Navigating the ESG Reporting Landscape

Webinar
November 15, 2023
Upcoming Events & Logistics

News & Events

Upcoming Events and Resources:

- Member Meetup | Sustainable Development Goals and You
  - November 29 at 12pm ET
- Leadership Academy for a Certificate in Corporate Citizenship Leadership
  - December 4-8 in Boston, Massachusetts
- Webinar | Embracing Sustainability in an Economic Downturn
  - December 13 at 12pm ET
- Webinar | Maximize Your Membership
  - January 11 at 12pm ET

To ask questions
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We will record today’s webinar
It will be captioned and archived on our website at ccc.bc.edu/webinars

We want your feedback!
Please respond to the survey in the follow up email.
Speakers

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Agenda

- State of ESG Regulations
- Financial & Impact Materiality
- Assurance
- Anti-ESG sentiments
- Audience Q&A
ESG related regulations are increasing globally

- ESG regulations are growing more complex
- Current regulations regarding ESG practices
- Change in private company data due to upcoming ESG regulations

Diagram displays a selection of ESG related regulations and disclosures.*
Regulatory Radar

Delivered monthly, the Regulatory Radar is a briefing on emerging regulatory issues produced by the Boston College Center for Corporate Citizenship. These summaries of recent regulatory decisions keep you apprised of the actions that may impact your corporate citizenship efforts. Each edition includes summaries of and links to the latest items we've added to our Resource Library.

SEC AMENDS RULE TO ADDRESS ESG-RELATED MISCONDUCT AND GREENWASHING

The SEC has amended the Name Rule under the Investment Company Act of 1940. The amendment comes at a time of increasing prosecution by the SEC of ESG-related misconduct and greenwashing.

EUROPEAN COMMISSION ADOPTS MEASURES TO RESTRICT MICROPLASTICS

Under the European Union (EU) chemical legislation REACH—Registration, Evaluation, Authorisation and Restriction of Chemicals—the European Commission has adopted measures to restrict microplastics intentionally added to products.

CALIFORNIA BILLS TO STRENGTHEN PROTECTIONS FOR LGBTQ CITIZENS

California Governor Gavin Newsom has signed nine bills to strengthen protections and support for LGBTQ Californians and vulnerable youth.

EEOC AND DOL ISSUE NEW GUIDE FOR HIRING PEOPLE WITH DISABILITIES

In honor of the Rehabilitation Act’s 50th birthday, the Equal Employment Opportunity Commission (EEOC) and the Department of Labor (DOL) have issued a resource guide for recruiting, hiring, and employing individuals with disabilities.
Australia’s Nature Repair Market Bill

- Focus: Biodiversity
- Objective: Improve biodiversity outcomes, reward landholders for protecting nature
- The bill establishes a framework for a biodiversity market
- The Nature Repair Market will allow registered biodiversity projects to generate government-backed Biodiversity Certificates that can be traded.
California SB 253

- Senate Bill 253 (SB 253), also known as the Climate Corporate Data Accountability Act, requires companies with greater than $1 billion in annual revenues to file annual reports publicly disclosing their Scope 1, 2 and 3 greenhouse gas (GHG) emissions.
- Scope 1 and 2 emissions must be disclosed starting in 2026. Scope 3 reporting begins in 2027.
- Companies must obtain independent third-party assurance of their GHG emissions.
- SB 253 is the first corporate GHG emissions disclosure law to go into effect in the United States.
California SB 253 Major Implications

- **Private companies** are subject to the law, unlike the similar proposed SEC regulation.
- The law builds on existing guidelines (GHG Protocol) for voluntary disclosure.
- The law **recognizes uncertainties around Scope 3 reporting**. There is a later filing date compared to Scope 1 and 2, and there are no penalties for Scope 3 reporting until 2030.
- While signing Senate Bill 253 into law Governor Gavin Newsom expressed concerns about the implementation deadlines and the potential for inconsistent reporting across businesses. He has directed his administration to work to address these issues by revising the new law.
- Governor Newsom also expressed concern about the financial impact of this law on businesses. He has instructed the California Air Resources Board (CARB) to monitor the cost impact and streamline the program as it implements this new law.
- The bill will likely face legal challenges that could strike down the law in part or in whole.
California SB 261

- Senate Bill 261 (SB 261), also known as the Climate-Related Financial Risk Act, requires companies with greater than $500 million in annual revenues to prepare biennial reports disclosing climate-related financial risk and describing measures adopted to mitigate and adapt to that risk starting in January 2026.

