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THE IMPACT OF GLOBAL ESG AND SUSTAINABILITY DISCLOSURE REGULATIONS AND STANDARDS ON U.S. COMPANIES

A Comprehensive Guide for U.S. Companies Navigating the New Landscape of Global Sustainability Regulations and Standards

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Executive Summary

The world of sustainability disclosure regulations and standards is changing fast. This white paper explores how new rules shaped by entities like the SEC and legislators in California, the U.S., and the EU affect both large public and private companies in the U.S. It also addresses the role of the International Sustainability Standards Board (ISSB) in streamlining global standards and what it means for U.S. companies. The key takeaway is that the global sustainability disclosure landscape is evolving quickly, and in the coming years, almost every U.S. company, regardless of which sectors they are in, whether they are public or private, enterprise or mid-market, will be asked for their sustainability data. Companies that start engaging with these changes proactively will be better prepared for compliance challenges but also capture opportunities for leadership and innovation.

Introduction

Climate and other sustainability risks are more pronounced in our world than ever. With extreme heat, erratic weather events, floods, and droughts, the climate crisis is growing more financially and socially damaging. Add in the biodiversity crisis, global inequalities, plastic pollution, and many other social and environmental emergencies, and we can begin to see that becoming more sustainable is not only a business imperative but an existential one for the continuation of our species.

Investors and global regulators are rightfully waking up to these issues. Global regulators see sustainability risks as financial risks and as material information to be shared with investors and other key stakeholders and, accordingly, have been hard at work developing global sustainability standards to ensure companies are considering being held accountable and reporting their environmental and social footprints transparently and accurately.

In the U.S., the Securities and Exchange Commission (SEC) and the California State Legislature are the first two regulative bodies to propose sustainability disclosure regulations based on the reporting of climate risks.

And it is not only U.S. officials creating new disclosure rules that will affect U.S. companies. The European Union's (EU) Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD) will require U.S. companies with a large presence in Europe to report on not only climate risks but many other sustainability indicators.

Underpinning these global regulations is the International Sustainability Standards Board (ISSB). The ISSB was created to bring convergence to the confusing array of different standards and frameworks that made up the voluntary sustainability disclosure landscape. It was designed in conjunction with the SEC and the EU to ensure interoperability with other global voluntary disclosures.

All of these have clear implications for large publicly traded U.S. companies directly affected by these regulations. But what does this all mean for private companies in the United States? While most of them won't be directly affected by regulations or mandated to use the ISSB standard, the inclusion of Scope 3[1] and other supply chain metrics in some of the regulations and supply chains sustainability reports means that many companies will receive requests for their ESG data from companies upstream and downstream in their supply chains. Therefore, companies of all sizes will be asked to share the emissions and other sustainability metrics related to their affected stakeholders.

Beyond compliance, U.S. companies, regardless of size, can gain a competitive advantage, build a better rapport with their customers and other stakeholders, and assess their sustainability risks by starting to familiarize themselves with what is needed under these new regulations and standards.

[1] Scope 1 = direct emissions; Scope 2 = indirect emissions associated with energy purchases; Scope 3 = all other value chain indirect emissions. For more information on Scope 3, see p. 10.

Overview of Global ESG Regulations & Standards

The global regulatory landscape for ESG disclosures has advanced significantly in recent years. Dozens of countries across the globe have been drawing up plans for, and in some cases, have already implemented, sustainability disclosure regulations over the last few years. Of them all, the ones that will most significantly affect U.S. companies are the EU's CSRD and CSDDD, California's Bill SB 253, and the SEC's Climate Disclosure Rule.
In addition to the mandated regulations, the development of the ISSB standards as the global baseline for sustainability disclosures is also an important development to understand. The ISSB worked closely with the SEC and EU to ensure interoperability with their regulations and standards.

A simplified summary of these regulations and the ISSB is featured below, showing at a glance their expected timing, whether they include Scope 1, 2, and 3 emissions, other general sustainability information, require assurance, and their approach to materiality.

Standard / Regulation	Scope 1 + 2	Scope 3	Materiality	Holistic Reporting	Data Assurance	Timeline (for U.S. companies)
CSRD	✓	✓	Double	✓	✓	2029
CSDDD	N/A	N/A	N/A	✓	✓	2030 or later
SEC Climate Regulation	✓	✓/✗ (TBD)	Single	✗	✓	2025
SB 253 Bill	✓	✓	Single	✗	✓	2026 Scope 1 & 2 2027 Scope 3
ISSB	✓	✓	Single	✓	✗	2024 climate 2025 for Scope 3 & general sustainability

TABLE 1. A SUMMARY OF U.S. AND EU REGULATIONS AND VOLUNTARY STANDARDS AFFECTING U.S. COMPANIES.

ESG Regulations in the United States

The world's largest historical polluter of Greenhouse Gas (GHG) emissions, the U.S., announced a proposal in 2022 under the SEC that will require publicly traded companies to report on their climate-related risks.[2] The SEC's so-called "Rules to Enhance and Standardize Climate-Related Disclosures for Investors" are expected to be finalized but are in late 2023. On the state level in the U.S., California has proposed its Bill SB 253, which will require companies with large operations in the state to annually report their Scope 1, 2, and 3 emissions. The bill must pass a final vote of approval in the State Assembly in September 2023 before becoming law.

