the ESG deadlines.

"Where do we start?" is the most common question we hear from our customers trying to accelerate their ESG compliance program in line with the upcoming deadlines.

This guide has been written to help sustainability and compliance managers get a clear picture of the fundamentals of ESG that are relevant for 2023 - including guidance about the best practices while drafting a company's ESG strategy.

ESG Compliance

ESG compliance refers to the measures an organization takes to meet the environmental, social, and governance (ESG) standards and requirements set by regulatory bodies and industry organizations. It involves the reporting and disclosure of an organization’s ESG performance, policies, and practices in order to provide stakeholders with relevant and reliable information.

The purpose of ESG compliance is to ensure that organizations are accountable for their impact on the environment, society, and governance, and to encourage them to adopt sustainable business practices. ESG compliance can also help organizations to manage risks, improve their reputation, and enhance their relationships with stakeholders.

60%

Consumers willing to change shopping habits to reduce environmental impact

$1T+

ESG investment funds in the past 2 years

5x

Growth of ESG regulations since 2021

Check out our blog on the Emergence of ESG as a Global Hot Issue to learn more about how ESG has come to become one of the most spoken-about business issues in 2023.

ESG Compliance Vs Sustainability Reporting

As companies become more aware of their impact on the environment and society, they are looking for ways to demonstrate their commitment to sustainability and responsible business practices.

Two terms that are often used in this context are ESG compliance and sustainability reporting. But what do these terms mean, and what's the difference between them?

ESG compliance refers to the standards that companies must meet in order to demonstrate their commitment to sustainability and responsible business practices. This encompasses a wide range of issues, including environmental protection, human rights, labour standards, governance, and ethical behaviour. Companies must prove compliance with a few regulations in order to maintain their reputation, reduce risk, and attract investment.

Defining ESG

ESG compliance is about meeting regulatory/legal requirements, while sustainability reporting is about providing information.

ESG compliance is often mandatory, while sustainability reporting is being made mandatory now with the new CSRD (Corporate Sustainability Reporting Directive) in the EU. Note that the EU corporate sustainability reporting directive rule requires certain large and listed companies to publish regular reports on the social and environmental risks and how their activities impact stakeholders and environment.

ESG compliance focuses on minimum standards, while sustainability reporting can provide a more comprehensive picture of an organization's sustainability efforts. With sustainability reporting being made mandatory, it would essentially become a part of ESG Compliance for a company.

Both ESG compliance and sustainability reporting are important for companies looking to demonstrate their commitment to sustainability and responsible business practices. ESG compliance is necessary to avoid penalties and fines, while sustainability reporting is focused on building a company's reputation and providing stakeholders with information about its ESG performance, both of which are now mandatory. By taking ESG compliance and sustainability reporting seriously, companies can reduce risk, avoid greenwashing accusations, attract investment, and build trust with stakeholders.

Sustainability reporting, on the other hand, refers to the process of disclosing information about a company's environmental, social, and governance (ESG) performance. This can include information about a company's carbon footprint, waste generation, labour practices, governance practices, and more.

The goal of sustainability reporting is to provide stakeholders (regulators, investors & customers) with a clear and transparent picture of a company's ESG performance and to demonstrate a company's commitment to sustainability and responsible business practices.

Is ESG Compliance a Mandatory or Legal Requirement?

ESG compliance is now very much a mandatory legal requirement with the move from voluntary to mandatory sustainability reporting across the globe.

In the EU, for example, the CRSD requires mandatory sustainability reporting for companies in scope pursuant to EFRAG's ESRS standards. The UK has also followed this trend with the Companies Strategic Report (Climate-related Financial Disclosure) Regulations which made sustainability reporting in accordance with the Taskforce for Climate-Related Financial Disclosure (TCFD) compulsory for a number of UK companies. Mandatory Climate Reporting Obligations also apply to large Swiss companies as of 1 January 2024.

Learn more about how ESG Compliance has become a top business priority in 2023.

European Sustainability Reporting Standards (ESRS)

The European Sustainability Reporting Standards (ESRS) consist of 12 draft mandatory standards published by the European Financial Reporting Advisory Group (EFRAG) pursuant to the CSRD.

Each standard contains a number of disclosure requirements. The drafts, which are currently with the European Commission for review, are expected to be adopted as delegated acts in June 2023, followed by a scrutiny period by the European Parliament and Council.

