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BOSTON COLLEGE
CENTER FOR CORPORATE CITIZENSHIP
CARROLL SCHOOL OF MANAGEMENT

ESG Reporting Advisory Board

2024 Bulletin

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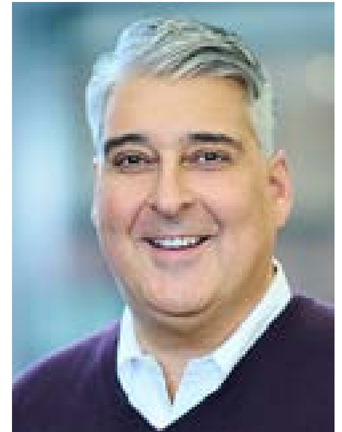
Letter From the Chair



FRANCIS HYATT
Executive Vice President and
Chief Sustainability Officer
Liberty Mutual Insurance

Esteemed Colleagues,

As we move through 2024, environmental, social, and governance (ESG) reporting continues to evolve at an unprecedented pace. In many ways, we are experiencing a sea change. As weather comes upon sailors navigating a course, so do these shifts come upon us while navigating our work. The pessimist complains about the wind. The optimist expects it to change. The realist adjusts the sails. Here is what we encountered this year:

Sea Shifts

Regulatory Evolution and Consolidation of Standards

As global jurisdictions refine ESG disclosure requirements, exemplified by regulations such as the EU's Corporate Sustainability Reporting & Corporate Sustainability Due Diligence Directives (CSRD & CSDDD) and CA 253 and 261, there will be a raise in the bar on many aspects of ESG reporting and therefore ESG performance.

Double Materiality

Thinking about both financial materiality and how company ESG performance impacts stakeholders is now required by several regulations. This will be a practice familiar to longtime GRI reporters and will likely expand conversations about sustainability and natural capital pricing.

Headwinds

Navigating Tensions Between Pro-ESG and Anti-ESG Actors

This polarization poses challenges in achieving consensus and advancing sustainable practices. Companies focused on realizing the tangible benefits of ESG for risk management, brand value, and long-term profitability are impeded by the politicization of these issues.

The continued propagation of new voluntary standards:

The continued initiation of new standards—on top of those developed with decades of global, multi-stakeholder input—slows this process of standardization. There are few things our advisory board agrees upon unanimously. This is one of them.

Tailwinds

Tailwinds, meanwhile, propel us forward.

The Promise of Technological Advancements in ESG Reporting

Generative AI and Blockchain are set to enhance ESG data accuracy, comparability, transparency, and timeliness. Our hope is that, as they mature, these technologies will elevate the credibility and efficiency of ESG reporting.

Increased Focus on Climate Risks and Opportunities

The urgency of addressing climate change is bringing climate-related disclosures to the forefront. Notably, the latest group of ESG reporting regulations (CSRD, CA 253, 261) requires Scope 3 disclosures. None of us is eager for this, whereas all can recognize that what gets managed gets measured.

As we maneuver through these "sea changes," the BCCCC Advisory Board on ESG Reporting is committed to sharing knowledge and insights related to ESG reporting standards and practices. In this briefing we share topics that the board explored this year. We hope this summary will help you navigate the evolving landscape of ESG reporting.

Yours sincerely,

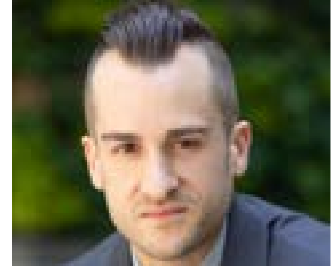
FRANCIS HYATT
Chair, Advisory Board for ESG Reporting
Executive Vice President and Chief Sustainability Officer
Liberty Mutual Insurance

Meet the Contributors

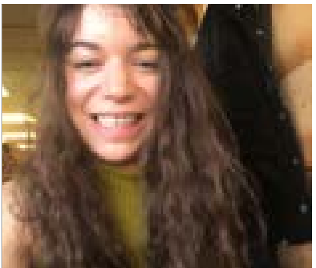
FRANCIS HYATT
EVP, Chief Sustainability Officer
Liberty Mutual Insurance Company

MATT BLAKELY
VP Corporate Social Responsibility and Sustainability
RGA Insurance Company

BARJOUTH AGUILAR
Head of Global Sustainability and Foundation Officer
FLEX LTD.



DANIEL ANTONUCCIO
VP ESG Research & Measurement
Liberty Mutual Insurance Company



ESRA ELSHAFEY
Associate Manager, Global Corporate Citizenship and Philanthropy
Pitney Bowes Inc.

KATIE FLEMING
Director of Sustainability & ESG
Black Hills Energy

LOGAN HUTCHINSON
ESG Reporting and Sustainability Disclosure Lead
ATB Financial

NIKI KING
Vice President, Head of Sustainability
Clorox

JILL MAGRUDER
ESG Senior Advisor
CIGNA

SUZANNE QUIGLEY
Director, Global Corporate Responsibility
QVC Inc.

STEPHANIE REGAN
Director of Corporate Citizenship
AAON

KRISTIN TALARICO
Senior Project Manager, Diversity & Community Development
Erie Insurance