While both the SEC's rule and California's SB 253 are waiting to be finalized, the U.S. could come out of 2023 with two far-reaching climate-related disclosure regulations.[3]

Nonetheless, further delays are possible. The SEC's rule received an unprecedented over 15,000 comment letters, with the inclusion of Scope 3 being a sticking point for many, which has stalled the SEC rule being finalized for over a year. California's Bill 253 has passed through the state senate but still needs to get through a vote on the Assembly floor in late 2023 before becoming law. However, a similar piece of legislation was voted down by the California Assembly in 2022, losing by one vote. The bill's sponsors believe they will now have enough votes to get this slightly adapted version over the line.[4]

> *Although it had none going into 2023, the U.S. could come out of 2023 with two far-reaching climate-related disclosure regulations.*

Below is a summary of each U.S. regulation as of publishing date and find a simplified version in Appendix 1:

SEC Climate Disclosure Rule

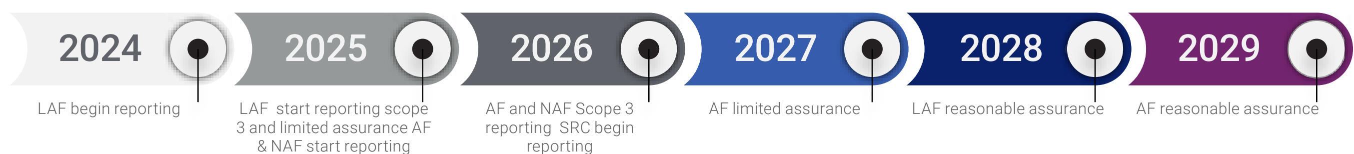
Purpose: The U.S. SEC climate disclosure rule aims to provide investors with clear and standardized information about public companies' climate-related risks and impacts. By fostering transparency, promoting risk management, and creating a standardized reporting framework, the rule empowers investors to make informed decisions. Additionally, it aligns with global sustainability efforts and encourages corporate responsibility, contributing to the broader goal of transitioning to a more sustainable economy.

Scope: The SEC's climate disclosure rule will affect any U.S. publicly traded company (4,000+ companies). However, some companies, depending on their size, would be exempt from third-party auditing (Non-Accelerated Filers and Small Reporting Companies) and disclosing Scope 3 emissions (Small Reporting Companies).

[2] Carbon Brief, Analysis: Which countries are historically responsible for climate change? (2021)
[3] Verdantix, SEC Will Vote On Climate Rule In October, With Potential To Implement From January 2024, (2023)
[4] LA Times, Can California put an end to corporate greenwashing?(2023)

Timing: The timing of the SEC's rule is yet to be finalized, but after the final rule is released – expected in late 2023 – there will be a phased-in approach to the regulation likely to begin in 2025:

- Large Accelerated Filers are expected to begin reporting in FY 2024 and Scope 3 in FY 2025, giving limited assurances* in FY 2025 and reasonable assurance+ in FY 2028
- Accelerated Filers are expected to begin reporting in FY 2025 and Scope 3 in FY 2026 and giving limited assurances in FY 2027 and reasonable assurance in FY 2029
- Non-Accelerated Filers are expected to begin reporting in FY 2025 and Scope 3 in FY 2026 and are exempt from assurances
- Small Reporting Companies are expected to begin reporting in FY 2026 and are exempt from Scope 3 reporting and assurances. with the inclusion of Scope 3 being a sticking point for many, which has stalled the SEC rule being



LAF begin reporting

LAF start reporting scope 3 and limited assurance AF & NAF start reporting

AF and NAF Scope 3 reporting SRC begin reporting

AF limited assurance

LAF reasonable assurance

AF reasonable assurance

Key Takeaway for U.S. Companies

U.S. companies that are publicly traded should be prepared to reveal comprehensive climate-related details, such as information about climate risk, targets, metrics, governance, and strategy. In some cases, these details may be verified by a third-party auditor. This requirement will take effect one year after the SEC Climate Rule is finalized.

The extent to which the SEC Climate Rule will affect US private companies hinges on the inclusion of Scope 3 emissions data. If it does include Scope 3, private companies should expect to receive requests from their customers affected by the SEC Ruling for their emissions data.

California's Climate Corporate Leadership and Accountability Act (SB 253)[6]

Purpose: California Senate Bill 253 was proposed as a way for companies operating in California to share their carbon footprint. The goal is to create a regulation that makes disclosures easily comprehensible to residents, investors, and other stakeholders to improve accountability and transparency.

The bill includes disclosure of Scope 3 emissions and third-party assurances for all reporters, meaning that it could be a more demanding disclosure regulation than the finalized SEC rule.
Scope: SB 253 will affect any company with total annual revenues in excess of $1 billion that does business in California (5,000+ companies).

Timing: SB 253 will start annual reporting of Scope 1 and Scope 2 emissions in 2026 and Scope 3 emissions in 2027.

[5] SEC Rules to Enhance and Standardize Climate-Related Disclosures for Investors, (2022)

* Limited assurance provides a moderate level of confidence that the information reviewed is free of material misstatements.

+ Reasonable assurance offers a high level of confidence, albeit not absolute, that an audit or review process is thorough and the information is accurate and complete.

[6] California Government, SB-253 Climate Corporate Data Accountability Act, (2023)

Key Takeaway for U.S. Companies

If a company has significant operations, or sells to a company in California, it should be prepared for third-party audited emissions disclosure to begin in 2026.

The inclusion of Scope 3 in the California Bill means that the SEC Rule's sticking point on Scope 3 may no longer be relevant, as many companies subject to the SEC Rule will also be impacted by the California Bill.