- Reports should be in accordance with the recommended framework of the Task Force on Climate-Related Financial Disclosures (TFCD).

- Reports that contain a description of an entity's GHG emissions or voluntary mitigation of those emissions must be verified by an independent third-party.
EU’s Corporate Sustainability Due Diligence Directive (CSDDD)

- The proposed regulation imposes obligations on companies to provide data on risks within their value chains that are linked to human rights or environmental impacts.
- Companies must develop climate transition plans that align their business strategies with the Paris Climate Agreement goals of limiting emissions and rising global temperatures.
- The CSDDD is expected to enter into force Q4 2023 or 2024.
- The rules of the Directive will apply to a company’s upstream and downstream activities, as well as operations across the company’s subsidiaries and value chain.
- CSDDD will harmonize due diligence laws, as some EU jurisdictions are already enforcing ESG due diligence requirements.
EU’s Corporate Sustainability Reporting Directive

- CSRD employs the European Sustainability Reporting Standards (ESRS). Covered companies include:
  - companies that are already subject to the EU’s NFRD (mostly large EU undertakings >500 employees)
  - Companies that either have securities admitted to an EU-regulated market or are regulated financial entities (e.g., banks or insurance companies).
- The CSRD and the ESRSs will be phased-in for other categories of entities, including companies outside the EU, over the next five years.

- Reporting entities with fewer than 750 employees may omit:
  - for its first year of applying the ESRSs – Scope 3 GHG emissions data (included in ESRS E1) and the disclosure requirements specified in the “Own Workforce” standard (ESRS S1), and
  - for its first two years of applying the ESRSs – the requirements in the standards on Biodiversity and Ecosystems (ESRS E4), Workers in the Value Chain (ESRS S2), Affected Communities (ESRS S3) and Consumers and End-Users (ESRS S4).

- All reporting entities (regardless of the number of employees) may omit, for the first year of applying the ESRSs:
  - financial effects related to non-climate environmental issues, such as Pollution (ESRS E2), Water (ESRS E2), Biodiversity (ESRS E4) and Resource Use (ESRS E5), and
  - certain data points related to their own workforce (ESRS S1) (social protection, persons with disabilities, work-related ill-health, and work-life balance).
EU’s Corporate Sustainability Reporting Directive (CSRD)

- The standards apply from Jan. 1, 2024 for companies already subject to the NFRD.
- **On October 17, 2023 in its Work Programme**, the European Commission announced plans to delay key aspects of the CSRD, including the adoption of requirements for companies to provide sector-specific sustainability disclosures. Certain non-EU entities will be brought within scope two years later than originally proposed. Other matters:
  - Redoubled commitment to EU New Green Deal, Economy that Works for People, Digital Economy, European Democracy, European Way of Life, European Strength
  - Increased focus on implementation and enforcement of EU Law
  - Increased focus on and commitment to digitization of disclosures
Inaugural ISSB Standards

• In June, the ISSB provided its inaugural global sustainability disclosure standards, IFRS S1 and IFRS S2.
  • IFRS S1 issues disclosure requirements that companies can use to communicate their sustainability-related risks and opportunities to investors.
  • IFRS S2 sets out specific climate-related disclosures and is meant to be applied with the first standard.

• The new standards seek to unify global climate and sustainability frameworks.
  • The standards consolidate the TCFD recommendations, SASB Standards, CDSB Framework, Integrated Reporting Framework and World Economic Forum metrics.

• In August, the UK announced plans to create sustainability disclosure standards based on the ISSB standards by July 2024.
Business Responsibility and Sustainability Reporting Core

- Securities and Exchange Board of India (SEBI) introduced ESG disclosures for listed companies.

- Implementation Timeline:
  - Applicable to the top 150 listed companies by market capitalization from the fiscal year starting April 1.

- Key Features:
  - BR SR Core contains a limited set of key performance indicators (KPIs) for companies.
  - Assurance requirements for listed entities regarding the disclosed KPIs.
Financial Materiality

How the issues hit the company’s bottom line
Impact
Materiality
How the company affects stakeholders
Double Materiality

Financial Materiality
Issues that may influence a firm’s ability to continue to use or obtain the resources needed in its business.
Issues that may affect a firm’s relationships needed to operate.

Impact Materiality
A sustainability topic or information is material from an impact perspective if the undertaking is connected to actual or potential significant impacts on people or the environment over the short, medium or long term.
This includes impacts directly caused or linked to the firm’s value chain—anywhere in the value chain.