Meet the Contributors

AMY WENDEL
Senior Director, Head of Corporate Responsibility & ESG
GoTo

Not pictured

XIAOYAN ANDERSON
ESG Specialist
The Allstate Corporation

MELANIE CHERNOFF
Director of ESG Reporting & Risk
Workiva

JENNA FELDMAN
Director, Corporate Citizenship
OpenText Corporation

RENEE LEE
Sr. Program Manager, ESG Stakeholder Engagement & Impact

JULIE MILLARD
Vice President, Corporate Citizenship
OpenText Corporation

AFIBA NYAMEKYE
Director, Data & Innovation
ATB Financial

MARIA GARDUNA
Manager—Climate and Sustainability
Black Hills Energy

ALEC HAVEY
Senior Associate, ESG Reporting
Deloitte

THERESA DUGAN
Corporate Responsibility Program Analyst
AAON

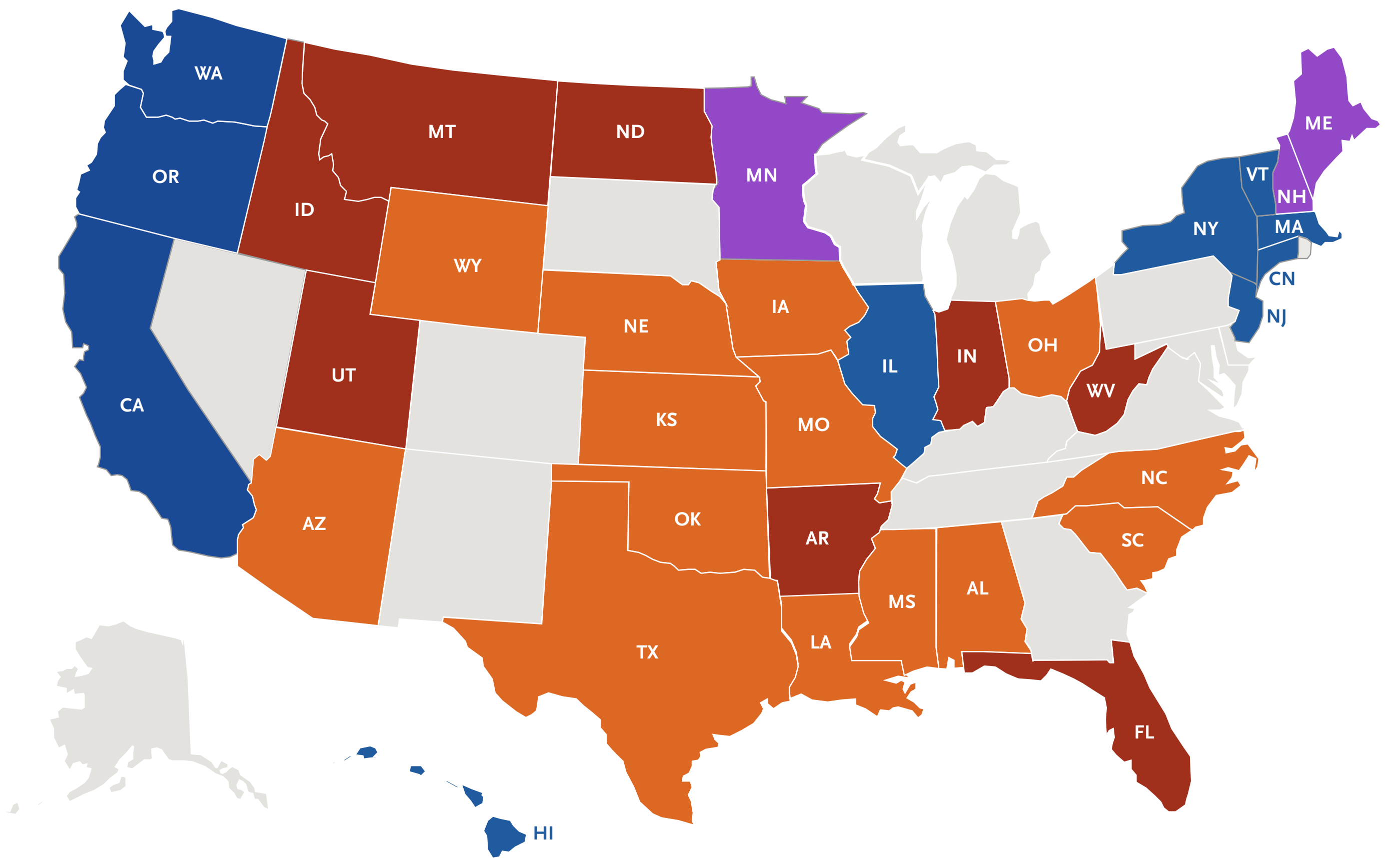
WITT HARLAN
Sustainability Strategy and Reporting Senior Advisor
CIGNA

Political Polarization on ESG Disclosure

In recent years, there has been a significant increase in anti-ESG legislation proposed by various U.S. states. These bills primarily target companies and financial institutions that employ ESG policies in their investment practices. However, many of these proposed laws are facing opposition and challenges on their path to becoming law.[1]

BILLS INTRODUCED EITHER IN SUPPORT OF OR AGAINST INTEGRATING ESG PRINCIPLES INTO INVESTMENT DECISIONS

- 'Blue state' that has considered pro-ESG legislation in 2023
- 'Blue state' that has considered anti-ESG legislation in 2023
- 'Red state' that has considered anti-ESG legislation in 2023
- 'Red state' that has enacted anti-ESG legislation 2023



Source: Harvard Law School Forum on Corporate Governance, State Net

The Rise of Anti-ESG Legislation

According to law firm Ropes & Gray, which tracks the progress of anti-ESG bills, at least 61 such bills have been identified as either introduced by state legislatures but pending in committee or are supposed to carry over from the last legislative session to the 2024 session. The most active states in this regard have been Oklahoma (14 bills), South Carolina (9), Missouri (8), and West Virginia (7). The rapid growth in anti-ESG policies since the start of 2022 leaves little doubt that sustainable investing has become a target in the ongoing U.S. culture wars.

Factors Influencing the Success of Anti-ESG Bills

The success of anti-ESG bills depends on various factors, including the political dynamics in the state, such as which party controls the legislature and the governor's office. In states where Democrats control both houses of the legislature and the governor's office, like New York, anti-ESG bills have little chance of passage. Similarly, in states with divided political power between the legislature and governor's office, such as Arizona and Wisconsin, the likelihood of these polarizing bills getting adopted is low. Even in states with Republican control over both the governor's office and state legislature, like New Hampshire, bills that are too aggressive or go too far are likely to fail.[2]

The Role of Restricted Lists and Anti-Boycott Laws

Apart from legislation, certain states have compiled restricted lists targeting financial institutions that allegedly boycott industries such as fossil fuels and firearms. States such as Kentucky, Oklahoma, Texas, and West Virginia have enacted anti-boycott laws in the last two years, authorizing the state comptroller or treasurer to maintain a list of restricted financial institutions barred from contracting with or doing business with the state. These lists can have dramatic consequences for financial institutions, potentially leading them to change their investment practices or withdraw from global climate coalitions to avoid being placed on a restricted list.

Asset managers have borne the brunt of the anti-ESG crusade. Because of this, firms operating in such states need to move through the complexity of the state, federal, and global regulatory environment, carefully being measured and cautious in communications with government officials in multiple jurisdictions. They must be thoughtful when responding to state inquiries and understand contractual requirements in light of the divergence in state, federal, and international laws related to ESG performance and disclosure.

Although the focus has been on the rise of anti-ESG legislation, some states have introduced bills that seek to insert ESG factors in the decision-making process of state pension funds. The absence of pro-ESG policies in Democratic strongholds such as New York, Vermont, and Washington state does not necessarily mean that fiduciaries in those states are not expected to consider ESG risks.