The Inclusion of Scope 3 in the California Bill means that directly affected companies start to disclose Scope 3 in 2027, and they will start to ask companies in their supply chain for emissions data.

Other U.S. Regulations Worth Considering

In addition to the SEC climate disclosure rule and the California climate bill, there are two additional regulations that U.S. companies should consider:

SB 261[7]
The California climate risk disclosure bill mandates both public and private entities to report their climate-related risks and mitigation measures by January 1, 2026, and biennially thereafter. The reporting aligns with the Task Force on Climate-related Financial Disclosures (TCFD) and covers four pillars: governance, metrics and targets, strategy, and risk management. Non-compliance could result in administrative penalties up to $50,000, with the state considering past and present compliance efforts and good faith measures when levying fines.

UFLPA - Uyghur Forced Labor Prevention Act[8]
This U.S. law ensures that American entities are not funding forced labor among ethnic minorities in China. The bill mandates that U.S. companies provide "clear and convincing evidence" that goods were not mined, produced, or manufactured in China's Xinjiang Uyghur Autonomous Region. The Act is enforced by U.S. Customs and Border Protection.

The Federal Sustainability Plan[9]
In 2022 the Biden Administration released the Federal Supplier Climate Risks and Resilience Proposed Rule to help achieve net-zero emissions from Federal procurement by 2050. It will require over 4,000 U.S. companies to report emissions and set emissions reduction targets. Specifically, it will require major contractors with over $50 million in contracts to annually report Scope 1, 2, and 3 emissions and climate risks and set emissions reduction targets validated by the Science Based Targets Initiative. For significant contractors with contracts between $7.5 and $50 million, they will be required to report Scope 1 and 2 emissions annually.

[7] California Government, SB-261 Greenhouse gases: climate-related financial risk, (2023)
[8] U.S. Customs and Border Protection, Uyghur Forced Labor Prevention Act (2021)
[9] Office of the Federal Chief Sustainability Officer, Federal Sustainability Plan (2022)

Scope 3 and U.S. Regulations

Scope 3 emissions are the indirect emissions in the supply chain, divided into 15 categories, such as waste disposal, business travel, employee commuting, and product life cycle. Scope 3 emissions are integral to global emissions reduction goals as they account for over 11.4x operational direct emissions on average.[10]

Because Scope 3 emissions are not under the direct control of the reporting company, they are often considered the most difficult to measure and reduce. This is why reporting entities look to their suppliers to provide them with emissions data and why U.S. private companies, not directly affected by the U.S. climate regulations, will be affected when a company in their supply chain is impacted by a regulation or standard that includes Scope 3.

> *U.S. private companies not directly affected by the U.S. climate regulations will be affected when a company in their supply chain is impacted by a regulation or standard that includes Scope 3.*

Scope 3 is the most controversial aspect of the SEC's climate disclosure rule proposal and the main reason the rule has been held up for a year. Many of the more than 15,000 comment letters for the rule during its comment period were focused on the inclusion of Scope 3 emissions reporting requirements. This is due to the complexity in reporting on Scope 3 emissions which some have argued would add a significant administrative burden on companies.

Regardless of the SEC requirement, California and Europe are huge markets with a bigger trend for more extensive climate and sustainability disclosures. We expect this trend to continue. Given this, it would be easier if there was more alignment on the inclusion of scope 3 instead of a patchwork.

Key Takeaway for U.S. Companies

Although most U.S. companies will not be directly affected by U.S. regulations, the addition of Scope 3 in the Californian climate bill, Federal Sustainability Plan, and possible inclusion in the SEC Rule means that the thousands of large publicly traded companies that are directly affected will ask their suppliers for their emissions data.

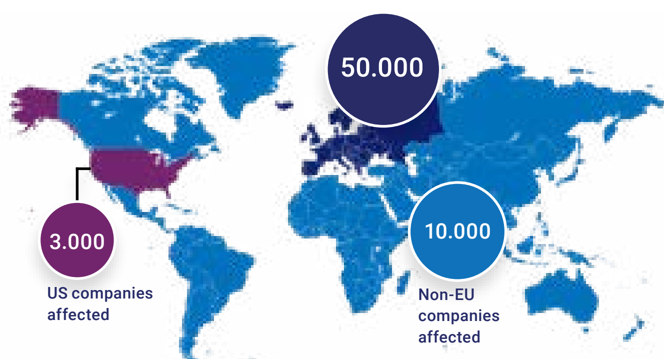
[10] CDP, Transparency to Transformation: A Chain Reaction (2020)

ESG Regulations in the European Union

The European Union has created one of the most ambitious and progressive green agendas globally. The EU's ESG Disclosure landscape goes far beyond most other regions as they attempt to meet the goals set out in their Green Deal. To meet their lofty sustainability goals, the EU has proposed and, in some cases, already implemented a swathe of ESG disclosure regulations and standards to ensure the companies contributing to the EU's carbon footprint, water use, biodiversity loss, and social issues are both documenting their impacts, reporting them, and reducing them.

The EU is much further along than the U.S. in its sustainability regulatory agenda. It has had a holistic sustainability reporting regulation, the Non-Financial Reporting Directive (NFRD), since 2014. The NFRD requires publicly listed companies with over 500 employees (~10,000 companies) to produce annual sustainability reports, which included information about the company's impact on the environment and society. However, investors and other stakeholders found the scope of the NFRD insufficient, and the sustainability information reported unreliable.

