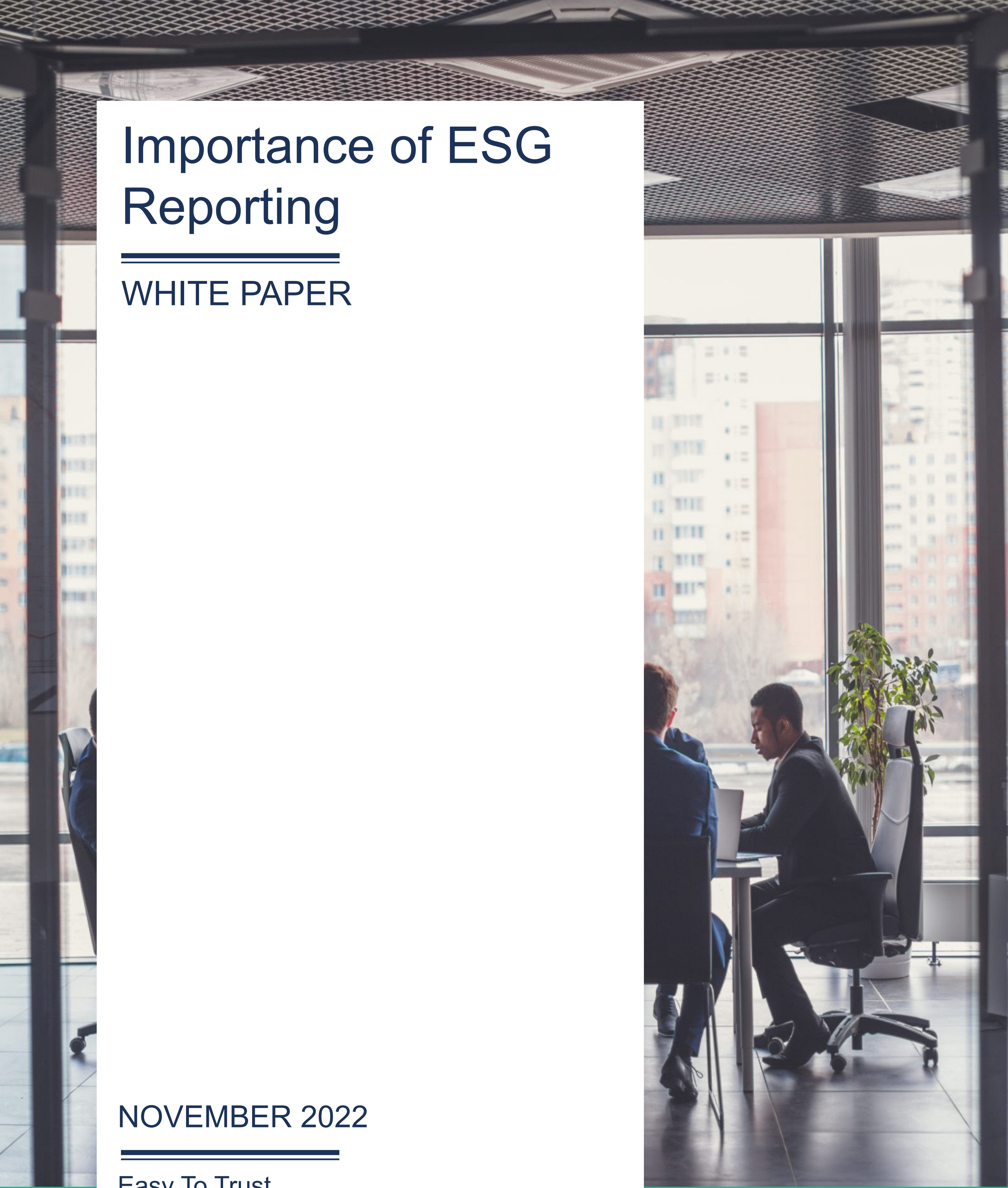

Importance of ESG Reporting

WHITE PAPER

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Easy To Trust

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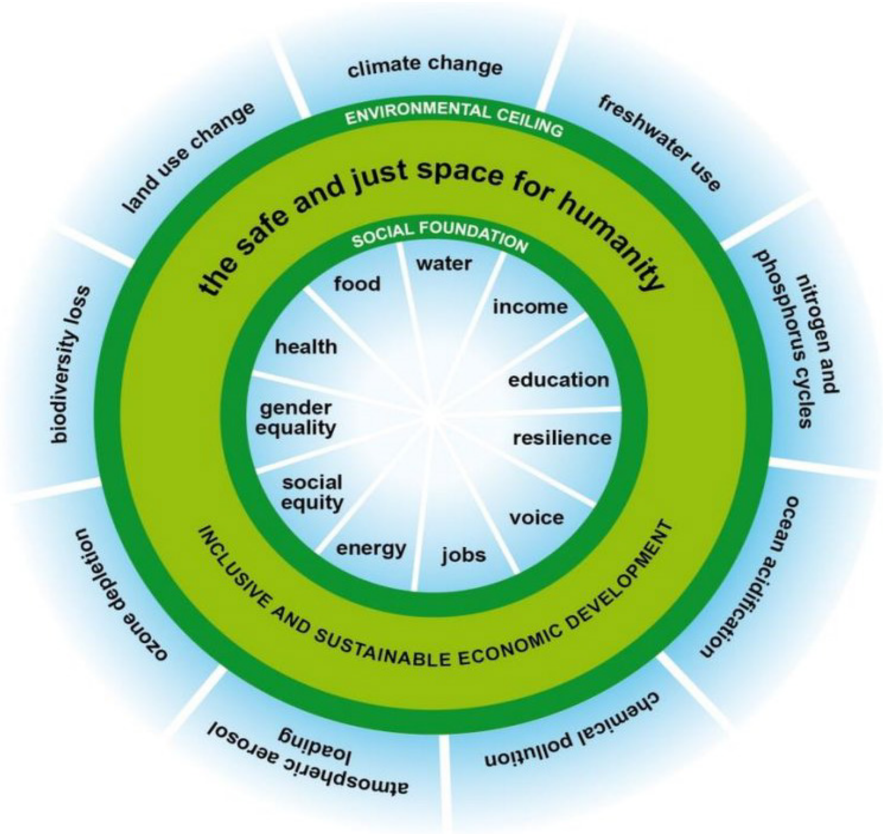
1 Sustainability in Today's World

Sustainability is the capacity to exist and advance without consuming current or future natural resources. In the Brundtland Report (1987), the United Nations defined sustainable development as growth that meets the needs of the present without compromising the ability of future generations to meet their own needs. It works under the premise that resources are limited and should be used sparingly and wisely to preserve enough for current and future generations without compromising the quality of life. A sustainable society must prioritize social responsibility, environmental conservation, and a dynamic equilibrium between natural and human systems.

Sustainable business practices take into account how a company operates in its environmental, social, and economic contexts to create long-term value. The idea behind sustainability is that putting these measures in place encourages firm longevity. As expectations for corporate responsibility rise and transparency becomes more common, businesses are becoming more aware of the need to act on sustainability.

A worldwide emergency that transcends national boundaries is climate change. It is a problem that calls for global collaboration and coordinated responses at every level. At the UN Climate Change Conference (COP21) in Paris, leaders from around the world made a significant advancement on December 12th, 2015: the historic Paris Agreement. It is a legally binding international treaty and not an environmental, social, or governance (ESG) metric. The Paris Agreement offers a robust framework that will direct the international effort for many years to come. It ushers in a change towards a world with zero emissions. Implementation of the agreement is also essential for the achievement of the Sustainable Development Goals (SDGs). To keep the increase in global temperature to 2 degrees Celsius while pursuing measures to keep it at 1.5 degrees Celsius, the agreement's goals are to significantly cut global greenhouse gas emissions. The other goals of the agreement are to review countries' commitments every five years and provide financing to developing nations so they can fight climate change, build resilience, and improve their capacity to cope with its effects.