Some commentators view the anti-ESG movement as being driven by Republican officials considering their presidential ambitions rather than the welfare of their pension funds. The idea of not taking ESG factors into account is seen by many as misguided because these risks have long been considered in investment decision-making. Although the impact of anti-ESG policies is technically limited to business with state entities, there is a concern that such actions will have a wider chilling effect on the market. The fear of being placed on a restricted list can impede the free flow of information necessary for an efficient market.

The battle over ESG in public investments is far from over and may even be just beginning, with pro and opposition forces expected to remain active in 2024, especially given the upcoming U.S. elections. Asset managers and the broader investment community will need to navigate this complex and evolving landscape carefully, balancing the demands of state laws, fiduciary duties, and the growing importance of considering ESG factors in investment decision-making. As the debate continues, it remains to be seen how the anti-ESG movement will ultimately impact sustainable investing and the broader financial markets.

Live From COP

The 28th Conference of the Parties (COP 28) to the United Nations Framework Convention on Climate Change (UNFCCC) held in Dubai, United Arab Emirates, from November 30 to December 13, 2023, marked a significant milestone in the global effort to address the climate crisis. It saw a record-breaking attendance of 85,000 participants, including more than 150 heads of state and government and a couple of members of our Advisory Board for ESG Reporting! COP 28 concluded with crucial decisions and agreements aimed at accelerating climate action across all areas.

The Global Stock-Take

One of the most significant outcomes of COP 28 was the conclusion of the first "global stock-take" under the Paris Agreement. This comprehensive assessment revealed that progress in reducing greenhouse gas emissions, strengthening resilience, and providing financial and technological support to vulnerable nations was insufficient. In response, countries agreed on a decision to accelerate action across all areas by 2030, including a call to speed up the transition from fossil fuels to renewable energy sources in their next round of climate commitments.

Signaling the End of the Fossil Fuel Era

COP 28 closed with an agreement that signaled the "beginning of the end" of the fossil fuel era, laying the groundwork for a swift, just, and equitable transition. For the first time in COP history, the final agreement included language on fossil fuels, clearly indicating the direction of travel in the energy transition. The "global stock-take" recognized the need to cut global greenhouse gas emissions by 43% by 2030, compared to 2019 levels, to limit global warming to 1.5 °C. It also called on the parties to take actions toward tripling renewable energy capacity and doubling energy efficiency improvements by 2030 while accelerating efforts to phase down unabated coal power and phase out inefficient fossil fuel subsidies.

New Funding for Loss and Damage

COP 28 began with a historic agreement on the operationalization of funding arrangements for addressing loss and damage, including a new dedicated fund under the UNFCCC. This landmark decision builds on the progress made at COP 27, where nations agreed to set up a fund to support vulnerable countries and communities already experiencing the adverse impacts of climate change. Commitments to address loss and damage totaled more than USD 600 million by the end of the conference, reflecting global solidarity and a step forward in international climate justice.

Enhancing Global Efforts to Strengthen Resilience

Parties agreed on targets for the Global Goal on Adaptation (GGA) and its framework, identifying where the world needs to be to build resilience against the impacts of a changing climate and assess countries' efforts. The GGA framework covers themes such as water, food, health, ecosystems, infrastructure, poverty eradication, and cultural heritage to provide a future-oriented approach to adaptation planning and strategies at all levels.

Climate finance took center stage at COP 28 with the Green Climate Fund receiving a boost to its second replenishment and new commitments made to the Least Developed Countries Fund, Special Climate Change Fund, and Adaptation Fund. However, the "global stock-take" highlighted that current climate finance flows are far short of the trillions needed to support developing countries in their clean energy transitions, national climate plans, and adaptation efforts.

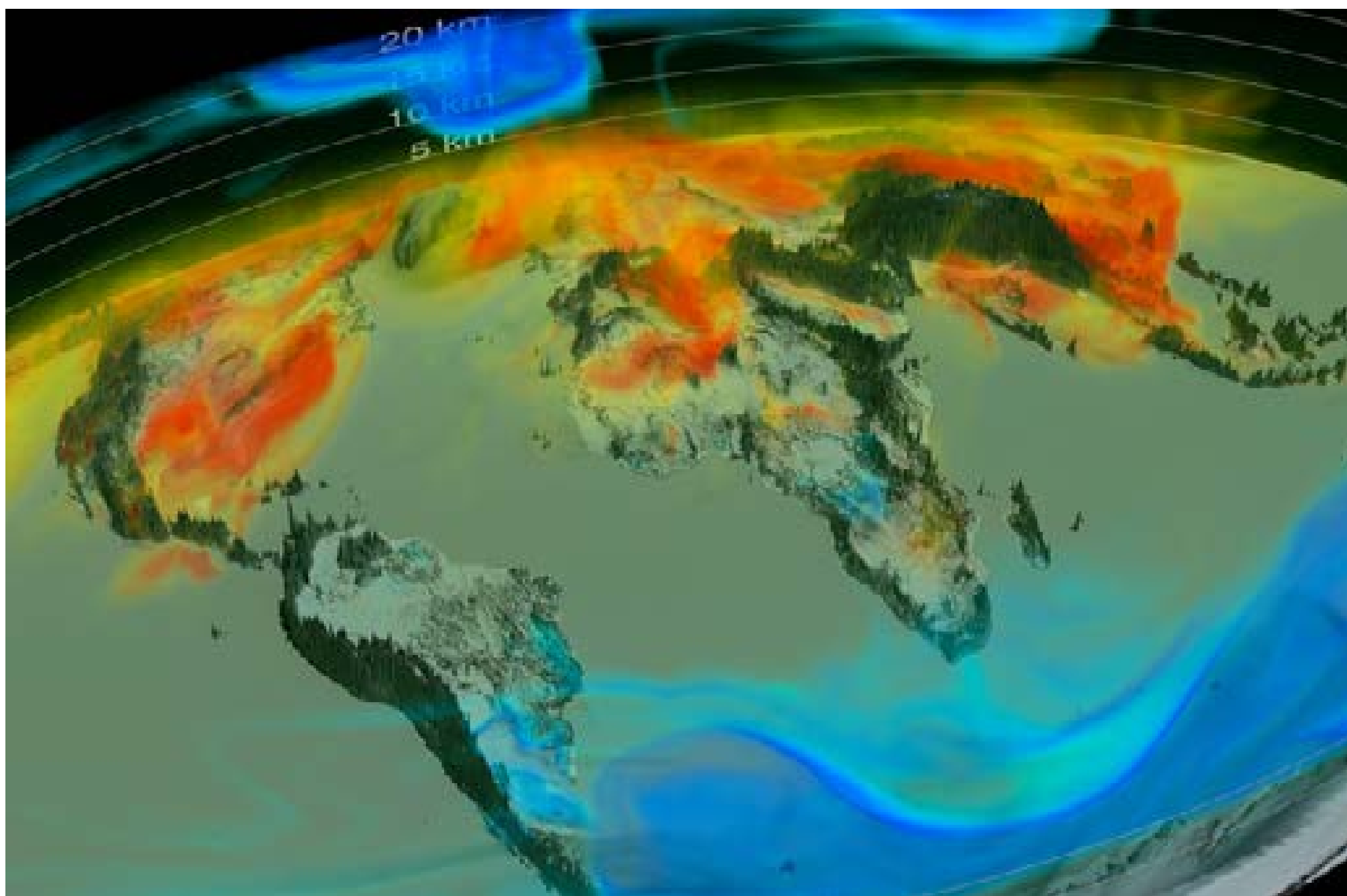
Linking Climate Action With Nature Conservation

