

Standardizing ESG Metrics for Sustainable Finance

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Table of Contents

Issue Overview / Background	3
Current Policy Landscape	4
Problem Analysis	6
Policy Recommendations	8
Implementation Considerations	12
Impact Assessment	14
Conclusion	15
References	16

Issue Overview / Background

As our focus as a country shifts heavily toward climate change and environmental sustainability, it is imperative that we make changes to each aspect of our governance and economy such that they accommodate sustainable alternatives that benefit the planet. One relevant field for which this can happen is in finance. By financing any investment that provides environmental benefits, we would be implementing green finance. According to the Green Finance Platform, green finance is described as “the financing of investments that provide environmental benefits in the broader context of environmentally sustainable development”.

The United States, along with several other countries, have taken up green finance and made it a priority. In fact, the value of “green” bonds traded could soon reach \$2.36 trillion (World Economic Forum). Tesla’s electric revolution could be considered an example of a green investment as its electric vehicles are a result of financiers placing trust in a sustainable alternative in the automotive industry. However, to properly identify green investments, private institutions rely on environmental, social, and governance (ESG) metrics to evaluate any potential financial investments. ESG focuses on the sustainable practices a company employs, the quality of its corporate social responsibility, and how well the leadership structure acts. Successful metrics in all aspects ensure a responsible and low-risk investment, an essential for environmentally centered investments that revolve around the health of the planet.

The issue this brief aims to explore and remedy the severe lack of standardized metrics in ESG reporting. This inconsistency in metrics makes comparing investments impossible; with different companies reporting different things, it’s difficult to understand what the true outlook is on the

company, allowing important information to slip through the cracks. By systemizing the way ESG is reported, investments can be comparable and companies will know what is expected of them, making sustainable finance easier to navigate and endure.

Current Policy Landscape

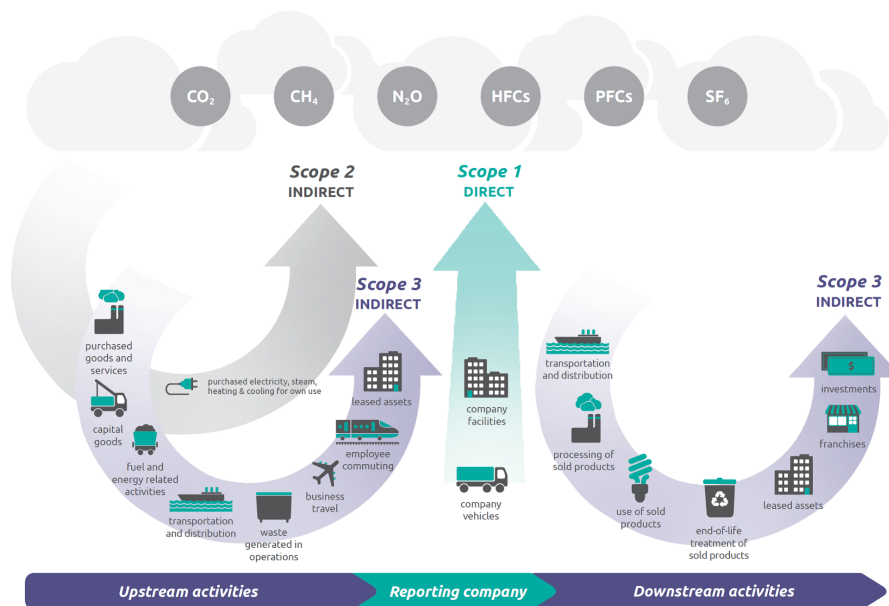
ESG requirements vary across the globe, creating a fragmented resource for corporations to look to. Although the United States has begun to implement these disclosures, the country's peers in Europe and around the world have developed this system far more.

In the United States, the most significant regulatory effort is the Securities and Exchange Commission's (SEC) proposed climate disclosure rule, first introduced in March 2022 (Securities and Exchange Commission, 2024).

