

A GUIDE TO ESG STANDARDS

AT A GLANCE: The key mandatory reporting frameworks for your company



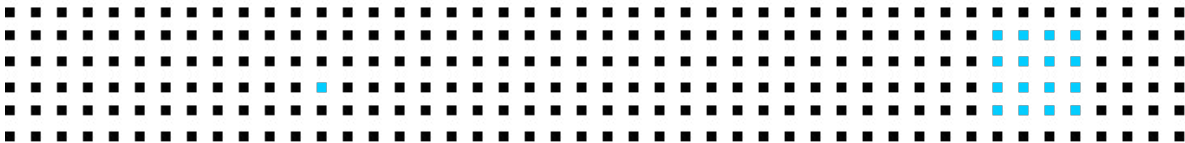
Introduction

Over the past few years, more and more ESG reporting standards have been developed and submitted. It can be overwhelming to understand all these reporting standards and frameworks on the market. This overview is intended to provide you with an initial overview and understanding of which standards are mandatory for your company.

The very earliest forms of ESG reporting can be traced back to corporate social responsibility (CSR) reports - standalone reports that detailed a company's altruistic activities but had little relation to the company or its operations. This gradually evolved into hybrid sustainability reports that placed increasing emphasis on the company's carbon footprint. And today, there is a trend towards full integration of ESG factors, where non-financial aspects are presented as material business aspects and translated into financial impacts.

There are still no set rules for ESG reporting in most regions. This is changing more and more with the already completed or upcoming legal regulations in the EU and the USA, for example the EU Taxonomy or the recast of the CSR Directive. At the same time, there are many voluntary guidance frameworks and standards that provide information on what and how to report on various ESG topics.

This guide is designed to help you understand the key mandatory reporting frameworks in the market today.



Legal frameworks

Legal frameworks for reporting vary from region to region and, in some cases, from country to country. Since companies are legally required to comply with the requirements of the jurisdiction in which they operate, these should be reviewed first. Look at the regional and national legislation that sets disclosure standards and assess whether they apply to your company.

Especially in recent months and years, the development of new legal standards has gained considerable momentum. In the EU, where previously only the Non-Financial Reporting Directive (NFRD) applied to companies with more than 500 employees, several new mandatory frameworks have been introduced for different groups.

These include

- ■ the Corporate Sustainability Reporting Directive (CSRD),
- ■ the EU Taxonomy and
- ■ the Sustainable Finance Disclosure Regulation (SFDR).

Also under development is the European Supply Chain Act, known as the Supply Chain Due Diligence Directive.

Stricter standards will also apply in several EU member states in the future, such as the Supply Chain Act in Germany. But France also regulates sustainability in supply chains. Although the UK is no longer a member of the EU, it has several standards to offer with the Modern Slavery Act and mandatory reporting under the Task Force on Climate-Related Disclosures.

In the USA, the introduction of legally binding standards is being discussed. For example, the Securities and Exchange Commission (SEC) recently submitted a proposal requiring listed companies to include certain climate-related disclosures in their periodic reports (e.g. annual reports).

Overview:

mandatory reporting frameworks

To help you gain an overview of the most important mandatory reporting frameworks for your company, we have created the table below with all the standards and information on who they are relevant for.

Framework	Description of the framework	Who finds it relevant?	Region/ Country
EU/NFRD	The Non-Financial Reporting Directive (NFRD) has been in place since 2017 and requires companies to disclose information on environmental and social matters in the management report or in a separate sustainability report.	Companies, Investors, Governments, Insurance	EU
EU / CSRD	The CSRD follows the NFRD and requires companies with more than 500 (from 2024), 250 (from 2025) and 50 (from 2026) employees to report on their sustainability performance to report.	Companies, Investors, Governments, Insurance	EU
EU / Taxonomy	A legally binding classification system that primarily helps investors identify economic activities or investments that qualify as sustainable. The taxonomy identifies industries with the highest impact potential, and companies must demonstrate that they meet at least one of six environmental goals to qualify.	Companies, Investors, Governments, Insurance	EU
EU / SFDR	The SFDR is a financial sector-specific directive that requires financial institutions to report on their sustainability performance at two different levels: company level and product level. reporting: at the company level and at the product level. Reporting criteria include compensation and risk policies, as well as product information on ESG and non-ESG related products.	Investoren	EU

Framework	Description of the framework	Who finds it relevant?	Region/ Country
German Supply Chain Act	The German Supply Chain Act requires companies to take action against the exploitation of human rights and the environment in their supply chain. This includes analyzing human rights-related risks, taking measures to prevent and mitigate human rights violations, establishing grievance mechanisms, and reporting on their activities.	Companies	Germany
UK / Sustainability Disclosure Requirements	The UK announced its Sustainability Disclosure Requirements (SDR), which will require all premium listed UK companies to comply with or explain the requirements of the TCFD by 2023, and mandatory TCFD-aligned disclosures for all non-financial and financial sectors by 2025. The government has expressed its intention to adopt the forthcoming ISSB standards into national law as well.	Companies	UK
Canada / NI 51-107	In 2021, climate-related disclosures were proposed in Ontario by the Ontario Security Commission. At the federal level, Canadian security agencies have released for consultation a proposal (NI 51-107) that would require large companies to disclose under TCFD or more stringent frameworks; comments are open until January 17, 2022. The proposal calls for a „phased-in“ expansion of Scope 3 disclosures over a three-year period (starting in 2024 and ending in 2026 for the first mandatory reporting).	Companies	Canada
USA / SEC-Disclosures	In May 2021, a bill was introduced in the House of Representatives to amend the Securities Exchange Act of 1934 to introduce a climate risk disclosure bill (House and Senate approval and the President's signature are required for passage). If enacted, the SEC would likely issue a mandatory disclosure rule in accordance with the Act no later than May 2023.	Companies	USA
Norwegian Supply Chain Transparency Act	Norway's Supply Chain Transparency Act requires large companies selling products and services in Norway to conduct human rights due diligence in line with the OECD Guidelines from July 1, 2022. The new law requires companies to conduct due diligence on human rights and decent work throughout their supply chain and business relationships, and to communicate this to the outside world.	Companies	Norway