The European Financial Reporting Advisory Group (EFRAG), which was set up to advise the EU on their ESG reporting, suggested that the EU Commission update the NFRD with the CSRD, which widens the scope of the ESG metrics that companies will have to disclose and the number of companies that are required to report. The EFRAG also created the ESRS, which determines what, when, and how to disclose to comply with the CSRD. The CSRD has the largest scope of any EU regulation affecting companies that are not based in the EU but have a substantial footprint there, which is estimated to include at least 10,000 foreign companies – 30% of which are U.S. companies.[11]



> *U.S. private companies not directly affected by the U.S. climate regulations will be affected when a company in their supply chain is impacted by a regulation or standard that includes Scope 3.*

[11] Wall Street Journal, At Least 10,000 Foreign Companies to Be Hit by EU Sustainability Rules, (2023)

The EU Parliament also approved another piece of extensive ESG regulation, the CSDDD, which makes companies identify, reduce, and mitigate impacts on the environment, labor and human rights, and governance across companies' operations and global supply chains. The CSDDD is estimated to affect 4,000 non-EU businesses, many of which will be U.S. companies.[12]

A broader description of these three important regulations and standards and others you should know is featured below and in a further simplified version in Appendix 2:

CSRD[13]

Purpose: The CSRD will replace the NFRD starting in 2024, and companies will make their first CSRD disclosure in 2025, marking significant progress in the EU's sustainability reporting landscape and introducing the most comprehensive reporting legislation to date. Reporting will require affected companies to disclose information on more than 100 ESG performance indicators. These indicators encompass various aspects, including the social and environmental impact of companies and their supply chains.

CSRD reporting includes the reporting of Scope 3 emissions, third-party limited assurance on the contents of their reporting, and will include penalties for non-compliance, to be decided by member states.

Scope: The CSRD will affect any EU company exceeding the limits of at least two of the three following thresholds:

- **Balance sheet total:** €20 million
- **Net turnover:** €40 million
- **Number of employees:** 50

Or any listed companies, including small and medium-sized enterprises (SMEs).

The CSRD will also affect any non-EU company that is either listed on any EU-regulated market or satisfies either of these two criteria:

- A net turnover of €150 million in the EU
- An EU branch making a net turnover greater than €40 million.

It is worth noting that these non-EU companies would be expected to report the sustainability information that covers their entire company, not just the EU part of the company.

This encompasses a total of 50,000 EU companies, and 11,000 non-EU companies (including 3,000 U.S. companies) that fall under its purview.

Timing: EU companies impacted by the CSRD and already reporting through NFRD should begin collecting data in 2024 for initial reporting in 2025. Other large listed EU companies will begin reporting in 2026, followed by smaller EU-listed companies in 2027. Non-EU companies won't be expected to disclose until 2029.

[12] Sustainability Magazine, What is CSDDD and which European businesses will it impact? (2023)
[13] EU Commission, Corporate Sustainability Reporting, (2023)

ESRS[14]

Purpose: The ESRS are the reporting standards that should be followed when reporting to the CSRD. The ESRS is basically the tool to use to achieve compliance with the CSRD. The original proposals for the ESRS were developed by EFRAG to give companies guidance and methods for consistent and comparative reporting. The ESRS standards were modified by the European Commission after EFRAG's guidance to make such reporting not mandatory but subject to a materiality assessment and to be interoperable with other global sustainability disclosure standards such as those in development by the International Sustainability Standards Board (ISSB).

Scope: Any company that falls under the CSRD must use the ESRS for sustainability reporting.

Timing: Companies will start using the ESRS to comply with CSRD, starting between 2025 and 2029.

Key Takeaway for U.S. Companies

The CSRD, and the ESRS needed to comply with it, will directly affect around 3,000 U.S. companies. They will be expected to report on more than 100 ESG performance indicators. This includes third-party audited disclosure of both environmental and social impacts, far more than the U.S. regulations. However, they will not be expected to begin reporting until 2029.

The inclusion of Scope 3 and other supply chain sustainability metrics will impact U.S. companies that supply to EU companies or to U.S. companies that are impacted by the regulations. While U.S. companies are not required to report to the CSRD until 2029, those who have EU customers should anticipate requests for detailed sustainability information as early as 2024 and should begin preparing accordingly.

CSDDD[15]

Purpose: In 2023, the European Union Parliament agreed to introduce the CSDDD. The primary objective of the CSDDD is to ensure that companies exercise due diligence throughout their operations and supply chains. It will mandate companies to identify, prevent, and mitigate adverse human rights and environmental impacts within their supply chains and make companies create a viable transition plan toward Paris Agreement-aligned climate targets. Companies will be expected to disclose how they are meeting the CSDDD in annual reports, and non-compliance could lead to fines to both the company and, uniquely, company executives too.

[14] EU Commission, European Sustainability Reporting Standards, (2023)

[15] EU Commission, Corporate Sustainability Reporting, (2023)

Scope: Like the CSRD, the CSDDD will affect both EU and non-EU companies. However, with the CSDDD, the rules will apply to two groups of companies. The first groups are large companies. The second group is smaller companies in high-impact sectors. For the rules to apply, companies need to meet the following thresholds:

- **EU (Group1):** Companies with more than 500 employees and €150 million of net worldwide turnover.
- **Non-EU (Group 1):** Companies with more than €150 million of net turnover in the European Union
- **EU (Group 2):** Companies with more than 250 employees and €40 million of net worldwide turnover, if at least 50% of such turnover is generated in a high-impact industry, such as manufacturing, extraction, and trade of mineral resources, agriculture, forestry, etc.
- **Non-EU (Group2):** €40 million of net turnover in the European Union if at least 50% of such turnover is generated in one of the high-impact sectors mentioned above.