This rule:

- Requires public companies to disclose climate-related risks that are “reasonably likely” to have a material impact on their business.
- Mandates disclosure of greenhouse gas emissions, both direct and indirect emissions from purchased energy.
- Some companies may also need to disclose emissions from supply chains and product use.
- Requires reporting on governance practices related to climate risk, including board oversight and management accountability.

Below is a visualized graphic representing the various emissions that will be discussed in this brief:



US EPA <https://www.epa.gov/climateleadership/scope-3-inventory-guidance>

The SEC finalized climate-related disclosure rules on March 6, 2024, and later voluntarily stayed the rules on April 4, 2024 during litigation in the Eighth Circuit. Since then, several amici have sent briefs to be filed in support of the SEC's position, but as of 2025, the SEC has not yet finalized the rule, and its implementation timeline remains uncertain. In the meantime, U.S. companies continue to rely on voluntary frameworks such as the Sustainability Accounting Standards Board, the Global Reporting Initiative, and the Task Force on Climate-Related Financial Disclosures. This patchwork system leads to inconsistent disclosures and limited comparability across industries.

In contrast to the United States' fragmented approach, several international jurisdictions have already moved forward with comprehensive, mandatory ESG disclosure frameworks. The European Union has enforced Corporate Sustainability Reporting Directive (CSRD):

- Requires nearly 50,000 EU companies to provide detailed ESG disclosures.
- Covers environmental, social, and governance factors, including the emissions criteria listed for the United States, biodiversity impacts, human rights practices, and corporate governance.
- Companies must use the European Sustainability Reporting Standards (ESRS), to ensure uniformity.
- Noncompliance can result in fines and reputational damage. (CSRD Readiness, 2024)

Overall, it's clear that the U.S. lacks enforceable ESG disclosure rules, and will face challenges competing in European markets, where ESG disclosure policies are strict and enforced. While international peers like the EU are advancing mandatory, standardized frameworks, the U.S. remains reliant on a contested SEC proposal. Without alignment, U.S. companies risk falling behind in the global marketplace and facing compliance burdens in jurisdictions with stricter requirements.

Problem Analysis

Despite the rapid growth of ESG investing, the absence of standardized disclosure requirements has created significant problems for companies, investors, and policymakers. The issues range from inconsistencies in reporting frameworks to systemic risks for the financial system. This section explores the key challenges:

Inconsistency in ESG Frameworks

As stated, one of the most pressing challenges in ESG reporting is the lack of uniform standards. Companies currently choose among various voluntary frameworks, including the Global Reporting Initiative, the Sustainability Accounting Standards Board, the Task Force on Climate-Related Financial Disclosures, and the Carbon Disclosure Project. Each framework emphasizes different metrics, leading to fragmented and often incomparable data.

An example of this inconsistency is two energy companies in 2022, ExxonMobil and Chevron, who both released ESG reports. ExxonMobil's report emphasized greenhouse gas intensity metrics and its carbon capture initiatives, while Chevron highlighted its renewable energy investments and workforce diversity programs. Despite both companies addressing ESG, the lack of common benchmarks made it nearly impossible for investors to compare their actual climate performance.

Greenwashing

Greenwashing is the practice of exaggerating or misrepresenting environmental and social achievements, and it has become a serious concern in ESG finance. Without standardized, verifiable metrics, companies have broad discretion in how they present sustainability claims. A prominent example is the asset management arm of Deutsche Bank. The DWS group came under investigation for overstating the sustainability of its investment products. Regulators found discrepancies between DWS's ESG marketing and actual investment practices, resulting in legal scrutiny and reputational damage (ESG Today).

Furthermore, in 2022, fast fashion giant H&M was sued for misrepresenting their "Conscious" Collection as sustainable. The company marketed the clothing as "green" and "environmentally friendly", using a scorecard system to inform customers about the sustainable impact of each clothing article. However, a study done by Quartz found that half the pieces of clothing were "no more sustainable than comparable garments made by the company and its competitors", meaning that H&M had displayed inaccurate data to customers and investors, leading to a class-action lawsuit. Though H&M won the suit, the endeavor remains to be an example of what misleading ESG standards can disrupt.