Framework	Description of the framework	Who finds it relevant?	Region/ Country
French duty of corporate vigilance law	The French duty of corporate vigilance law (Loi de Vigilance) requires large companies in France to effectively manage their human rights and environmental risks – both within the company itself and with its subsidiaries, subcontractors and suppliers. The law requires the company to establish, implement and publish its own vigilance plan in line with the UN’s human rights due diligence process, as outlined in the Principles on Business and Human Rights (UNGPs).	Companies	France
China / ESG-Standard	On December 21, 2021, the Ministry of Ecology and Environment published the „Measures for Enterprises to Disclose Environmental Information by Law“ to regulate the disclosure of environmental information by enterprises by law. The Measures, which took effect on February 8, 2022, require five types of enterprises to disclose environmental information. The five categories of enterprises are major pollutant emitters, enterprises subject to mandatory verification for clear production, listed enterprises and their subsidiaries at all levels, enterprises issuing corporate bonds, corporate bonds and debt financing instruments for non-financial enterprises, and other enterprises required to disclose environmental information under laws and regulations.	Companies	China
Switzerland / ESG Standards	In 2021, Switzerland became an official supporter of the TCFD to complement the country’s sustainable finance policy agenda. In addition, the Swiss Parliament introduced a legislative proposal to make disclosure mandatory largely on the basis of the EU’s NFRD, i.e. including dual materiality. The new rules came into force on January 1, 2022. The first reports are due in 2024 and relate to fiscal 2023.	Companies	Switzerland
Chile / ESG-Standard	For 2021, the Chilean Securities Regulatory Commission has proposed mandatory ESG disclosures for large listed companies, based on the SASB standard.	Companies	Chile

Framework	Description of the framework	Who finds it relevant?	Region/ Country
Hongkong / ESG- Standards	Hong Kong's listed company, securities and investment regulators, the Stock Exchange of Hong Kong Limited (HKEX) and the Securities and Futures Commission (SFC), have introduced requirements for enhanced disclosure of environmental, social and governance factors as an investment focus (ESG funds), effective from 2022. In 2020, the above regulators launched a consultation on the requirement for Hong Kong financial institutions and listed companies to make disclosures no later than 2025 in line with the TCFD recommendations, which will come into effect in November 2022.	Companies, Investors	Hongkong
India / Corporate responsibility and sustainability report	Starting in 2023, leading listed companies will fall under the mandatory disclosure (first reports in 2024) of the Corporate Responsibility and Sustainability Report (BRSR), which will also align with GRI, TCFD, SASB and IIRC.	Companies	India
Malaysia / ESG- Standard	In December 2021, regulators announced their intention to make ESG disclosures mandatory for financial institutions (in line with the TCFD framework) by 2024. Bursa Malaysia has also published new sustainability guidelines for listed companies.	Companies, Investors	Malaysia
New Zealand / ESG Standard	In 2021, the New Zealand government passed an amendment bill to introduce mandatory climate-related financial reporting based on the TCFD framework for (large) financial institutions and listed companies. Reporting is to begin in 2024 and cover the 2023 financial year.	Companies	New Zealand

Framework	Description of the framework	Who finds it relevant?	Region/ Country
Singapore / ESG Standard	Since 2016, reporting has been mandatory for companies listed on the Singapore Exchange (SGX), but on a „comply or explain“ basis. It references existing global standards for reporting practices. In 2021, there were consultations on closer alignment of the reporting requirement with the TCFD framework. In 2021, the Monetary Authority of Singapore (MAS) also announced an initiative for a centralized database for ESG disclosures; a pilot is expected in 2022. Mandatory reporting will be phased in, initially for financial institutions, starting in FY2023 for agriculture, food and forest products, and energy, and starting in FY2024 for construction materials and buildings and transport.	Companies	Singapore
Thailand / ESG Standard	The Stock Exchange of Thailand (SET) requires sustainability reporting and issues its own report based on the GRI standard, which it also encourages all listed companies to follow.	Companies	Thailand

Conclusion:

ESG will become the norm

Sustainability and ESG issues are becoming increasingly important and ESG reporting will become the norm for all companies. The companies that adapt early and already excel in ESG practices and strategies will have a clear advantage. They will be able to attract investor interest and win over consumers who increasingly value environmentally conscious products and sustainable companies.

How can we help you?

We have developed a software solution to help you implement the new guidelines. Find out more here and contact us: <https://de.daato.net/contact>

image directory

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