

A close-up photograph of a succulent plant with thick, rounded, green leaves arranged in a spiral pattern. The lighting is dramatic, highlighting the texture and color of the leaves against a dark background.

Sustainability Reporting – New era

October 2024

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Sustainability ... it's complicated!



State of the world..

\$4t of annual clean energy investment worldwide needed by 2030, to reach net-zero emissions by 2050.

Under nearly all scenarios from the Intergovernmental Panel on Climate Change (IPCC), the 1.5°C threshold will be crossed in the early 2030s.

28% of predicted greenhouse gas emissions still must fall by 2030 for the Paris Agreement 2°C pathway and 42% for the 1.5°C pathway.

Change is moving fast.

Climate change is already impacting communities, businesses, and our ecosystem.

Drivers



Key challenges faced by organisations and boards in the sustainability space



Sustainability strategy or corporate strategy?

How do we address evolving stakeholder expectations?

Complying or staying ahead of regulations and making progress toward sustainability AND business goals can be challenging.



How do we continue to fund Sustainability initiatives?

Businesses can have sustainability integrated into the overall strategy and still find themselves with unclear ROIs and unfinanced projects.

Strategy has to drive stakeholder engagement and value.



How do we communicate progress without greenwashing?

How the company tells its value creation story?

Greenwashing, cherry-picking and greenhushing are real reputational risks that carry short term financial and legal consequences.



How do we go farther faster?

Single projects and organisations working in isolation will not solve complex systemic problems and create the necessary conditions for businesses to thrive in the next 50 years.

What investors want the board and companies to prioritise in 2024?

Investors believe workforce retention and development plus climate-related business transformation are critically important to long-term resilience.



Source: analysis by EY Center for Board Matters. Percentages represent the number of investors who selected the topic as a top-three priority.

Balancing near-term demands with long-term priorities

Directors and governance specialists from institutional investors have different views on priority topics.



- While climate change and environmental stewardship ranked lowest among directors, it is a topic most investors want companies to prioritise.
- Boards should understand that even if climate change ranks low on their list of priorities, that may not be the case for their shareholders.

Sustainability matters for the board



There are some challenges to address when developing and implementing sustainability strategy

1

Greenwashing

- False claims on sustainability goals (overpromise or underdeliver)

2

Dynamic change of regulations

- Lack of agility to regulatory changes
- Different regulatory compliance required for international operations

3

Lack of comparable data, metrics and taxonomy

- Inconsistency of data and comparable metrics (multitude of standards, certifications)
- Lack of common taxonomy

4

Price tag of climate change

- Calculating retrofit/refurb costs
- KPIs of new tech/overinvestment
- Lack of clear guidance related to valuation of long-term climate-resilience
- Reassessing of financing conditions and insurance for green buildings



Global Sustainability Reporting Trends

Key Sustainability Reporting Regulations



Corporate Sustainability Reporting Directive (CSRD)

Corporate Sustainability Due Diligence Directive (CS3D)



International Sustainability Standards Board



Task Force on Climate-related Financial Disclosures (TCFD)

Financial Conduct Authority Listing Rules

Climate-related Financial Disclosure Regulations 2022



US Securities and Exchange Commission (US SEC)

Understanding the Corporate Sustainability Reporting Directive (CSRD)

- 1 CSRD is a significant disruption to corporate reporting in the EU, impacting around 49,000 companies
- 2 Companies must publicly disclose detailed information about business models, strategy, and supply chains
- 3 Implementation is phased over four years, with first reports due in 2025 for 2024 data, subject to limited assurance initially, and reasonable assurance gradually
- 4 Boards and audit committees are on a learning curve to ensure compliance and to capitalize on sustainability reporting



ESRS and double materiality assessment overview

CSRD requires companies in scope to report in line with the disclosure requirements of the European Sustainability Reporting Standards (ESRS). Applicable disclosure requirements, and their corresponding ESG topics, are determined based on the double materiality assessment.

CSRD Reporting Framework

European Sustainability Reporting Standards (ESRS)

The associated European Sustainability Reporting Standards (ESRS) are a framework developed by the European Financial Reporting Advisory Group (EFRAG) which defines how sustainability reporting should be conducted.