Approximately 4,000 non-EU companies and 12,800 EU companies fall under the CSDDD across both groups.

Timing: The CSDDD implementation is scheduled to be phased-in starting in 2030, giving companies time to prepare for compliance.

Other EU Regulations Worth Considering

The EU sustainability regulatory landscape is vast, but there are two main other regulations that U.S. companies may be affected by:

Green Claims Directive[16]:

Details specific ways products can advertise and market "green" claims. Any EU or non-EU company advertising or marketing to EU citizens has to substantiate claims they make about the environmental impacts or performance of their products using robust, science-based, and verifiable methods.

Carbon Border Adjustment Mechanism (CBAM) [17]:

The EU 's CBAM, or Carbon Border Adjustment Mechanism, is a policy aimed at reducing the risk of carbon leakage and ensuring that the price of imports reflects their emissions. Carbon leakage refers to the situation where businesses relocate production to countries with less stringent climate policies, resulting in an increase in global greenhouse gas emissions. The CBAM expects companies to measure and report the emissions of the products they import into the EU starting in 2024 so that they can be charged for an amount for each ton of CO2 their product creates.

[16] European Commission, Green Claims, (2023)

[17] European Commission, Carbon Border Adjustment Mechanism, (2023)

Key Takeaway for U.S. Companies

Around 1,000 U.S. companies will be impacted by the CSDDD, which requires them to report and evaluate their due diligence practices in both operations and supply chains, with a focus on human rights and environmental impacts. The CSDDD goes beyond simply disclosing information and instead urges companies to actively mitigate and prevent negative effects. Additionally, the CSDDD mandates that companies create a plan to transition towards meeting the climate targets outlined in the Paris Agreement. However, this requirement is not expected to take effect until 2030.

The CSDDD mainly concentrates on supply chain sustainability metrics in supply chains. Therefore, the regulations' impact will be felt mostly by U.S. companies that are indirectly affected, such as those that supply to EU companies or to U.S. companies impacted by the regulations.

The Impact of Sustainability Regulations on U.S. Companies

Impact on Public U.S. Companies

Large publicly traded U.S. companies will be the first to feel the effects of these regulations, with the CSRD and SEC regulations having phased-in reporting for progressively smaller companies. With the first reports for the CSRD expected in 2025 and the SEC the same year if finalized this year, large publicly traded companies will be expected to share extensive sustainability information with EU and U.S. regulators very soon.

This will have huge implications for the data collection and reporting systems of large publicly traded companies and how they collaborate with their stakeholders, and with these reports being public, it could change their relationship with sustainability. There will be additional costs associated with these new processes of disclosure. The average disclosure cost to the SEC proposals has been estimated at $539,000 by a multinational sustainability consultancy.[18]

[18] SustainAbility Institute, Costs and Benefits of Climate-Related Disclosure Activitiesby Corporate Issuers and Institutional Investors, (2022)

There will be additional costs associated with these new processes of disclosure. The average disclosure cost to the SEC proposals has been estimated at $539,000.

With all of the difficulties related to collecting and aggregating sustainability data and the majority of it out of large companies' direct control, they will inevitably ask their stakeholders for assistance in measuring and managing the sustainability associated with them.

Impact on Private U.S. Companies

It is likely that only a handful of U.S. private companies will be directly mandated to report on ESG by the EU, U.S., and California regulations. However, the inclusion of Scope 3 and the disclosure of other sustainability metrics in the supply chain means that many more companies will be indirectly affected.

With over 50,000 EU companies affected by the CSRD and CSDDD and the inclusion in both supply chain sustainability and Scope 3 data reporting, U.S. companies that do business or supply to companies in the EU can expect contracts from EU companies to include language addressing compliance with these two regulations.

Additionally, with these U.S. companies having to meet EU requirements beginning in 2029 and their inclusion of Scope 3 and other supply chain sustainability factors, private U.S. companies will be more directly affected. With the EU pushing the global ESG disclosure regulatory agenda forward, it is possible the SEC could choose to follow suit and include Scope 3 and, eventually, other ESG metrics.

It is, therefore, important for private U.S. companies to start measuring their ESG data. Starting today will help companies keep contracts with their largest publicly traded customers, who are most immediately affected by EU and U.S. disclosure regulations, and could help them build a competitive advantage to win new ones. It will also help private companies assess ESG risk in their own operations and supply chain and could allow them access to European markets.

Private companies must now prioritize their ESG programs and evaluate if they collect the necessary data to meet the compliance requirements of both the U.S. and EU regulations. Failing to do so can result in missed opportunities and hinder their growth potential.

Key Takeaway for U.S. Companies

Global regulations will be the primary driving force in companies measuring, managing, and reducing their sustainability impacts in the coming years. They will require U.S. companies directly affected by the new U.S. and EU rules to build costly new systems for data collection and reporting. Much of the data they need is within their supply chains, so suppliers and other stakeholders will be asked to provide an unprecedented level of data transparency and share the costs of implementation.

Voluntary International ESG Disclosure Standards

The ISSB is the final major player affecting ESG disclosures for U.S. companies. As the new global gold standard for sustainability disclosures, IOSCO anticipates it to eventually be used by up to 130,000 companies.[19] It was created to be a global baseline for sustainability reporting and bring convergence to the 'alphabet soup' of ESG standards and frameworks. It has already taken over the responsibilities of most global reporting standards, and in 2024, it will take over or be integrated into more, making it one of the last remaining and most-used reporting standards.