Greenwashing not only misleads investors and consumers but also undermines the credibility of ESG as a whole, leading into the next issue.

Investor Uncertainty and Capital Misallocation

Investors increasingly want to integrate ESG factors into their decision-making, but the lack of standardized disclosures negatively affects their ability to do so. Inconsistent and unreliable data lead to capital misallocation, where funds flow toward companies with polished narratives rather than genuine sustainability performance. A 2021 report by the Harvard Business School found that inconsistent ESG ratings lead to increased investor confusion and volatility, making it harder to identify true sustainability leaders. This kind of uncertainty distorts markets, reduces the efficiency of capital allocation, and risks companies being overvalued based on misleading sustainability claims. Over time, this not only erodes investor trust but also undermines the broader purpose of ESG investing: channeling resources toward companies that create long-term change and drive social and environmental progress. Without standardized reporting, companies face little accountability for greenwashing, and investors are left with limited tools to distinguish between real commitments and superficial reporting.

Standardized, enforceable ESG metrics are therefore necessary to ensure comparability of disclosures across industries and provide investors with the clarity and confidence they need to direct capital toward truly sustainable enterprises.

Policy Recommendations

A detailed federal framework for ESG reporting is necessary to resolve the inconsistencies, risks, and competitive disadvantages identified in the previous sections. The following policy recommendations are designed to ensure compatibility and alignment for U.S. companies.

The United States should establish a federally mandated ESG reporting framework led by the SEC. This framework would standardize ESG disclosures for all large publicly traded companies, creating consistency and reducing investor uncertainty. The SEC would require ESG disclosures as part of annual 10-K filings, ensuring that sustainability information is treated with the same importance as financial data.

The framework should align closely with the EU's CSRD to promote global comparability, particularly by adopting double materiality and requiring independent assurance of reported ESG data. Double materiality refers to the sustainability reporting concept where companies disclose information based on financial and impact materiality; independent assurance refers to a third-party reviewing the company's ESG metrics to ensure accuracy. By working with international standards, U.S. firms would avoid duplicative reporting burdens and remain competitive in global markets. However, certain elements should be adapted to the U.S.

regulatory environment specifically to ensure clarity and feasibility for American businesses. For example, Scope 3 emissions reporting would be phased in gradually, with special consideration for industries where supply-chain emissions are material and measurable. In addition, the SEC should provide industry-specific guidance to reflect the unique risks and impacts of different sectors, rather than applying a one-size-fits-all approach. For example, the SEC would require agriculture companies to report on land use and water impacts, or financial institutions to disclose portfolio exposure to carbon-intensive industries.

To ensure comprehensive coverage, the federal ESG framework should mandate reporting across the three pillars: environmental, social, and governance. For environmental disclosures, companies should report not only Scope 1 and 2 emissions but also the most material Scope 3 emissions, energy and water usage, and waste generation, to ensure full transparency. Social metrics should go beyond diversity, equity, and inclusion to include employee health and safety and corporate social responsibility. Governance disclosures should capture board composition and independence, executive compensation linked to sustainability goals, political spending transparency, risk management practices, and anti-corruption measures.

Environmental:

Companies should disclose their full Scope 1, 2, and 3 greenhouse gas emissions, adhering to the Greenhouse Gas Protocol. Additionally, companies must report on energy consumption, detailing the share of renewable versus non-renewable sources. Water usage metrics should cover total withdrawal, consumption, and discharge, with a focus on water-stressed regions. Waste management disclosures must include total waste generated, recycling rates, and disposal

methods. These disclosures must be audited by an independent third party to ensure reliability and comparability.

Social:

Under the EU CSRD, companies are mandated to report on over 30 metrics related to their workforce, as outlined in ESRS S1. This includes:

- Diversity, Equity, and Inclusion: Gender, age, and ethnic diversity ratios across organizational levels.
- Pay Equity: Gender pay gap data, including median and mean pay disparities.
- Labor Practices: Health and safety metrics, such as the number of work-related injuries and incidents, and the implementation of corrective actions.
- Human Rights: Policies and due diligence processes to address human rights impacts, including supply chain assessments.
- Community Engagement: Investments in community development, stakeholder engagement activities, and social impact initiatives.