Transparency corresponding to the public interest.

We have been focusing here
Stakeholders & Governance
Assurance

**Limited:** “Based on the procedures performed, nothing has come to our attention that would suggest…”

**Reasonable:** “The entity has complied, in all significant respects with ESRS disclosure standards and statements give a true and fair view of ESG performance in accordance with ESRS reporting standards.”

**What you can be doing now:**
- Get your data house in order
- Stewardship, security, validation, documentation
- Coordination and governance
- Pick a platform
Scope 3

Information is the fundamental basis for action.

Measuring & understanding impacts at each phase of use is crucial to being able to take action together to reduce emissions.

- Shared responsibility & stewardship
- What gets measured gets managed
- Get the WHOLE value chain on board

If we aren’t thinking about it together, we won’t act on it together.

### Scope 3 Categories

1. purchased goods and services
2. capital goods
3. fuel- and energy-related activities
4. upstream transportation and distribution
5. waste generated in operations
6. business travel
7. employee commuting
8. upstream leased assets
9. downstream transportation and distribution
10. processing of sold products
11. use of sold products
12. end-of-life treatment of sold products
13. downstream leased assets
14. franchises
15. investments
Get up to Speed

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Your network
Anti-ESG arguments

- Doing good for society represents an unacceptable cost to business (shareholders)
- ESG investments have no positive financial impact for companies
- Considering ESG is anti-American and promotes unacceptable fringe values incompatible with our societal norms
Where is the anti-ESG action?

Where is Anti-ESG hitting the wall?

1. Lost returns for state retirement plans
   - Indiana passed a watered-down (HB 1008) that cuts ties with banks that consider ESG after it was estimated that they could lose $6.7b in returns on the public pension system over a decade.
   - Kansas legislative research estimated that the pension system would lose $3.6 billion over the next 10 years if the state enacts a proposed “anti-boycott” bill (SB 244).
   - Kentucky County Employees’ Retirement System (CERS) trustees informed the state treasurer that CERS is not subject to a state law mandating divestment from entities that “boycott” energy companies, claiming that doing so would be inconsistent with their fiduciary duties.
   - Texas proposed a bill (SB 1446) that would force pension funds to divest from asset managers if they consider ESG factors in investment strategy. The Texas County & District Retirement System estimated that a restriction of certain asset managers because of the bill could cost upwards of $6 billion over the next 10 years.

2. Higher borrowing costs
   - Texas is expected to incur $300-$500m of additional borrowing costs in first eight months after enactment of two “anti-boycott” bills (SB13 and SB19).
   - In January 2023, researchers conclude that implementation of similar “anti-boycott” bills in KY, FL, LA, OK, WV, MS would increase interest costs by $264-$708m over 12 mos. Florida alone would bear $97-361m.

3. Loss of Contractors
   - Wyoming legislators voted down a proposal to restrict government entities from doing business with banks, investors or companies that consider ESG factors (SF159 and SF172). Legislators and the state treasurer expressed fears that the bills (both “anti-boycott”) defined ESG so broadly and subjectively that they could end up restricting contractual relationships with a vast majority of businesses.
   - Wyoming State Treasurer, Curtis Meirer pointed out that Wyoming has a 10-year private equity contract with BlackRock and that breaking it could be expensive and difficult for the state.

5. Financial industry pushback
   - Kentucky state attorney general Daniel Cameron was sued by the Kentucky Bankers Association (KBA) after he issued subpoenas and civil investigative demands against several large banks relating to their involvement with the Net Zero Banking Alliance (NZBA). The KBA accused Cameron’s demands of “creating an ongoing state surveillance system.”
   - New Hampshire passed a bill (HB 457) that precludes investors from considering climate change (systemic factors) but was opposed by the New Hampshire Bankers Association, who warn that it could prevent them fulfilling basic loan criteria.

6. Negative impacts on fossil fuel companies trying to diversify
   - North Dakota voted down legislation that would prohibit doing business with ESG investors (HB 1347). Opponents argued that the state energy industry’s ability to expand carbon capture technologies relies on external capital, which would be limited by the bill.
   - Wyoming State Treasurer pointed out that passing the “Stop ESG-Eliminate economic boycott act” (SF 159) would potentially have unintended consequences, such as prohibiting investments in Peabody Energy, the state’s largest coal mine operator, as well as several large oil and gas companies who are looking to diversify their energy investments.