They cover reporting on areas such as climate change, human rights, and anti-corruption, among others.

The EU ESG reporting standards aim to promote sustainability and responsible corporate behaviour and also provide investors with the information they need to make informed investment decisions. Read about the upcoming ESG deadlines in detail.

Upcoming Deadlines For ESG Reporting

The deadlines for ESG reporting vary depending on the jurisdiction and the specific regulations and guidelines that apply to a company. However, some general deadlines that companies need to be aware of include mandatory reporting obligations under CSRD and US SEC proposed mandatory climate disclosure draft rule for example.

Important deadlines

European Union

The mandatory reporting obligations under the CSRD will be phased in over a number of years, commencing in 2024 for large public interest entities which are already subject to the EU Non-Financial Reporting Directive (NFRD) and 2026 for companies not currently subject to the NFRD.

Listed SMEs (except micro undertakings, small and non-complex credit institutions and captive insurance undertakings) will be subject to the reporting requirements from 2027 whilst third-country undertakings will become subject to requirements from 2029.

Other

The Task Force on Climate-related Financial Disclosures (TCFD) has developed recommendations for the disclosure of climate-related financial information.

Many companies around the world are following these recommendations, but there is no formal deadline for reporting.

In addition, certain countries (e.g., the UK, and Switzerland) have made sustainability reporting in accordance with the TCFD compulsory for companies in scope.

It's important to note that the deadlines for ESG reporting are constantly evolving, so companies need to stay informed about the latest developments in their jurisdiction.

United States

There is no comprehensive federal requirement for ESG reporting in the US, but the US SEC proposed mandatory climate disclosure draft rule is due to be finalised this year.

Once finalized, public companies in the US will be required to disclose their climate-related risks that are reasonably likely to have a material impact on their business, results of operations, or financial condition, and certain climate-related financial statement metrics in a note to their audited financial statements.

The proposed rules, if enacted, would also require disclosure of information on Scope 1 and 2 greenhouse gas (GHG) emissions. Scope 3 would also be required if the registrant has set a GHG emissions target or goal that includes Scope 3 emissions.

Read our blog on all upcoming ESG regulations to stay ahead of the curve.

Materiality Assessment

A materiality assessment is a process that companies use to determine which ESG (Environmental, Social, and Governance) issues are most relevant and impactful to their business and stakeholders. This involves considering both the potential positive and negative impacts of ESG issues on a company's operations, reputation, and financial performance, as well as the expectations and concerns of stakeholders such as customers, investors, employees, and communities.

A materiality assessment helps companies prioritize their ESG efforts and determine what information they should report on, both to meet regulatory requirements and to provide stakeholders with relevant and meaningful information. The results of a materiality assessment also inform a company's ESG strategy, helping it to identify areas for improvement and set achievable goals

Double Materiality

It is a requirement for companies to report both on how sustainability issues affect their performance, position and development (the 'outside-in' perspective), and on their impact on people and the environment (the 'inside-out' perspective).

Overall, a materiality assessment is an important step in the ESG reporting process, helping companies to ensure that their reporting is focused, relevant, and valuable to stakeholders. Take our materiality assessment to understand where you are on the ESG journey.

ESG Compliance Checklist

There is an ESG (Environmental, Social, and Governance) checklist that companies can use to help ensure that they are covering all the important areas of ESG in their reporting. The specific items on an ESG checklist can vary but typically include the following; Environmental, Social, Governance and Financial.

The ESG checklist is not meant to be exhaustive, and companies may need to include additional items that are specific to their operations and stakeholders. The specific ESG reporting requirements will also vary depending on the jurisdiction, industry, and company size. However, an ESG checklist can be a useful starting point for companies looking to ensure that they are covering all the important areas in their ESG reporting.

Download the checklist here.

Checklist items

Environmental

Information on energy usage, emissions, waste, and water management, as well as climate-related risks and opportunities.

Social

Information on human rights, diversity and inclusion, labor practices, and community engagement, as well as other topics related to a company's social impact.

Governance

Information on the company's governance structure, risk management, and anti-corruption policies, as well as compensation and remuneration practices.

Financial

Information on the financial performance and sustainability of the company, including the impact of ESG factors on the bottom line.