Already published

A. Cross-cutting standards (Mandatory for Reporting)

ESRS 1

General requirements

ESRS 2

General disclosures

B. Sector-agnostic standards (Dependent on Materiality for the Company)

Environment

Social

Governance

ESRS E1

Climate change

ESRS S1

Own workforce

ESRS G1

Business conduct

ESRS E2

Pollution

ESRS S2

Workers in the value chain

ESRS E3

Water and marine resources

ESRS S3

Affected communities

ESRS E4

Biodiversity and ecosystems

ESRS S4

Consumers and end users

ESRS E5

Resource use and circular economy

Future Developments

Sector-specific standards
(coming later)

SME standards
(available in draft)

Third-country company
standards
(coming later)

Double Materiality Assessment

Double materiality considers materiality in two dimensions: **Impact materiality** and financial **materiality**.

Actual or potential, positive or negative **impacts on people or the environment** over the short, medium and long term.

(outward perspective)



ESG risk or opportunities that trigger or may trigger material **financial effects on the company**.

(inward perspective)

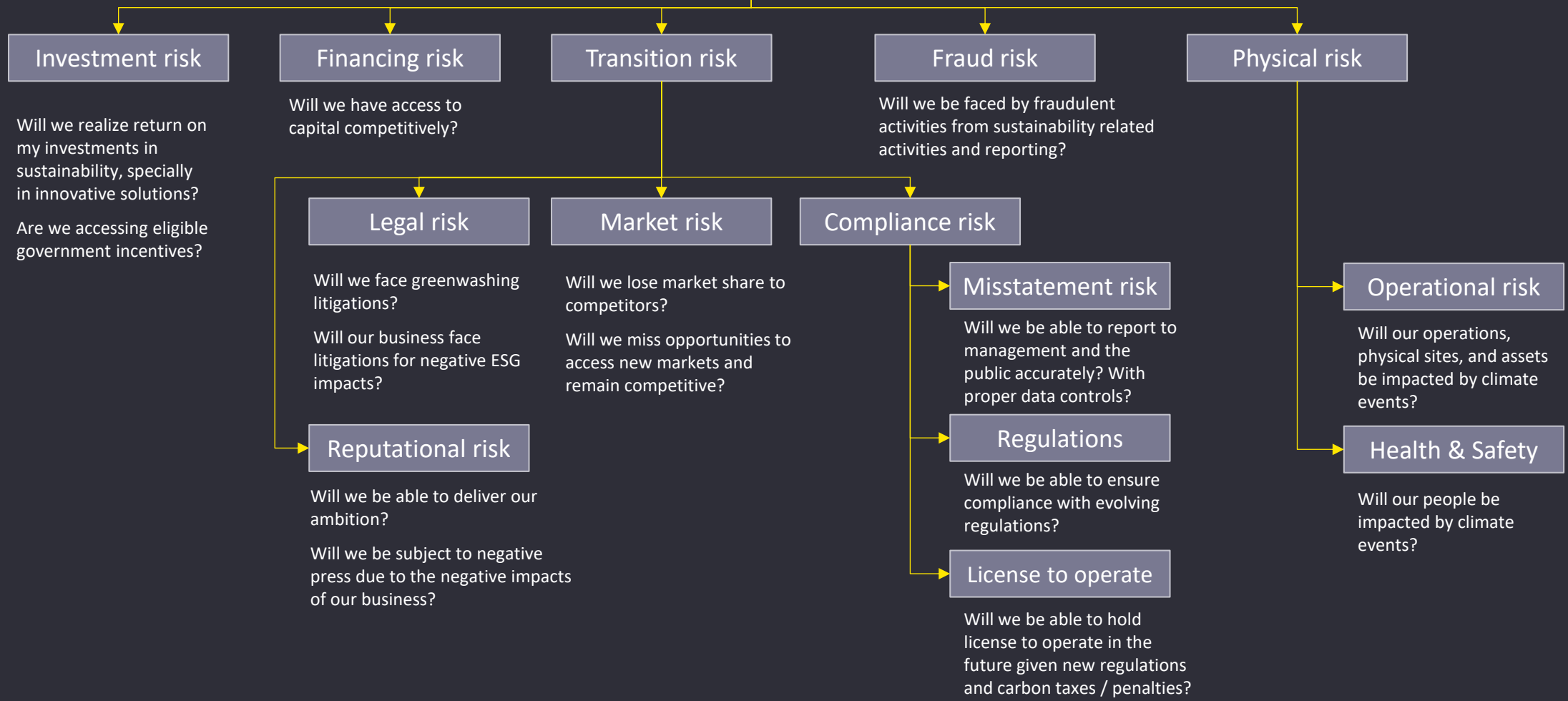
The double materiality assessment methodology is guided by EFRAG



