Cutting Through Complexity

Managing International ESG Disclosure

The ever-evolving landscape of international ESG disclosure can be daunting for companies to navigate. This report offers practical steps to stay abreast of and prepare for compliance with various international ESG disclosure regimes. Accompanying guides provide the latest updates on both the International Sustainability Standards Board (ISSB) standards and the Corporate Sustainability Reporting Directive (CSRD), along with additional information on the CSRD's double materiality assessment.

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- **The harmonization of ESG disclosure requirements is expected to continue in the coming years.** Significant progress has been achieved in the past six months, with the ISSB, European Sustainability Reporting Standards (ESRS), and GRI (formerly Global Reporting Initiative) publishing compatible interoperability guidelines. These guidelines allow the use of much of the same information and data across different reporting standards for matters considered to be material under the applicable standard(s). Since differences between disclosure regimes remain—for example, in applicable materiality tests—companies must stay informed and monitor changes in standards and related guidance.
- **The demand for more robust sustainability and ESG disclosures is growing; companies that proactively track evolving ESG regulations will be better positioned to adapt and comply.** ESG disclosures landscape is constantly changing, with new requirements and standards emerging at state, national, supranational, and international levels. To meet evolving ESG disclosure requirements, companies must stay abreast of new regulations, identify the required skills and capabilities of their workforce in contributing to ESG disclosures, allocate the right resources and roles to manage compliance, and map ESG expectations of key stakeholders. Assessing global trends, business requirements,

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and best practices can help consolidate information, track the status of disclosures, and identify implementation gaps.

- **As ESG reporting scope and data requirements expand, organizations with a company-wide approach to ESG data collection and reporting, supported by a multilayered governance structure (i.e., internal groups that coordinate across the company with clear lines of accountability) will be best positioned to succeed.** Fragmented data collection and reporting processes can create delays and inconsistencies when adapting to new ESG disclosure requirements. To enhance ESG reporting and regulatory compliance, companies should consider establishing an ESG team to oversee reporting strategies and data management, as well as implementing a platform to gather information from teams across regions and functions.
- **Companies should prioritize conducting a gap analysis between current reporting capabilities and the information demanded by various ESG disclosure standards.** It can take considerable time to develop processes to meet new disclosure requirements, and companies may well face enforcement actions and litigation challenges based on their disclosures—or lack thereof.
- **To achieve internal and external alignment on sustainability reporting, bridging the ESG knowledge gap is essential.** Stakeholders hold diverse viewpoints on ESG definitions, practices, regulations, and reporting. Companies must proactively foster ESG knowledge and proficiency across all organizational levels to establish a common language and terminology to avoid potential confusion.
- **Supply chain engagement is crucial to achieving regulatory compliance.** The CSRD, along with other sustainability regulations, requires robust supplier due diligence processes and related disclosure. Companies need to assess material sustainability impact throughout their supply chain and ensure reliable disclosures. Collaboration with suppliers is essential to gather accurate and complete data on their sustainability practices. This collaboration can involve education, investment in supplier capabilities, and enhancing monitoring and transparency throughout the supply chain.

Navigating the International ESG Disclosure Landscape: Challenges and Solutions

Challenges

Sustainability reporting standards and expectations are continuing to evolve. In many cases, the standards require assessing impacts, risks, and opportunities through a long-term lens. Sustainability reporting requires continuous refinement of disclosure practices, specialization, transparency, and data accuracy, and it may involve setting achievable (and tracking progress toward) ESG-related targets. At some companies, sustainability reporting has shifted from being the sole responsibility of the communications team to being delegated to a dedicated sustainability team that has access to information from various functions within the company, underscoring the importance of accurate disclosure to mitigate risk exposure. However, navigating the evolving landscape of international ESG disclosure requirements presents its own set of challenges, which can be broadly categorized into three areas.

1 **Rapidly evolving regulations and the multitude of reporting frameworks/initiatives**

- **Evolving regulations** The complex nature of evolving ESG regulations in various jurisdictions poses compliance challenges for companies. Companies must stay abreast of new regulations and align their approach across jurisdictions to ensure consistency. Effectively managing this process involves robust tracking, coordination, monitoring, and adaptation.

- **Multiple reporting frameworks** Despite efforts to harmonize and improve interoperability between various ESG reporting frameworks and initiatives, differences still exist. These differences lead to a lack of comparability between reports prepared for different purposes, potentially inconsistent disclosures, higher workloads, and user confusion. Companies must therefore compare their current disclosures with the requirements of each framework, investor policies, and the expectations of other key stakeholders.