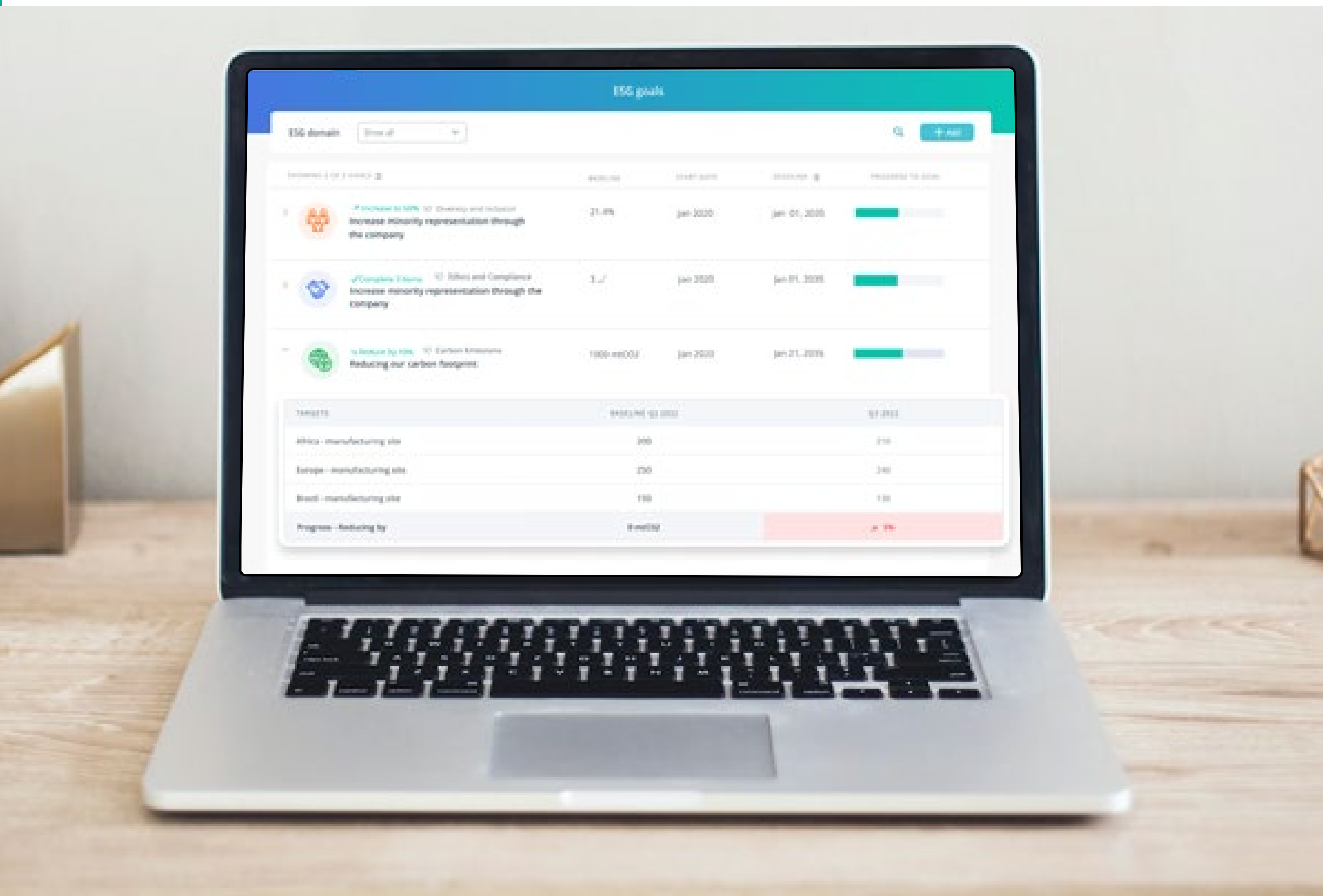
ESG Compliance Software

Compliance & Risk's ESG Solution is a smarter way to meet your ESG regulatory obligations, helping companies manage goals and targets and demonstrate compliance with evolving regulatory requirements.

Our ESG Solution enables you to manage your ESG program by

- Staying on top of evolving ESG Regulations
- Setting and managing ESG goals and targets
- Demonstrating compliance with evolving regulatory requirements, and other Internal and external Stakeholder requirements

Learn more about our ESG Solution here.



ESG Compliance Frameworks

The choice of ESG compliance framework that your company follows depends on several factors, including the industry, location, and goals. It is a soup of alphabets out there but here are some of the most widely recognized ESG compliance frameworks.