- ▶ **Step 1:** Understanding the business context
- ▶ **Step 2:** Identification of impacts, risks and opportunities (IROs) related to sustainability matters
- ▶ **Step 3:** Assessment and determination of material IROs related to sustainability matters
- ▶ **Step 4:** Reporting

Managing Sustainability related risks across the business

Key Sustainability-related and financial risks*



Where might future litigation come from? How do you mitigate the risk?

Sustainability litigation participants

Who are they?	What can they do?
Individual, and groups of claimants (e.g., consumers)	Bring proceedings against companies, financial institutions and/or governments
Non-governmental organizations and pressure groups	Publicise sustainability issues and may participate directly as claimants or interested parties in litigation
Claimant law firms	Represent claimants, and may take the lead in seeking and organising
Litigation funders	Fund litigation seeking monetary compensation, in return for a share of the damages or other return
Companies	Defendants, and sometimes claimants, in sustainability litigation
Financial institutions	Typically, defendants in sustainability litigation
Governments	Defendants, and sometimes claimants, in sustainability litigation
Trade associations and industry groups	Typically, claimants or interested parties in sustainability litigation (particularly judicial reviews)

What do they want?

- ▶ Private law claims seeking damages
- ▶ Private/public law claims seeking to change companies' (or states') behavior and/or bring about alternative outcomes
- ▶ Public law claims
- ▶ Unsuccessful litigation can still have material consequences

Examples of how to mitigate the legal risks

- ▶ Refine claims through an iterative approach
- ▶ Engage with stakeholders and investors
- ▶ Make appropriate legal disclaimers
- ▶ Review and verify the representations: consider where challenge can come from (claims often focus on the degree of control stated to be exercised over another party)
- ▶ Set-up appropriate subsidiary governance (to monitor, report and exercise control)
- ▶ Seek contractual protections in your value chain
- ▶ Assess your value chain

How should companies get ready for sustainability reporting?



Governance and oversight

- Boards are essential in overseeing the compliance with CSRD, linking sustainability reporting to business model transformation, and aligning corporate strategy with sustainability goals.
- Audit committees now have enhanced responsibilities for monitoring sustainability reporting processes, ensuring the integrity of the information provided, and overseeing external assurance.
- Forward-looking boards use sustainability reporting as a framework for setting targets, measuring performance, managing risks, and building stakeholder relationships.



Strategy alignment and risk management

- Sustainability is seen as a strategic imperative that supports long-term value creation and effective risk management.
- The CSRD offers opportunities for companies to improve operational efficiency, innovation, and stakeholder trust, while also presenting new transparency-related risks.
- Boards must substantiate their sustainability targets and manage the performance of sustainability KPIs.



Establish ESG Reporting structure

- Companies face challenges with gap analyses, double materiality assessments, data collection, metric interpretation, interoperability with the ISSB, external assurance, and change management.
- Audit committees play a critical role in ensuring transparent reporting that aligns with the company's business strategy.



Stakeholder engagement

- Sustainability reporting provides an opportunity for boards to engage with investors and other stakeholders, narrate the company's sustainability journey, and understand stakeholders' information needs.