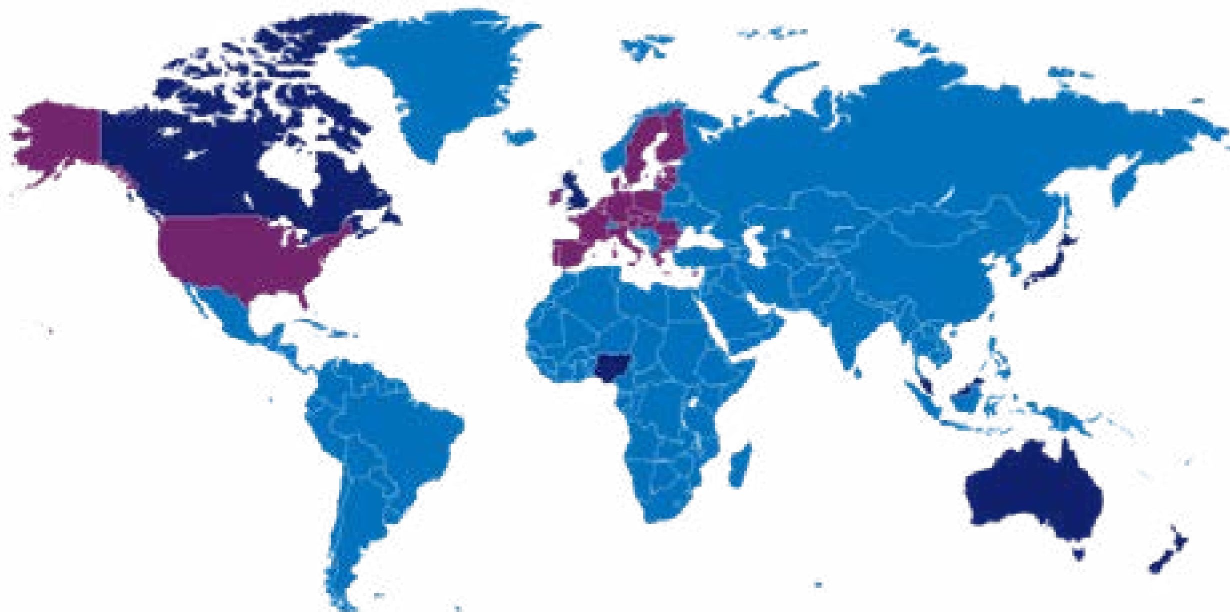
> *As the new global gold standard for sustainability disclosures, the ISSB standards IOSCO anticipates it to eventually be used by up to 130,000 companies.*

Released in June 2023, the first two ISSB reporting standards for sustainability and climate-related disclosures mark a huge milestone in the evolution of global ESG and sustainability reporting.

Design suggestion: Show a world map wiith the countries Australia, Canada, Japan, Hong Kong, Malaysia, New Zealand, Nigeria, Singapore and the U.K. hihglighted as places that have pledged to use the ISSB and highlight the US and EU in a different color with a key saying made interoperable with the ISSB.

Additionally, the ISSB will take over the responsibilities of the Task Force on Climate-Related Financial Disclosures (TCFD) and be integrated into Carbon Disclosure Project (CDP) reporting in 2024 and could take over the responsibilities of the General Reporting Initiative (GRI) in the coming years.

[19] Environmental Finance, IOSCO endorsement 'could see 130,000 companies report under ISSB' (2023)



Places that have pledged to use the ISSB
(Australia, Canada, Japan, Hong Kong, Malaysia, New Zealand, Nigeria, Singapore and the U.K.)

Made interoperable with the ISSB.
(USA, EU)

The widespread adoption of the ISSB standards is all but inevitable, so U.S. companies of all sizes should understand what reporting is expected in these new standards.

Below is a summary of the ISSB Standard. (A simplified version is in Appendix 3.)

ISSB[20]

Purpose: The ISSB was created to bring convergence around ESG reporting standards and be the global baseline for all sustainability reporting. The ISSB is designed to meet the needs of investors for comparable, compatible, and useful sustainability information and to ensure interoperability with global disclosures.

The ISSB disclosure standards are divided into two disclosure standards **S1: General Sustainability-related Disclosures** and **S2: Climate-related Disclosures.** However, the ISSB plans to break out the general sustainability standards into more specific criteria in the future.

[20] IFRS, International Sustainability Standards Board, (2022)

Scope: The ISSB is not a mandated reporting standard, so the full scope is yet to be determined. However, many countries have said they will use the ISSB standards as the basis of their ESG reporting regulations. It has been estimated by IOSCO that as many as 130,000 companies could eventually use the ISSB standards.

Timing: Companies will be able to start reporting with the ISSB climate-related disclosures in FY 2024. However, the ISSB put in a relief period of a year before companies need to start reporting general sustainability and Scope 3 emissions, so those will begin for FY 2025.

ISSB Interoperability

Despite all of these regulations having differences in key areas, the work of the ISSB has been to ensure that all of the global sustainability disclosure standards are made interoperable with each other. With the ISSB serving as the global baseline.

The ISSB worked diligently to ensure that the ISSB has collaborated with regulators in various regions, including the U.S. and EU, to ensure that disclosures are consistent and compatible with the SEC's upcoming climate disclosure regulation and the EU's Corporate Sustainability Reporting Directive.