COP 28 resulted in unprecedented recognition and momentum for linking efforts to address the climate and biodiversity crises. Governments were called on to consider ecosystems, biodiversity, and carbon stores, such as forests, when developing their stronger national climate action plans. The decision emphasized the importance of conserving, protecting, and restoring nature and ecosystems to achieve the Paris Agreement temperature goal, including a pledge to halt and reverse deforestation and forest degradation by 2030. This is the first time such a pledge has garnered formal recognition under the UNFCCC.

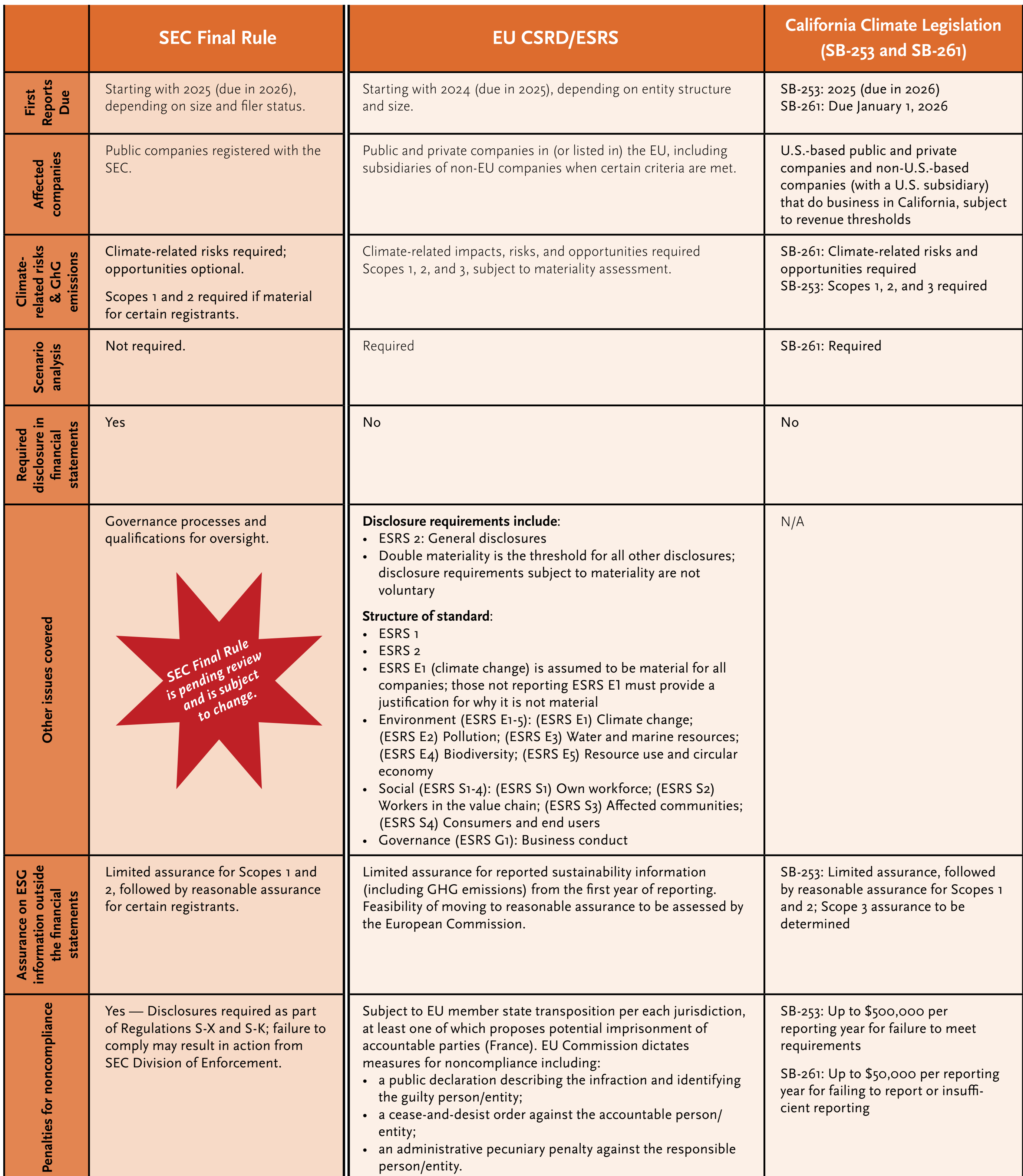
Looking Ahead

The negotiations on the "enhanced transparency framework" at COP 28 laid the groundwork for a new era of implementing the Paris Agreement. As host of COP 29 in 2024, Azerbaijan will play a crucial role in establishing a new climate finance goal that reflects the scale and urgency of the climate challenge. Brazil, as the host of COP 30 in 2025, will be instrumental in ensuring countries come prepared with new nationally determined contributions that are economy-wide, cover all greenhouse gases, and are fully aligned with the 1.5 °C temperature limit.

As the world looks ahead to COP 29 and COP 30, it is clear that the next two years will be critical in shaping the future of our planet. Governments, businesses, and civil society must work together to put the Paris Agreement fully into action, deliver new and ambitious nationally determined contributions, and mobilize the necessary financial resources to support developing countries in their transition to a low-carbon, climate-resilient future.[3]



How do they compare? Emerging regulations...