The United States should employ similar characteristics in this new initiative to promote accountability and transparency.

Governance:

Governance disclosures should provide detailed information on the following key aspects.

Companies should report on board composition, including gender, age, and tenure diversity, as well as the presence of independent directors. Firms must also disclose anti-corruption policies and actions, including the number of reported incidents and any resulting sanctions, along with transparency surrounding political contributions, detailing amounts spent and recipients.

Additionally, companies should outline their processes for identifying and managing ESG-related risks and how these are integrated into the overall risk management analyses.

For the framework to be credible, rigorous oversight and enforcement mechanisms must be implemented. ESG disclosures would be subject to the same regulatory scrutiny as financial filings by the SEC, with penalties for omissions or misrepresentation. Companies would also be required to obtain external assurance on ESG data from third party verifiers, similar to financial audits, to ensure accuracy and credibility. Finally, the SEC should maintain a searchable, centralized database of ESG reports accessible to investors, researchers, and the public. This transparency would discourage greenwashing and reward genuine performance. Similar to the approach taken by the UN Climate Change Secretariat, which published a ‘recognition and accountability framework, such a database would promote accountability by making sustainability commitments publicly verifiable. The UN’s framework ensures that voluntary commitments are documented, tracked, and assessed against clear standards. By providing a centralized platform for ESG disclosures, the SEC could achieve a similar level of accountability, allowing investors and other stakeholders to monitor corporate claims, compare performance, and incentivize meaningful progress toward sustainability goals.

To encourage early adoption and reduce compliance resistance, the federal government should pair mandates with targeted incentives such as tax credits. In this scenario, firms that adopt this mandate before required could receive federal tax credits to offset costs of reporting.

Implementation Considerations

Establishing a federal ESG reporting framework requires coordinated action, phased implementation, and careful resource allocation. Therefore, each federal agency relevant to this cause would have a role in enforcing the mandate. The SEC would be the lead regulatory agency, and would be responsible for drafting detailed reporting rules, creating standardized templates, and maintaining a centralized, searchable database of ESG disclosures. This database would enable investors, researchers, and the public to verify corporate sustainability claims, reduce greenwashing, and promote meaningful progress, similar to the UN Climate Change Secretariat's recognition and accountability framework for non-Party stakeholders. The Treasury would coordinate incentives, such as tax credits or grants, to offset the cost of early adoption and reporting infrastructure. The EPA and Department of Labor would provide technical expertise for environmental and social disclosures, including the verification of Scope 1–3 emissions, water use, waste management, labor standards, and workplace safety metrics.

Despite its clear benefits, ESG standardization has not been widely implemented in the U.S., mostly due to concerns over costs, reporting burdens, and potential competitive disadvantages. Large corporations, for instance, must gather and verify complex supply chain data, requiring new IT systems or third-party auditing services. Smaller companies may lack dedicated sustainability or compliance staff, making extensive ESG reporting resource-intensive. Other stakeholders may resist overly prescriptive rules that fail to reflect sector-specific risks or may argue that mandatory ESG disclosure could disadvantage U.S. firms relative to international competitors if not harmonized with global standards. Addressing these concerns is critical: phased implementation,

industry-specific guidance, and targeted incentives can reduce resistance while ensuring meaningful data collection.

For maximum feasibility and improvements, the SEC should adopt a phased five-year rollout. In the first two years, the SEC would finalize rules, develop reporting templates, establish database infrastructure, and launch pilot programs with large-cap firms that can easily integrate these metrics. Pilot programs would allow the SEC to refine requirements, identify technical challenges, and develop training materials if needed. By year three, mandatory compliance would be introduced for large-cap firms, while mid-cap and small-cap firms would be encouraged to adopt voluntary reporting with simplified templates and access to technical support. Full compliance for mid-cap and small-cap companies would follow by years four and five, ensuring that firms have sufficient time to implement IT systems and train staff. This phased approach makes sure that the time spent implementing this policy is proportional to the resources that each firm may have.