One key difference that companies should be aware of is in the EU's CSRD basis for materiality, which is double materiality (financial and impact materiality). In contrast, all other regulations and the ISSB use single materiality (financial materiality). Meaning companies affected by the CSRD may be expected to report more.

It's More Than Just Climate Information

The assessment and reporting of climate risks and emissions may be the most pressing issue in these regulations and standards, but it is not the only factor. Currently, for the U.S. regulations, the climate is the sole consideration. But the EU regulations and ISSB standards, include the reporting of much more than just the disclosure of climate risks and emissions measurements.

The CSRD expects companies to report on over 100 sustainability indicators in their operations and supply chains. The CSDDD expects companies to report human rights abuses and environmental impacts throughout their supply chains. And for the ISSB, the requirement of their general sustainability-related disclosure standard information that could be reasonably expected to affect a company's finances in the near, medium, or long term across their four reporting themes:

- **Governance:** The disclosure of the governance processes of how a company monitors, manages, and oversees sustainability-related risks and opportunities.
- **Strategy:** The disclosure of how a company plans to manage its sustainability-related risks and opportunities.
- **Risk Management:** The disclosure of the process of how companies identify, assess, prioritize, and monitor sustainability-related risks and opportunities.
- **Metrics and Targets:** The disclosure of any sustainability targets and any operational or supply chain sustainability metrics related to meeting these targets or relating to assessing the company's performance in managing and mitigating sustainability-related risks and opportunities.

This could mean that U.S. companies directly affected by, or that have customers or other stakeholders that are affected by the EU regulations or that use the ISSB standards will have to share extensive information about their water use, waste recycling, diversity, rates of pay, and many other factors far exceeding climate data.

Other Sustainability Reporting Pressures

Many companies are getting ahead of the impending global climate and sustainability disclosure regulations that include Scope 3 and supply chain sustainability reporting and are requesting their suppliers help them measure and reduce their sustainability impacts.

The number of companies that received a request for environmental data through the CDP grew from 23,000 in 2021 to over 40,000 in 2022.

The number of companies that received a request for environmental data through the CDP grew from 23,000 in 2021 to over 40,000 in 2022.[21] And that is just the tip of the iceberg. Huge companies with global supply chains of tens of thousands of companies are requiring suppliers to measure, report, and, in some cases, reduce their emissions and other sustainability data. Three of the most well-known examples are:

Apple: With one of the most ambitious global supply chain emissions reduction goals, Apple aims to have a carbon-neutral supply chain by 2030. Apple suppliers report their Scope 1 and 2 emissions annually, and the company also offers education and investment in its suppliers' carbon removal and renewable efforts through its Clean Energy Program.

Microsoft: In order to be carbon negative by 2030, Microsoft requires suppliers to report Scope 1, 2, and 3 emissions data annually via CDP and to set a target to reduce emissions by 55% by 2030.

Amazon: Beginning in 2024, Amazon will require its over 200,000 suppliers to start reporting emissions and set decarbonization targets. Previously, Amazon only suggested that suppliers should report their emissions data voluntarily, but they have made this request to contribute toward meeting their net zero by 2040 goal.

These are some of the bigger examples, but many companies are making similar requests of the companies across their supply chain. Climate information and emissions reductions make up the bulk of the requests today, but some are beginning to include packaging waste limits, water use, deforestation, and more.

[21] CDP, Supply Chain, (2022)

Key Takeaway for U.S. Companies

The ISSB will eventually be the only set of sustainability disclosure standards, having amalgamated all other voluntary disclosure standards. They are also designed to be the basis or interoperable with all sustainability disclosure regulations. Therefore, U.S. companies that want to prepare for disclosure regulations should start with the ISSB, understand the specific sustainability reporting requirements material to them, and align internal data collection processes with that.

Due to the ISSB, U.S. companies will benefit from a streamlined sustainability reporting landscape reducing the workload and costs from double reporting with different standards.

Because the ISSB includes Scope 3 and other supply chain sustainability metrics, U.S. private companies should expect data requests from any of their customers that use the ISSB standards.

Why U.S. Companies Should Begin Preparing For These Regulations and Standards Today

As these regulations and the ISSB standards proliferate, and large multinational companies attempt to get ahead of them, U.S. companies that start measuring and reducing their emissions and other sustainability data today will ensure future compliance and present an opportunity to gain a competitive advantage. The possible competitive advantages companies can capture come under three primary buckets:

1. **Compliance and Risk Mitigation:** For the U.S. companies directly affected by the new sustainability regulations, aligning with them ensures that they will not only avoid any fines and penalties but also reduce legal and reputational risks. However, for the vast majority of private U.S. companies not directly affected by these new regulations, being ahead of the curve in sustainability can provide a competitive edge. Aligning with current regulations and the ISSB will prepare them for a rapidly changing regulatory landscape and showcase the company's commitment to responsible business practices.

2. **Market Differentiation and Consumer Trust:** Modern consumers increasingly value sustainability and social responsibility. By actively tracking and reducing carbon emissions and focusing on sustainable principles, companies can differentiate themselves in the market. This can lead to increased brand loyalty and customer trust. A strong sustainability record may also enable companies to access new markets, such as the EU, if they abide by the strict regulations of the CSRD or customer segments that prioritize environmental concerns.

3. **Investor Attraction and Financial Benefits:** Investors and financial institutions increasingly consider sustainability metrics in their investment decisions. By demonstrating a commitment to sustainability through measurable ESG goals, U.S. companies may attract investment from funds prioritizing ESG criteria. Additionally, sustainable practices can lead to operational efficiencies, reducing costs in energy consumption, waste management, and other areas. This can translate to financial benefits in the long term, enhancing the company's competitive positioning.

