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Intensifying International ESG Regulation: Challenges and Opportunities

The global ESG and sustainability regulatory landscape is in constant flux and expected to continue evolving as the demand for more comprehensive and transparent disclosure grows. A new **report** from the ESG Center highlights that this increasingly complex environment presents significant operational challenges and legal risks for companies. However, it also offers opportunities to enhance sustainability reporting, stay ahead of regulatory developments, and more.

The report, based on insights from a roundtable discussion attended by around 100 executives in governance, legal, and sustainability roles, was produced in collaboration with the law firm Weil, Gotshal & Manges LLP. It 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.

Key insights include:

- **Despite efforts to harmonize various ESG reporting frameworks, significant differences remain, leading to potential inconsistencies and increased workloads for companies**. These disparities can result in confusion among stakeholders and challenges in ensuring comparability across reports. Companies need to carefully assess and align their disclosures with the specific requirements of each framework and the expectations of their investors and other key stakeholders.

- **Effective ESG reporting requires ESG fluency and alignment across all levels of an organization**. This involves educating and building proficiency among boards, management, employees, and third-party consultants. Bridging knowledge gaps and establishing common terminology is crucial for achieving both internal and external alignment on sustainability issues.

- **ESG reporting is a cross-functional endeavor that necessitates the involvement of the entire organization**. Breaking down departmental silos and fostering collaboration is essential for accuracy in materiality assessments, data gathering, and reporting. Clear expectations, roles, and support from senior management are key to successful ESG reporting initiatives.

ISSB Standards

- **The ISSB standards are gaining significant momentum, with over 20 jurisdictions, representing more than half the global economy by GDP, moving toward adoption or implementation within their legal and regulatory frameworks**. This widespread adoption, including notable participation from China and consideration by the U.S. and India, reflects a strong push toward standardized sustainability reporting practices.

- **The IFRS Foundation is providing extensive support to jurisdictions and companies for the effective implementation of ISSB standards**. This includes publishing guides, offering a Regulatory Implementation Program, and addressing alignment with other major sustainability reporting standards, like the European Sustainability Reporting Standards (ESRS) and the SEC's climate disclosure rule. This guidance is crucial for ensuring a smooth transition and avoiding regulatory fragmentation.

Corporate Sustainability Reporting Directive

- **The Corporate Sustainability Reporting Directive (CSRD) is poised to reshape the landscape of corporate transparency across the European Union and beyond**. The CSRD mandates a Double Materiality Assessment (DMA), requiring companies to evaluate both the impact of their activities on sustainability issues and the financial impact of these issues on the company.

- **Determine whether your company falls under the CSRD's scope**. This includes assessing if your company meets the criteria as a "Large Undertaking" within the EU or if it has significant EU operations, such as EU-listed securities or substantial revenue generated from the EU market.

- **If your company is a non-EU entity with EU subsidiaries, consider which reporting approach best suits your needs**. The global consolidated reporting approach may simplify reporting across all subsidiaries, while the EU reporting approach could offer flexibility depending on your company's structure.

- **The CSRD initially requires limited assurance on sustainability reports, with a possible shift to reasonable assurance in the future**. Start working with assurance providers early to ensure your reports meet these standards, as this will be a key factor in demonstrating the reliability of your sustainability data.

Double Materiality Assessment (DMA)

- **Double materiality is a concept that requires companies to consider two perspectives – impact materiality and financial materiality – when determining what sustainability issues or information should be included**

in their reports. This approach broadens the traditional focus on financial impacts to also include the company's effects on the environment and society.

- **Conducting a DMA is a complex process that may take three to six months**. Companies are advised to engage qualified third-party consultants and auditors early in the process to ensure that the assessment is thorough and aligns with best practices in sustainability.
- **Companies should compare DMA outcomes with existing enterprise risk and financial materiality assessments to identify gaps**. Additionally, ensuring that DMA results align with the company's overall business strategy is vital for maintaining strategic coherence.

Read the full report and each of the accompanying guides **here**.

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Best regards,
The ESG Center team