2 **Alignment and consistency**

- **ESG fluency** Various constituencies hold differing perspectives on the definitions and implications of sustainability, sustainability regulations, and sustainability reporting. To bridge this knowledge gap and achieve internal and external alignment, companies need to build ESG knowledge, proficiency, acumen, and common terminology across all organizational levels, including boards, management, employees, and third-party consultants.

- **Change management** ESG reporting requires the involvement of the entire organization, as cross-functional data are crucial for accurate materiality assessment, data gathering, measurement, disclosure, and related assurance. Setting clear expectations and roles, with support from senior management, can help break down departmental silos and foster a collaborative, cross-functional effort.

- **Consistency and rigor in reporting across functions** Ensuring all departments meet ESG reporting standards is challenging, since many may not have been previously subjected to the same strict data collection and reporting requirements demanded by ESG disclosure and reporting. Companies should review and refresh process controls and governance standards to appropriately capture ESG disclosures. Providing ongoing training and education for cross-functional teams is costly and requires extensive planning and resources. Companies may need to do a cost-benefit analysis of higher compliance costs, and potential litigation costs and penalties.

3 **Complex data and resource management**

- **Data collection and accuracy** Managing the extensive data required for ESG reporting involves assessing data availability (e.g., identifying sources of existing data across the organization) and data quality against disclosure requirements, identifying new data and data owners within the organization, building data exchange systems, and ensuring accuracy of disclosed information.

Solutions

Finally, companies face increased legal risks due to the need to manage various disclosure requirements. Companies can use disclaimers to identify the purpose of particular ESG-related reports, including the standards used to prepare the disclosure and the test that has been applied to determine materiality. Companies should also exercise caution when choosing where to disclose information and ensure consistency and alignment between disclosures found in different places (such as regulatory filings, sustainability reports, and the company website). As standards change, there is a stronger focus on the robustness of data collection efforts and adjusting to meet new goals. Amid these challenges, companies are working to clearly explain to boards and stakeholders *why* they are disclosing information, whether it is to follow regulations or to communicate with stakeholders.

Figure 1

Achieving global sustainability reporting excellence

Source: The Conference Board, 2024

Companies are well-advised to consider ESG reporting requirements in a similar way to financial reporting requirements and implement similar internal controls and disclosure policies and procedures. For example, companies need to consider designating an ESG controller to manage ESG disclosures effectively, similar to the controller who manages financial disclosures.

ESG reporting requires collaboration across regions and functions, including finance, procurement/supply chain, legal, sustainability, compliance, audit, risk, and external communications. Cooperation between functions and across the company is pivotal to collect, analyze, and report on the varied data required in a manner that is auditable and memorialized to facilitate replicability in future years.

An effective governance structure could consist of:

- **An ESG team** that manages reporting design choices and challenges, the project budget, data governance (data sources, systems, and flows), scoping issues, and the selection of ESG specific tools, such as a platform to gather information from regional teams. Such a tool should be accessible to the ESG and compliance functions for effective regulatory change management and preparedness assessments. An ESG team should also evaluate whether regulations apply globally or regionally, aligning them with risk mitigation, and compliance policies;
- **A cross-functional working group with representatives from various regions and functions** to understand local regulations, engage with relevant regulators, and establish consistent implementation practices, processes, controls, and governance across regions; and
- **A senior management oversight group** to consider future firm-wide implications of disclosure decisions and provide high-level guidance and resource allocation support when needed.

Mapping out functions and roles during *voluntary* reporting helps identify key players and make the transition to *mandatory* regulatory compliance easier. Indeed, companies can leverage existing expertise, data collection processes, and reporting structures (such as those used for greenhouse gas emissions reporting) to meet future mandatory disclosure requirements. Engaging stakeholders throughout this process is critical, as their needs and expectations are an ongoing consideration for effective ESG reporting.

Lastly, the recent surge in ESG reporting software presents exciting opportunities. Companies should collaborate with their digital teams to explore how these tools can streamline and enhance their ESG disclosure efforts.

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About the Report

This report presents key findings from research by The Conference Board. The insights stem from a Chatham House Rule roundtable by The Conference Board ESG Center in May 2024, titled "Managing International ESG Disclosure," which was attended by 97 sustainability, legal/governance, ESG reporting, and compliance executives.

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