	SEC Final Rule	EU CSRD/ESRS	California Climate Legislation (SB-253 and SB-261)
First Reports Due	Starting with 2025 (due in 2026), depending on size and filer status.	Starting with 2024 (due in 2025), depending on entity structure and size.	SB-253: 2025 (due in 2026) SB-261: Due January 1, 2026
Affected companies	Public companies registered with the SEC.	Public and private companies in (or listed in) the EU, including subsidiaries of non-EU companies when certain criteria are met.	U.S.-based public and private companies and non-U.S.-based companies (with a U.S. subsidiary) that do business in California, subject to revenue thresholds
Climate-related risks & GhG emissions	Climate-related risks required; opportunities optional. Scopes 1 and 2 required if material for certain registrants.	Climate-related impacts, risks, and opportunities required Scopes 1, 2, and 3, subject to materiality assessment.	SB-261: Climate-related risks and opportunities required SB-253: Scopes 1, 2, and 3 required
Scenario analysis	Not required.	Required	SB-261: Required
Required disclosure in financial statements	Yes	No	No
Other issues covered	Governance processes and qualifications for oversight. *SEC Final Rule is pending review and is subject to change.*	**Disclosure requirements include**: • ESRS 2: General disclosures • Double materiality is the threshold for all other disclosures; disclosure requirements subject to materiality are not voluntary **Structure of standard**: • ESRS 1 • ESRS 2 • ESRS E1 (climate change) is assumed to be material for all companies; those not reporting ESRS E1 must provide a justification for why it is not material • Environment (ESRS E1-5): (ESRS E1) Climate change; (ESRS E2) Pollution; (ESRS E3) Water and marine resources; (ESRS E4) Biodiversity; (ESRS E5) Resource use and circular economy • Social (ESRS S1-4): (ESRS S1) Own workforce; (ESRS S2) Workers in the value chain; (ESRS S3) Affected communities; (ESRS S4) Consumers and end users • Governance (ESRS G1): Business conduct	N/A
Assurance on ESG information outside the financial statements	Limited assurance for Scopes 1 and 2, followed by reasonable assurance for certain registrants.	Limited assurance for reported sustainability information (including GHG emissions) from the first year of reporting. Feasibility of moving to reasonable assurance to be assessed by the European Commission.	SB-253: Limited assurance, followed by reasonable assurance for Scopes 1 and 2; Scope 3 assurance to be determined
Penalties for noncompliance	Yes — Disclosures required as part of Regulations S-X and S-K; failure to comply may result in action from SEC Division of Enforcement.	Subject to EU member state transposition per each jurisdiction, at least one of which proposes potential imprisonment of accountable parties (France). EU Commission dictates measures for noncompliance including: • a public declaration describing the infraction and identifying the guilty person/entity; • a cease-and-desist order against the accountable person/entity; • an administrative pecuniary penalty against the responsible person/entity.	SB-253: Up to $500,000 per reporting year for failure to meet requirements SB-261: Up to $50,000 per reporting year for failing to report or insufficient reporting

Source: Boston College Center for Corporate Citizenship. (2024). ***State of Corporate Citizenship 2024.***

… and Consolidating Standards *As of April 4, 2024*

	GRI [Standard]	IFRS/ISSB [Standard]	GHG Protocol]
Overview	Since 1997, GRI has developed standards on ESG matters that need to be tracked to achieve a sustainable economy through a global multi-stakeholder consultative process. ESRS standards leverage the GRI Standards and are almost fully aligned with GRI.	Investor-focused baseline sustainability data. Doesn't include sector- and industry-specific requirements, but does include sector- and industry-specific guidance based on previous work of SASB.	Multi-stakeholder partnership of business- es, NGOs, governments, and other entities convened by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD) with the mission of developing internationally accepted GHG accounting and reporting standards and tools.
Materiality boundary	GRI Standards use double materiality. • Double materiality looks both at how esg issues affect the ability of the company to meet its goals and also how the company may impact stakeholder wellbeing	Materiality definition focused on financial materiality (e.g., investors, creditors).	Independently determined.
Overlap across jurisdictions and standards	GRI has both required and recommended dis- GRI allows omission of information on recommended disclosures when the information is unavailable or incomplete. • GRI and ESRS require value chain information. • ESRS language on sustainability due diligence and **SEC process documentation and oversight requirements align to GRI Standards**. • GRI 2 General Disclosures, draft **ESRS 2 is designed to align with the GRI Universal Standard and covers the five chapters of GRI 2 General Disclosures**. • GRI reporting will satisfy ESRS S1-S4 as a man- datory disclosure requirement for those under- taking with 250 or more employees. **GRI 300 series reporting substantially aligns with ESRS E1**.	The architecture of ESRS mirrors the IFRS (and TCFD) core areas rubric: Governance; Strategy; Impact/risk/opportunity management; Metrics and Targets. • **IFRS S1: Disclosure requirements that enable companies to communicate sustainability-related risks and opportunities to investors in the short, medium, and long term**. • **IFRS S2: Specific climate-related disclosures designed to be used with IFRS S1**. • IFRS defers to jurisdictional authorities as to whether to mandate use of IFRS S1 and S2. • IFRS supports voluntary adoption of Sustainability Disclosure Standards issued by the ISSB.	Draft ESRS E1 has based calculation guidance of GHG emissions on the GHG Protocol principles, requirements, and guidance provided by the GHG Protocol Corporate Standard (version 2004). • Definitions of Scope 1, 2, and 3 are adapted from the GHG Protocol. • While the GHG Protocol proposes three options for defining the boundaries outside the financially controlled perimeter (equity share, financial control, and operational control), ESRS E1 requires the operational control option in all cases.
Assurance	While the use of external assurance for sustainability reporting is recommended by GRI, it is not required in order to make a claim that a report has been prepared in accordance with the GRI Standards.	Does not address assurance.	External independent assurance recommended..

Below offers additional highlights on alignment between other common frameworks and ESRS.

UN SDGs	OECD Guidelines for Multinational Enterprises	UNPRI	TNFD
Objectives of the Sustainable Development Goals (SDGs) are reflected throughout ESRS and are aligned well with GRI and partially aligned with TCFD and ISSB standards.	OECD Guidelines for Multinational Enterprises ESRS 1 and ESRS 2 are aligned to the greatest extent with the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises, which incorporates the content of the U.N. Guiding Principles on Business and Human Rights (UNGPs). The concept of due diligence outlined in the OECD Guidelines is reflected in ESRS 1, Section 4, Sustainability Due Diligence as well.	U.N. Principles for Responsible Investment (PRI) is an international organization promoting the incorporation of ESG into investment decision-making. There are six principles.	ESRS E4 Biodiversity and ecosystems is structurally compliant with the Taskforce on Nature-related Financial Disclosures (TNFD). ESRS references TNFD extensively. The materiality assessment has been restructured to follow the sequence of the Locate, Evaluate, Assess, and Prepare (LEAP) framework.