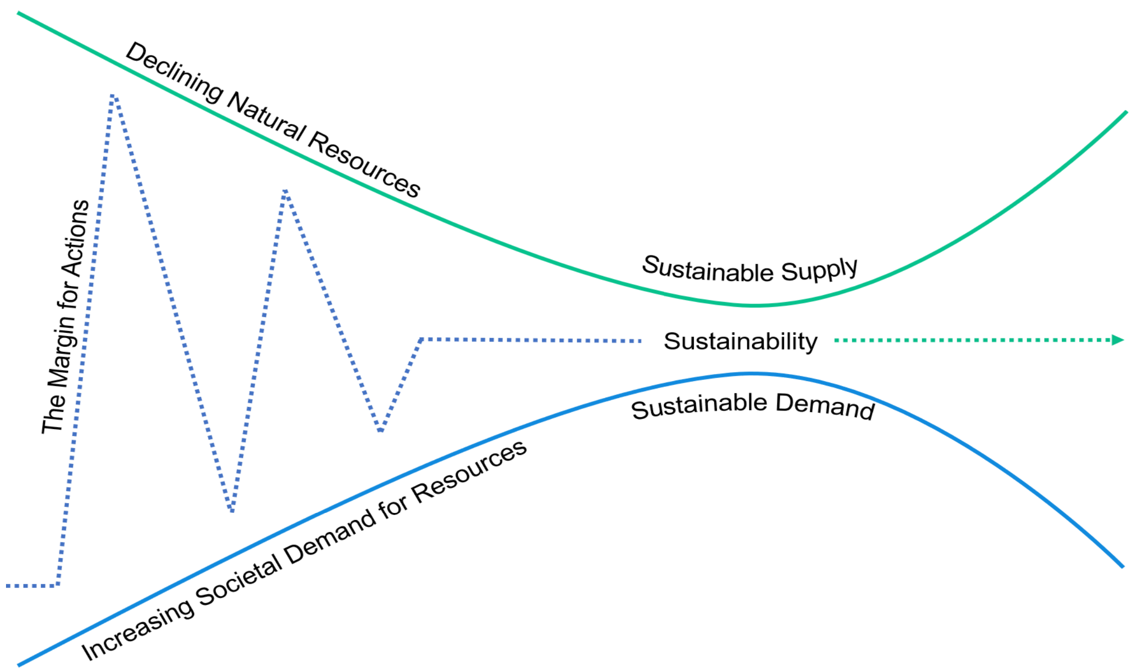


Source: https://bonpote.com/en/the-doughnut-economics-definition-and-critical-analysis/

In 1987, Swedish scientist Karl-Henrik Robért developed The Natural Step (TNS) framework, setting out the system conditions for the sustainability of human activities on Earth. It is composed of (a) Four System Conditions (or principles of Sustainability); (b) Back casting (used for planning, decision-making, scenarios, innovation, etc.), and (c) the ideological TNS Funnel.

The Natural Step framework, which is centered on systems thinking, assists organizations in choosing appropriate and long-lasting environmental, social, and economic activities.

The funnel is used as a metaphor to represent the increasing economic, social, and environmental pressures that society is under because, as population and consumption rates rise, natural resources and ecosystem services are depleted. Understanding that mankind operates within the confines of this funnel helps us make decisions and conduct our activities in a way that minimizes their negative effects. Businesses that foresee these developments can position themselves to avoid these barriers and invest in new opportunities that will enable them to function as long-lasting companies.



The Natural Step Funnel

2 What is ESG Reporting?

Environmental, social, and governance (ESG) refers to a company's corporate financial interests, which primarily focus on ethical and sustainable outcomes. ESG is a framework used by the capital markets to assess businesses and forecast their financial success. While corporate governance, sustainability, and ethics are all seen as non-financial performance measures, they serve to establish accountability and frameworks for controlling an organization's impact, such as its carbon footprint.

ESG reporting is the disclosure of a company's ESG data to its target audience (investors, the public, stakeholders, government regulators, etc.). It is a communication tool that is crucial in being accountable to the public and informing them of how they are conducting business. ESG is an external investment framework, or a type of metric, that aids in the assessment of the performance and risk of a firm by investors and helps businesses communicate their actions. Its goal, like that of other disclosures, is to increase investor transparency, shed light on a company's ESG initiatives, and encourage other organizations to follow suit. An ESG report is a document that is released by a corporation or organization. It helps the business to be more open about the risks and opportunities it confronts.