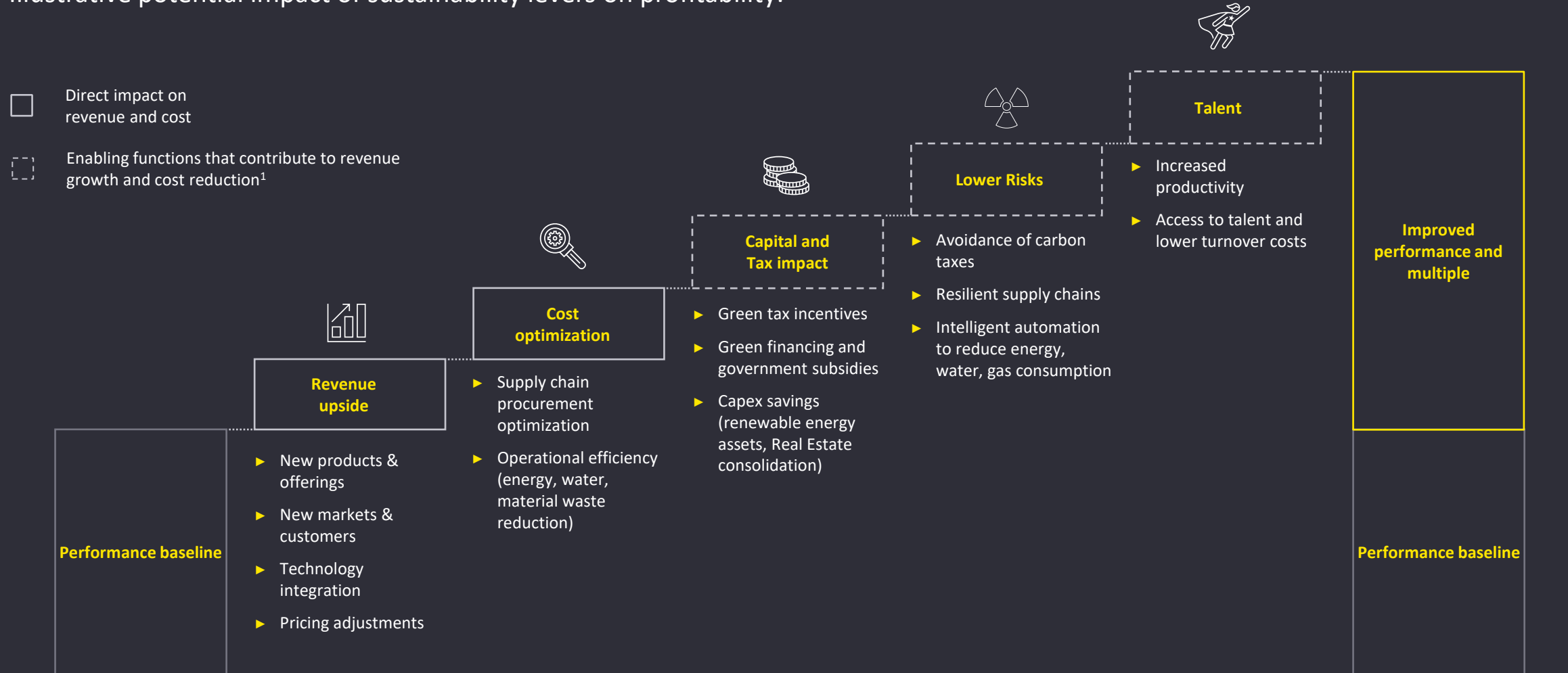


Training and competence

- Boards must enhance their knowledge and skills in sustainability and reporting, potentially revising their composition to address any skills gaps.

Sustainability should be about value creation — not only regulatory compliance

Illustrative potential impact of sustainability levers on profitability:



Reframing sustainability from compliance and reporting to value driver

From sustainability and value creation historically treated as “two different worlds”

Sustainability focuses on reporting and partnering:

- Track regulation.
- Adhere to certifications.
- Engage capital providers.



Value creation focuses on generating value for stakeholders:

- Improve revenue.
- Optimize costs.
- Increase brand equity.
- Enhance relationships.

To a business-led sustainability strategy focusing on value creation

Reframed goal

“How do we use sustainability as a lever to amplify both short- and long-term value creation and accelerate the transition to our future-state business?”

Value creation approach to sustainability



- Sustainability is treated as value driver rather than cost center.
- Reporting and partnering are the means rather than the end.
- Commercial and risk goals are aligned.

Reframed approach

Thank you !



Derarca Dennis

Head of Sustainability at EY Ireland
Partner

Climate Change and Sustainability Services

derarca.dennis@ie.ey.com

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