Surprise! Corporate Sustainability Due Diligence Directive (CSDDD) Passes

The Corporate Sustainability Due Diligence Directive (CSDDD) was voted into effect on April 24, 2024.[4&5]

1. **Aim:**
   The CSDDD aims to improve corporate governance practices, increase corporate accountability for adverse impacts, and ensure access to remedies for those affected by adverse human rights and environmental impacts of corporate behavior.

2. **Scope:**
   The CSDDD applies to EU companies with 1,000 employees or more and a net worldwide turnover of more than EUR 450 million as well as third-country companies that generate a net turnover of more than EUR 450 million in the EU. In-scope third-country companies must designate an authorized representative in the EU.

3. **Interaction with other legislation:**
   The CSDDD is closely interlinked with the Corporate Sustainability Reporting Directive (CSRD) and the Sustainable Finance Disclosures Regulation (SFDR). The CSRD requires setting up processes related to identifying adverse impacts, while the SFDR requires financial market participants to publish a statement on their due diligence policies.

4. **Due diligence obligations:**
   In-scope companies must integrate risk-based human rights and environmental due diligence into their corporate policies and have a due diligence policy in place. The policy must include a code of conduct, a description of the company's approach to due diligence, and processes to implement due diligence in the company's operations and value chains in order to eliminate plausible deniability of risks and impacts in operations and value chains.

5. **Adverse impacts:**
Companies must identify actual and potential adverse human rights and environmental impacts arising from their own operations, subsidiaries, and value chains. They must take appropriate measures to prevent, mitigate, or end these impacts, prioritizing actions based on the severity and likelihood of the adverse impacts.

ADVICE FROM THE BOARD

Start early and engage often. While the SEC climate rule has been stayed, we must prepare as though it will go into effect following the current time line. This means ESG leaders should be working with their company's controller and the financial reporting, accounting, risk, and internal audit teams right now to develop a gap assessment and road map for rule compliance. Establishing processes and procedures this year will position us all for success whenever (and how much of) the rule goes into effect.

6. **Complaints:**
In-scope companies must have a complaints procedure for stakeholders (including affected persons, trade unions, workers' representatives, and civil society organizations) to raise concerns regarding actual or potential adverse impacts.

7. **Climate transition plans:**
Companies must adopt a climate transition plan aligned with the Paris Agreement and the EU's objective of achieving climate neutrality by 2050. The plan must be updated annually and describe the company's progress toward these targets.

8. **Reporting:**
Companies must report on their due diligence efforts, potential and actual adverse impacts, and actions taken to address them. Companies not covered by the CSRD and NFRD but meeting CSDDD inclusion criteria must publish an annual statement on their websites.

9. **Supervision, sanctions, and civil liability:**
Member states will appoint supervisory authorities to assess compliance, impose pecuniary sanctions for infringements (based on the company's turnover), and establish civil liability for companies that fail to prevent or mitigate adverse impacts.

The CSDDD will come into effect through a staggered approach based on the size and turnover of the companies involved. Here's a more detailed breakdown of the time line:

1. **Publication and entry into force:**
   The CSDDD is expected to be published in the EU Official Journal in the coming weeks and will enter into force 20 days after its publication.

2. **Transposition into national law:**
   Member states will have two years from the entry into force of the directive to transpose its provisions into their respective national legal systems. This means each EU country will need to adopt its own laws, regulations, and administrative provisions to comply with the CSDDD.

3. **Application to larger companies:**
   a. Three years after the entry into force of the directive, it will start to apply to:
      - EU companies with more than 5,000 employees on average and a net worldwide turnover of more than EUR 1.5 billion.
      - Third-country companies with a net EU turnover of more than EUR 1.5 billion.

   b. Four years after the entry into force of the directive, it will apply to:
      - EU companies with more than 3,000 employees on average and a net worldwide turnover of more than EUR 900 million.
      - Third-country companies with a net EU turnover of more than EUR 900 million.

   c. Five years after the entry into force of the directive, it will apply to:
      - All other in-scope companies that meet the thresholds mentioned in point 2 of the previous summary (i.e., EU companies with 1,000 employees or more and a net worldwide turnover of more than EUR 450 million and third-country companies that generate a net turnover of more than EUR 450 million in the EU).

4. **Reporting and compliance:**
   Once the directive applies to a company, it must comply with the due diligence obligations, establish complaint mechanisms, adopt climate transition plans, and report on its actions as required by the CSDDD.

It is important to note that the exact time line may vary slightly depending on when the directive is officially published and enters into force. Companies should closely monitor the progress of the CSDDD and start preparing for compliance well in advance of the applicable deadlines.

ADVICE FROM THE BOARD

Start engaging your accounting and finance teams now. ESG reporting is slowly, but surely, moving toward a financial reporting model. As an ESG professional, you may not have the understanding of controls and data validation that your accounting partners will have. And they'll need to learn about ESG from you.

Ensure you have a means of governance and accountability. How are you engaging all your leaders that contribute to ESG topics? Consider an ESG Advisory Committee or something similar to ensure you have the relevant voices contributing to your ESG strategy, goals, and, ultimately, reporting.

Are other ESG reporters preparing for new disclosure regulations (e.g., CA, EU, SEC)?

I would recommend ESG reporters to stay informed about upcoming disclosure regulations by staying on top of reading, research, and talking to industry peers. It's crucial to proactively assess the potential impact of these regulations on your reporting practices and seek guidance from legal and compliance experts to ensure timely compliance and alignment with the evolving disclosure requirements. The more we are working with each other the better."

SBTI—What's Next

The Science Based Targets initiative (SBTi) is a collaborative effort between CDP, the United Nations Global Compact, World Resources Institute (WRI), and the World Wide Fund for Nature (WWF). It provides companies with a clearly defined path to reduce greenhouse gas (GHG) emissions in line with the Paris Agreement goals. Here's what companies need to know about SBTi:

PURPOSE

SBTi helps companies set emission reduction targets that align with the level of decarbonization required to keep global temperature increase well below 2° C compared to preindustrial levels.

CRITERIA

Targets adopted by companies to reduce GHG emissions are considered "science-based" if they are in line with what the latest climate science says is necessary to meet the goals of the Paris Agreement.

VALIDATION

Companies submit their targets to SBTi for validation. The initiative reviews the targets to ensure they are consistent with its criteria.

SCOPE

SBTi covers Scopes 1, 2, and 3 emissions. Scope 1 covers direct emissions from owned or controlled sources. Scope 2 covers indirect emissions from the generation of purchased energy. Scope 3 includes all other indirect emissions that occur in a company's value chain.