Key Takeaway for U.S. Companies

Global regulations and standards are heading in one direction: toward broader, more accurate, and audited sustainability disclosures. U.S. companies that start the process today and get ahead of this trend will reduce risks of non-compliance and ESG-related risks, differentiate their products and services for a market advantage, and attract and retain new customers.

Conclusion

Although most U.S. companies may not be directly impacted by the rapidly changing global climate and sustainability disclosure regulations and standards, these rules will eventually affect smaller private companies in their supply chain as they trickle down from the larger publicly traded companies.

Both domestic and international bodies recognize the inextricable link between sustainability risks and financial risks. The era of voluntary disclosure is giving way to a more structured and convergent framework of mandated disclosure using the ISSB as a baseline for global interoperability.

American companies, while not necessarily bound by all the regulations, are still part of a network where connections upstream and downstream require a transparent approach to sustainability data. The SEC, EU, and ISSB have taken important steps towards a harmonized approach that emphasizes the critical need for transparency and accountability.

It is not merely a matter of compliance but a strategic imperative that aligns with a global drive toward responsible business conduct. U.S. companies of all shapes, sizes, and sectors should, therefore, proactively engage with these evolving standards, recognizing that they constitute not only a challenge but an opportunity for leadership and innovation in an era defined by sustainability. Preparing today means thriving in a future where responsible business is not a choice but a business imperative.

Appendix

Key Takeaway for U.S. Companies

Regulation	Description	Companies Affected	Timeline	Disclosures Included	Data Auditing
SEC Rules to Enhance and Standardize Climate Related Disclosures for Investors	The most extensive U.S. ESG disclosure regulation to date	4.000+ Companies publicly traded on the US stock market	Expencted to be phased-in starting first report for FY: 2024	Climate-related risks and opportunities Climate governance Climate metrics and targets Scope 1, 2, and (possibly) 3 Climate Strategy	third-party Limited Assurance
CA SB253	California disclosure rules to improve transparency and greenwashing for companies doing business in the state	California disclosure rules to improve transparency and greenwashing for companies doing business in the state	2026 for Scope 1 and 2 2027 for Scope 3	Reporting of Scope 1,2, and 3 emissions in annual financial reports	Independently verified by a third party

APPENDIX 1. A HIGH-LEVEL OVERVIEW OF U.S. REGULATIONS

Key Takeaway for U.S. Companies

Regulation	Description	Companies Affected	Timeline	Disclosures Included	Data Auditing
CSRD	Primary EU sustainability disclosure legislation Replaces NFRD in 2024	Listed European Companies Non-EU Companies Listed on EU-Markets Private EU Companies (if 2/3 of factors applicable) Balance sheet total: €20 million Net turnover: €40 million Number of employees: 50 Private non-EU companies (if 1/2 of factors applicable) Net EU turnover: €150 million Net turnover: €40+ million for an EU branch	2025 – Current NFRD Reporters 2026 – Large or Listed EU Companies 2027 – Listed SMEs 2029 – Non-EU Companies	ESRS Guidelines 100+ ESG indicators across four main themes: Governance Strategy Risks and opportunities Metrics and targets Includes Scope 3 Some disclosure mandatory and some subject to a double materiality assessment	Third-party Limited Assurance
ESRS	The standards created for companies to comply with CSRD Interoperable with other global sustainability disclosures, e.g., ISSB	CSRD Guidelines	CSRD Timeline	100+ ESG indicators across four main themes: Governance Strategy Risks and opportunities Metrics and targets Includes Scope 3 Some disclosure mandatory and some subject to a double materiality assessment	CSRD Guidelines
CSDDD	A mandate for companies to identify, prevent, and mitigate adverse human rights and environmental impacts within their operations and value chains	EU Companies (if all factors applicable) Number of employees: 500+ Net global turnover: €150 million Non-EU Companies Net turnover: €150+ million in EU High Impact Industry Companies EU Companies (if all factors applicable) Number of employees: 250+ Net global turnover: €40 million 50% turnover in high-impact industry Non-EU Companies (if all factors applicable) Net EU turnover: €40 million 50% turnover in high-impact industry	2030 – Phase In	A viable transition plan toward Paris Agreement-aligned climate targets Details on plans to identify, prevent, and mitigate human rights and environmental impacts in operations and supply chains	Contractual assurances with suppliers and verify compliance

APPENDIX 2. A HIGH-LEVEL OVERVIEW OF EU REGULATIONS

Key Takeaway for U.S. Companies

Regulation	Description	Companies Affected	Timeline	Disclosures Included	Data Auditing
ISSB	Designed to create a global set of standards to meet investors' needs for comparable, compatible, and useful sustainability information.	The ISSB standards are not mandatory, but it is expected that most companies will disclose using them to create globally comparable reports.	Companies can start reporting with ISSB in 2024	S1: General Requirements for Disclosure of Sustainability-related Financial Information Guidelines: Reporting the governance, strategy, risk management, metrics, and targets surrounding sustainability information, such as biodiversity, water, waste, and more. S2 Climate-related Disclosures Guidelines: Reporting the governance, strategy, risk management, metrics, and targets surrounding climate.	Not required by ISSB, but could be included by regulations that use the ISSB standards

APPENDIX 3. A HIGH-LEVEL OVERVIEW OF THE ISSB REGULATION