GRI

Global Reporting Initiative (GRI)

A globally recognized sustainability reporting framework that provides company guidelines to report on their ESG performance.

SASB

Sustainability Accounting Standards Board (SASB)

A non-profit organization that provides industry-specific ESG reporting standards to help companies communicate their ESG performance to investors.

TCFD

Task Force on Climate-related Financial Disclosures (TCFD)

A task force established by the Financial Stability Oversight Council that provides guidelines for companies to disclose information on the impact of climate risks and opportunities on their financial performance.

IRC

Integrated Reporting Council (IRC)

An international organization that guides integrated reporting, combining financial & non-financial info for a complete view of a company's performance.

ESRS

Social topical standards (ESRS S1–S4)

This provide a framework for entities to report on topics related to their own workforce, the workers in their value chains, the communities impacted by their operations and the consumers and end-users of their products or services.

Ultimately, your choice of ESG compliance framework will depend on the specific needs and goals of your company It is recommended that companies consider the different frameworks and seek guidance from ESG experts to determine which one is the best fit for their needs. You can book a complimentary consultation with our experts here.

ESG Compliance Requirements

ESG (Environmental, Social, and Governance) compliance requirements vary by jurisdiction and industry, but some common requirements include the following:

Environmental regulations

Companies must comply with environmental laws and regulations related to issues such as emissions, waste management, and conservation of natural resources. For example, the 5 'environmental ' draft topical ESRS standards published by EFRAG cover
(i) climate change
(ii) pollution
(iii) water and marine resources
(iv) biodiversity and ecosystems
(v) resource use and circular economy

Social Regulations

Companies must comply with labor laws and regulations related to issues such as minimum wage, working hours, health and safety, and non-discrimination. For example, the 4 'social ' draft topical ESRS standards published by EFRAG cover
(i) Own workforce
(ii) Workers in the Value Chain
(iii) Affected communities and
(iv) Consumers and end-users

Corporate governance

Companies must comply with regulations related to corporate governance, including the disclosure of accurate financial information, the independence of directors, and the protection of shareholder rights.

Human rights

Companies must respect and uphold human rights, including those related to freedom of expression, privacy, and equality.

Sustainability reporting

Companies may be required to report on their ESG performance and initiatives, including their environmental impact, labour practices, and governance structure.

It is important for companies to stay informed of the evolving ESG compliance requirements in their jurisdiction and industry, as they can change over time. Companies can also consider adopting voluntary standards and guidelines, such as the Global Reporting Initiative or the Sustainability Accounting Standards Board, to demonstrate their commitment to ESG.

Our ESG Solution helps you seamlessly integrate regulatory requirements to your internal team's work to efficiently demonstrate your ESG commitments. Learn more here.

Who Does ESG Reporting Apply To?

ESG (Environmental, Social, and Governance) reporting typically applies to companies of all sizes and industries, although the exact scope and requirements can vary depending on the company's size, location, and sector.

Mandatory ESG reporting currently only really applies to companies above a certain threshold eg revenue and/or number of employees, eg the CRSD applies to
(i) all companies listed on EU-regulated markets
(ii) "Large" unlisted EU companies not listed i.e., companies exceeding at least two of the following on two consecutive annual balance sheet dates:

- €20 million total assets:
- €40 million net turnover (revenue)
- 250 employees during fiscal year

(iii) EU companies that are a parent of a "large group" i.e., a group consisting of parent and subsidiary entities and which, on a consolidated basis, exceeds at least two of the metrics outlined above.

Publicly traded companies

ESG reporting is becoming increasingly common for publicly traded companies, as investors and the public are increasingly interested in the ESG performance of companies they invest in or buy goods and services from.

Non-profit organizations

ESG reporting is also becoming increasingly common for non-profit organizations, as they look to demonstrate their impact and build trust with stakeholders.

Private companies

While ESG reporting is not yet mandatory for private companies, many are choosing to report on their ESG performance voluntarily to demonstrate their commitment to sustainable and ethical practices. It is worth noting that EFRAG is currently reviewing the potential development of a voluntary sustainability reporting standard for non-listed small and medium-sized undertakings that fall outside the scope of the CSRD

In some cases, ESG reporting may be mandatory for companies operating in specific industries or countries. For example, the European Union has introduced regulations that require large companies to disclose specific ESG information in their annual financial reports.