Companies would be required to integrate ESG data collection into existing accounting and reporting systems to avoid duplication. Independent verification of ESG metrics would ensure reliability, with third-party auditors following clear assurance standards, similar to financial audits. Industry-specific guidance would help firms focus on material risks. For example, energy-intensive manufacturers would prioritize emissions and energy efficiency reporting, while financial institutions would emphasize exposure to carbon-intensive assets. Training workshops and government-issued guidance would provide technical assistance, ensuring consistent interpretation of disclosure requirements across sectors. The SEC would also coordinate with the Treasury to link early adoption of ESG reporting to targeted incentives, such as tax credits for implementing energy-efficient reporting systems or investments in emissions reduction initiatives.

By year five, the framework would achieve full integration, including standardized reporting across ESG pillars, comprehensive database functionality, independent assurance, and continuous improvement based on feedback. This timeline balances urgency and practicality of firms to ensure that all companies can transition successfully to a standardized ESG reporting system.

Impact Assessment

The benefits of a standardized ESG reporting framework extend beyond investors and corporations, it offers broad advantages for the U.S. economy and society. Investors gain access to consistent, comparable ESG metrics, improving portfolio decision-making, a minimization in misleading greenwashed claims, protecting them from financial losses. A study conducted by Australian researchers concluded that Corporate Social Responsibility disclosure (which incorporates all ESG metrics) reduces financing costs since cost of debt and cost of equity are negatively impacted by increased CSR (Bhuiyan, Ngyuen).

Businesses gain a uniform framework that reduces confusion and opens up a possibility for more investors, especially those who favor credible ESG statistics. As for the environment and society overall, the standardized reporting accelerates decarbonization and resource saving efforts. By promoting both environmental and social accountability, ESG reporting supports a fair transition to a low-carbon economy that benefits all stakeholders.

The European Union's adoption of the CSRD demonstrates how standardization can deliver these benefits in practice. By mandating consistent and comparable disclosures across member states, the CSRD has reduced investor uncertainty, improved capital allocation, and strengthened accountability for climate commitments. The European Central Bank emphasizes that this framework provides "comparable and relevant information required by investors and other stakeholders," curbing greenwashing and ensuring enforcement mechanisms. GRESB similarly notes that by integrating the CSRD with the EU Taxonomy and Sustainable Finance Disclosure Regulation, European firms now offer transparent, trustworthy information to investors, increasing confidence in sustainability.

In contrast, the United States continues to rely on fragmented and largely voluntary ESG disclosures, varying widely in scope and quality. This lack of standardization undermines investor confidence and makes U.S. firms less competitive in global markets where comparability is the norm. A Kroll survey found that nearly half of financial experts consider the absence of a standardized ESG framework the biggest barrier to effective disclosures, as it prevents accurate risk assessment. Legal analysis reinforces this concern, warning that voluntary reporting "may cause confusion and muddy the investing waters" by leaving investors with unreliable information (Houston Law Review). By adopting a unified ESG framework aligned with international standards, the U.S. could strengthen investor trust, minimize greenwashing, and ensure American firms remain globally competitive.

Conclusion

The challenges posed by fragmented ESG reporting are already harming investor confidence, business competitiveness, and the stability of financial markets. Without a coherent federal framework, U.S. companies risk falling behind international peers, while investors face heightened exposure to greenwashing, data inconsistency, and systemic risk. As global capital increasingly flows toward sustainable investments, the absence of standardized reporting places both American businesses and the broader economy at a disadvantage.

The recommendations outlined in this brief offer a path forward. By mandating SEC-led, standardized ESG disclosures, the U.S. can create a transparent and comparable reporting environment. Along with detailed oversight, phased implementation, and meaningful incentives, this framework would empower investors, clarify compliance for businesses, and ensure that American companies remain globally competitive. Most importantly, it would strengthen the United States' leadership in shaping a sustainable, resilient economy that benefits not only markets, but also communities, workers, and the environment.

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