TIMEFRAME

The targets must cover a minimum of five years and a maximum of 15 years from the date the target is submitted to the SBTi for validation.

REPORTING

Companies with approved targets must disclose their company-wide GHG emissions and progress against their targets on an annual basis.

BENEFITS

Setting and reporting on science-based targets can help companies strengthen investor and stakeholder confidence in sustainability efforts and reporting.

CONTROVERSIES

Up until now, the SBTi has required companies to show they can meet these targets through reducing their emissions from their own operations and value chains. There is very limited scope for offsetting under existing guidelines.

However, the SBTi's board of trustees announced in April 2024 that it plans to revise its flagship Corporate Net-Zero Standard to allow companies to use "environmental attribute certificates," which include carbon offsetting schemes, to abate a greater share of their Scope 3 emissions. There has been a question of due process related to consultation with scientific staff and advisors.[6]

When founded in 2014, the SBTi had the initial goal of getting 100 companies to commit to setting greenhouse gas emissions reductions targets in line with science. There are currently 6,876 companies acting, with 4,023 of them having validated their science-based targets.

ADVICE FROM THE BOARD

Identifying your stakeholders is paramount. Internally, this encompasses employees, managers, executives, and shareholders. Building a road map of who, what, where, when, why, and how for roles and responsibilities in your organization's sustainability journey is a great way to initiate this and make it visual and concrete.

The Importance of Bringing Colleagues Along

Engaging internal stakeholders is essential to the success of any sustainability initiative. ESG reporting encompasses a wide swath of business competencies and often requires transparency that stretches the limit of what feels comfortable. It is therefore paramount that stakeholders are engaged, feel heard, and truly understand the 'why' behind the measurement strategy. Immersing senior leadership early and often has been crucial to our continued success in the ESG space.

Having a group of senior management from across the organization who are accountable for the progress of ESG performance and enterprise integration is an effective way to build buy in starting at the 'top of the house.' Clear articulation of ESG priorities within and across teams will build transparency, clarity and accountability.

Connect your sustainability goals back to your organization's purpose and mission. If your internal stakeholders can see how ESG connects into their day-to-day work, they'll be more engaged and willing to be part of the conversation.

Start engaging your accounting and finance teams now. ESG reporting is slowly, but surely, moving toward a financial reporting model. As an ESG professional, you may not understand controls and data validation that your accounting partners will have. And they'll need to learn about ESG from you.

Ensure you have a means of governance and accountability. How are you engaging all your leaders who contribute to ESG topics? Consider an ESG Advisory Committee or something similar to ensure you have the relevant voices contributing to your ESG strategy, goals, and, ultimately, reporting.

Taskforce on Nature-Related Financial Disclosures (TNFD) — The New Kid on the Block

What Is TNFD?

The Taskforce on Nature-Related Financial Disclosures (TNFD) has developed a set of disclosure recommendations and guidance that encourage and enable businesses to assess, report, and act on their nature-related dependencies, impacts, risks, and opportunities. Here's why it matters:

1. **Nature-Related Dependencies:** Businesses rely on natural resources and ecosystems for their operations. Understanding these dependencies helps them manage risks and make informed decisions.

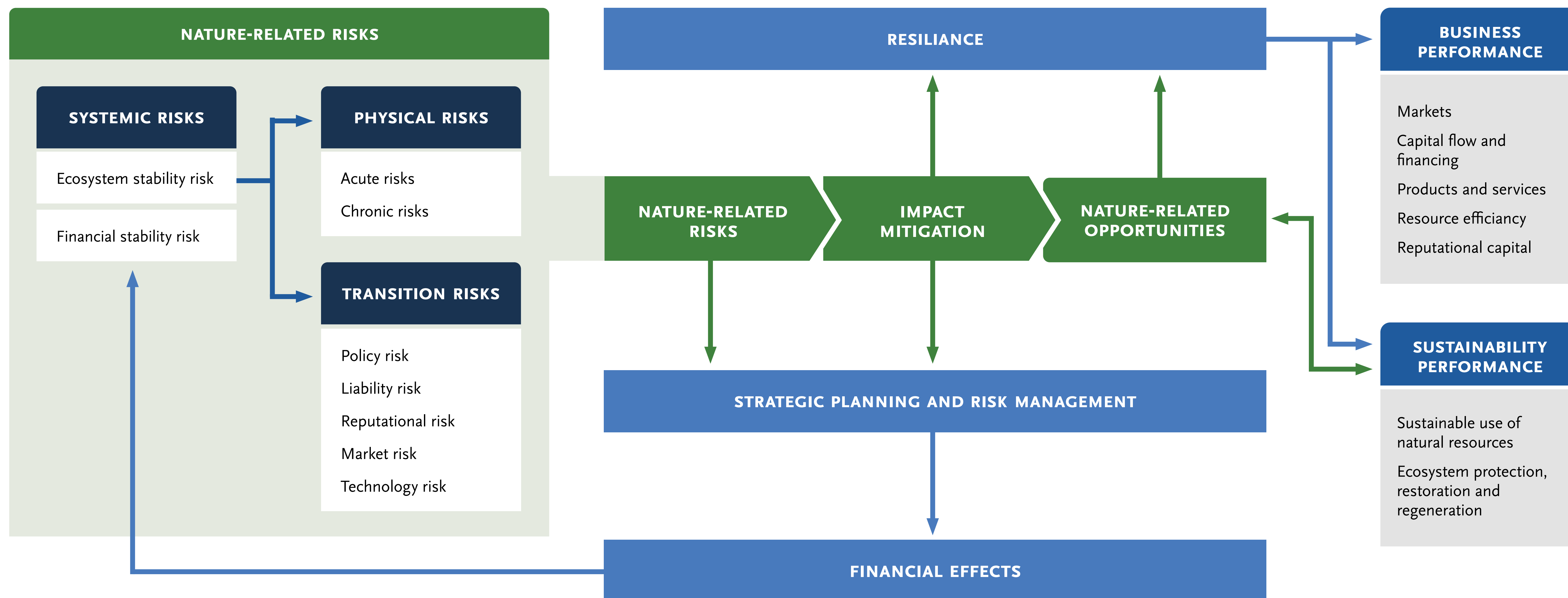
2. **Impacts and Risks:** Nature-related risks, such as climate change, biodiversity loss, and water scarcity, can affect business operations, supply chains, and financial stability. TNFD provides a framework to assess and disclose these risks.

3. **Integration Into Decision-Making:** TNFD aims to integrate nature into decision-making processes. By considering nature-related factors, businesses can create more sustainable strategies.