It's important to note that the requirements for ESG reporting can vary by country, region, and industry, and it is recommended to seek the guidance of a professional to understand the specific reporting requirements for your company.

Our team of subject matter experts are available for any queries you have about your ESG Compliance. Talk to us and we will help find the right guidance for you.

Implementing ESG strategy for my company

Implementation of an ESG (Environmental, Social, and Governance) vision for a company is not a one-off activity. It is an ongoing journey with stakeholders from many different departments.

Take our short quiz here to evaluate & rate your ESG efforts. The ESG Maturity Quiz provides you with a report to help understand your next steps to accelerate your ESG strategy.

Based on our market research with industry leaders who have implemented the most successful ESG Compliance strategies, we have mapped out 9 critical steps to accelerate your company's ESG Compliance journey.

1

Understand Your Mandatory Obligations – Know Where To Start

Given the extensive amount of activity in the ESG space, it's essential to prioritize the legally binding obligations that are most significant. It is recommended to start with the fastest-approaching deadlines for mandatory obligations that your business would be subject to.

Key Stakeholders: Sustainability & Compliance teams.

2

Set Your ESG Goals & Targets

An alignment of organizational priorities and fast-approaching mandatory ESG deadlines would be the right foundation for your company's ESG strategy. Setting a few high-level ESG goals with multiple targets feeding into each goal is a recommended approach to proactively work towards achieving ESG compliance.

Key Stakeholders: Sustainability & Compliance teams in agreement with the Senior Management team of the organization.

3

Collect Your Data & Agree On An ESG Reporting Framework

After you've established your goals and targets, the next step is to focus on your data infrastructure needs. This involves identifying your ESG reporting requirements and determining the various data points required across different frameworks.

Key Stakeholders: Sustainability & Compliance teams

4

Align Your Teams

The primary obstacle we've heard from the market is achieving alignment across all stakeholder teams, which is the most critical step in preventing any unexpected ESG compliance issues down the line.

Key Stakeholders: Sustainability, Compliance, Product, Engineering, Supply chain vendors and any other relevant stakeholders

5

Track & Report On Progress

After achieving optimal alignment and collaborating to develop a seamless ESG data infrastructure, the next step is to consolidate all relevant data to track progress towards each ESG goal and related targets, ultimately enabling you to create effective ESG reports.

Key Stakeholders: Sustainability, Compliance, Product, Engineering, Supply chain vendors and any other relevant stakeholders

6

Report To Investors, Shareholders, & Customers

After the data points are collected, teams need to work with the ESG reporting frameworks to report to investors, shareholders and customers as needed.

Key Stakeholders: Sustainability, Compliance & legal teams

7

Monitor Regulatory Changes

The ESG regulatory landscape is ever-evolving and there are always multiple regulatory updates and more enacted deadlines that a company might be obliged to. It is important to always monitor the regulatory landscape for any updates to ensure you can stay on top of all legal requirements.

Key Stakeholders: Sustainability, Compliance & legal teams

8

Understand The Impact Of Changes

If there are new regulatory updates, the relevant sustainability teams need to assess and interpret the regulation to help the company to successfully oblige to the reporting requirements.

Key Stakeholders: Sustainability, Compliance & legal teams

9

Adjust Goals & Targets

Any regulatory update will have an impact on the overarching ESG strategy and it's important to keep iterating and feeding back to the ESG goals and targets to ensure nothing slips through the cracks.

Key Stakeholders: Sustainability & Compliance teams

If you are interested in learning more about implementing the above steps to accelerate your ESG Compliance, learn more about Compliance & Risk's ESG Solution today.

Our numbers

300+
Customers worldwide

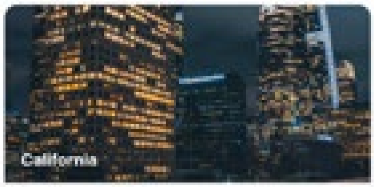
195
Countries covered

87,000+
Sources in C2P

www.complianceandrisks.com

Unit 9 Eastgate Avenue Eastgate Business Park Little Island Cork Ireland
+353 (0)21 435 1990

50 Fountain Plaza Suite 1400 Buffalo NY 14202



P.O.Box 309 8712 Marysville Road Oregon House, CA 95962 – 0309
+1 530 216 4455

Compliance & Risks