4. **Global Biodiversity Framework:** TNFD aligns with the Global Biodiversity Framework, which sets goals and targets for biodiversity conservation. It encourages a shift toward nature-positive outcomes.

5. **Capital Providers and Stakeholders:** The recommendations provide decision-useful information to capital providers (investors, lenders) and other stakeholders. Transparency about nature-related risks enhances trust and accountability.

What Are Nature-related Risks?



Note. This figure illustrates the relationship of nature related risk to business risk.

Source: Taskforce on Nature-related Financial Disclosure September 2023. *Recommendations of the Taskforce on Nature-Related Financial Disclosures.* https://tnfd.global/wp-content/uploads/2023/08/Recommendations_of_the_Taskforce_on_Nature-related_Financial_Disclosures_September_2023.pdf

Physical Nature-Related Risks:

Acute Risks: These are sudden events that directly impact a firm's operations (e.g., oil spills, forest fires, crop yield affected by pests).

Chronic Risks: These are gradual changes that accumulate over time. For instance, a gradual decline in pollinators (such as bees) can lead to reduced crop yields, affecting agricultural businesses.[7]

ADVICE FROM THE BOARD

We should not necessarily be talking about a 'shift,' but rather recognizing the links between climate and nature, lessons learned from climate reporting, and the trade-offs between climate, nature, and people. In nature-related reporting, we are following a similar path as in climate, but there are important considerations concerning the practicality, usefulness, and potential applicability of some aspects of existing reporting frameworks, specifically in terms of their relevance for financial institutions. It would be beneficial to take a step back and ponder what the purpose of the available frameworks and tools are for nature and then determine which ones can be used to understand risk but also take advantage of opportunities in the nature space.

Transition Risks and Opportunities:

Regulations: Efforts to mitigate nature loss may lead to new regulations. For example, a country might tightly regulate commercial activity to protect the local ecosystem, resulting in additional compliance costs or constraints on operation for businesses.

Costs and Benefits: Transition opportunities arise from efforts to address nature-related risks. Businesses that adapt early can benefit, while those slow to act may face increased costs.8

Dependency Risks:

Changes in the stock and condition of natural capital (such as forests, water, and biodiversity) can impact the goods and services upon which the economy relies. These dependencies affect operational costs, reputation, and profitability for companies.[9]

Biodiversity Loss:

Biodiversity loss can lead to ecosystem collapse, species extinction, increased transmission of zoonotic disease to humans, and threatened food security and loss of medicinal resources. Many scientists believe we are in the midst of our sixth mass extinction and note that while humans are the only species capable of disrupting the entire planet's biosphere, it is also the only one resourceful enough to prevent further rapid declines in biological diversity.[10]

ESG Ratings and Rankings

In today's rapidly evolving business landscape, ESG ratings and rankings have proliferated. As investors, consumers, and stakeholders place greater emphasis on ESG performance, it is tempting to turn to an expert rater to assess whether a company meets expectations on specific ESG criteria.

The fragmented nature of the ESG ratings landscape is evident in the different categories of ratings, each with its own methodologies and coverage. Self-reported data from sources such as CDP rely on voluntary disclosures from companies, while professional ESG opinions from MSCI, Sustainalytics, and others may be derived from sources including, but not limited to, voluntary disclosure, regulatory compliance, and information made public from legal proceedings. Natural language processing (NLP) companies analyze sentiment and unstructured data to gauge ESG performance, while consensus opinions aim to build consensus among diverse perspectives. What they tend to share in common is a lack of transparency about their proprietary methodologies for arriving at their ratings or rankings of companies.

Companies may themselves use ESG ratings data in various ways to inform their strategies and engage with stakeholders. Benchmarking against peers allows firms to identify areas of strength, weakness, leadership, and lagging, enabling them to coordinate with investor relations and attract additional investors. In some industries, supply chain analysis has evolved from traditional models of requesting supplier ESG data to leveraging pre-rated supplier data, streamlining the evaluation process and ensuring compliance with evolving regulatory requirements.

The reality confronted by companies is that there is substantial difference not only in methodologies across raters and rankers but also in the definitions of ESG characteristics, attributes, and performance standards. Differences in definitions and rating criteria can lead raters and rankers to have opposite opinions on the same evaluated companies. Multiple studies find that agreement across those providers is very low. [11]

As the ESG reporting and sustainability performance regulations start to drive greater quantitative ESG reporting, it may be that some ratings and rankings will start to converge. Studies suggest that the more quantitative the ESG disclosure, the

Correlations between ESG Ratings

	KL SA	KL VI	KL RS	KL A4	KL MS	SA VI	SA RS	SA A4	SA MS	VI RS	VI A4	VI MS	RS A4	RS MS	A4 MS	Average
ESG	0.53	0.49	0.44	0.42	0.53	0.71	0.67	0.67	0.46	0.70	0.69	0.42	0.62	0.38	0.38	**0.54**
E	0.59	0.55	0.54	0.54	0.37	0.68	0.66	0.64	0.37	0.74	0.66	0.35	0.70	0.29	0.23	**0.53**
S	0.31	0.33	0.21	0.22	0.41	0.58	0.55	0.55	0.27	0.68	0.66	0.28	0.65	0.26	0.27	**0.42**
G	0.02	0.01	-0.01	-0.05	0.16	0.54	0.51	0.49	0.16	0.76	0.76	0.14	0.79	0.11	0.07	**0.30**

Notes. KL, SA, VI, RS, A4 MS are short for KLD, Sustainalytics, Vigeo Euris, RobecoSAM, Asset4, MSCI

Source: Koelbel, J. F., & Rigobon, R. (2022). Aggregate confusion: The divergence of ESG ratings. Review of Finance, 26(6), 1315–1344. https://doi.org/10.1093/rof/rfac033

lower the rating disagreement.[12] Companies must strategically navigate this space to leverage the insights provided by selected ESG ratings and rankings.

As the ESG landscape continues to evolve, companies that proactively engage with ratings and rankings, leverage data-driven insights, and adapt to changing expectations will be well-positioned to demonstrate their commitment to sustainability, attract investors, and build trust with stakeholders.

The Punchlist

Whether you have a little time in your schedule and a little money in your budget for ESG reporting or a lot of each, there is something you can be doing today to make progress toward your ESG reporting goals. Here are recommendations from Advisory Board Members about things you can get started on today. Bolder and larger font indicates those actions prioritized by greater numbers of advisory board members.

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140 Commonwealth Ave., Chestnut Hill, MA 02467 | **T:** 617 552 4545 **F:** 617 552 8499 **E:** ccc@bc.edu