Sustainability Reporting, on the other hand, is the revelation of ESG objectives. It also includes the organization's progress towards these objectives. In simpler terms, the business does more than just talk about its sustainability goals; it also evaluates the action plan enforced to reach th goals. Therefore, we must emphasize that sustainability reporting goes well beyond just a report and supports the organization's work in the community. It combines increased profitability with a growing desire to improve the world for everyone.

The United Nations Global Compact is a voluntary agreement between the UN and corporations and firms to support the adoption of sustainable and socially responsible business practices and to report on their progress. While it is not a metric, it helps businesses across sectors and sizes by laying out a universal language for corporate responsibility. This assists companies to define, implement, measure, and communicate their sustainability strategy. It is a call to businesses to align their policies and practices with 10 universal principles relating to labor, the environment, human rights, and anti-corruption, as well as to take steps to advance societal objectives and the realization of the SDGs.

3 ESG Metrics

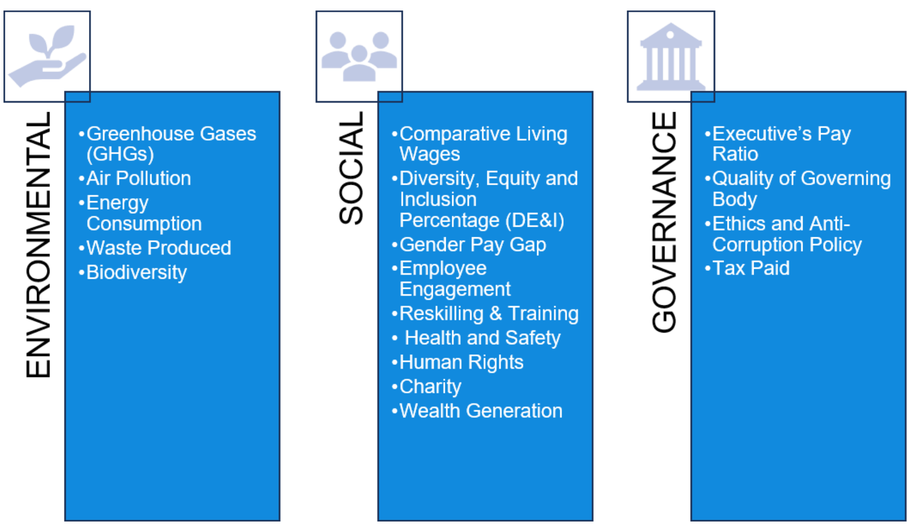
ESG metrics represent a way to quantify the ESG commitments of a business. They help in analyzing the impact of a company's ESG initiatives in a more methodical way and benchmark themselves against how one compares to other firms of comparable size. It is crucial to remember that there are no set standards for ESG measurements, and definitions and rules are always evolving.

Transparency based on metrics can benefit firms both internally and externally. External reporting of sustainability measures will contribute to greater stakeholder transparency. Results are guaranteed internally by monitoring and reporting sustainability metrics. Tracking the "correct" metrics is a means to produce economic savings and lessen environmental impact, whether or not they are intended for public consumption. In order to calibrate or redesign, they provide information on items and systems that are not working properly. If not, businesses won't have the sustainability data they need to assess and enhance their procedures.

Companies can use ESG frameworks as a set of guiding principles to identify, evaluate, record, and monitor their ESG commitments. Governmental organizations and NGOs like the World Economic Forum, Carbon Disclosure Project (CDP), Global Reporting Initiative (GRI) etc., develop these frameworks. These frameworks establish different ESG metrics to monitor and analyze the performance of an organization in comparison to predetermined standards, making ESG more of a scientific undertaking. ESG frameworks, metrics, and other qualitative statements can be used to create ESG reports.

Common ESG Metrics

Some metrics may be present in one ESG framework but not another. The metrics that one must take into account will ultimately depend on the framework chosen. But it is helpful to have a wider perspective if the company's objective is to maximize ESG for reasons other than reporting compliance. The nature of these metrics will also vary. Some are measurable in terms of percentages and numbers, while others may only require a yes/no checkbox. Some of these measures might not immediately apply to companies. But the ESG commitments of business suppliers and vendors must also be examined as part of the ESG ecosystem; therefore, it is worthwhile to be aware of these measures.



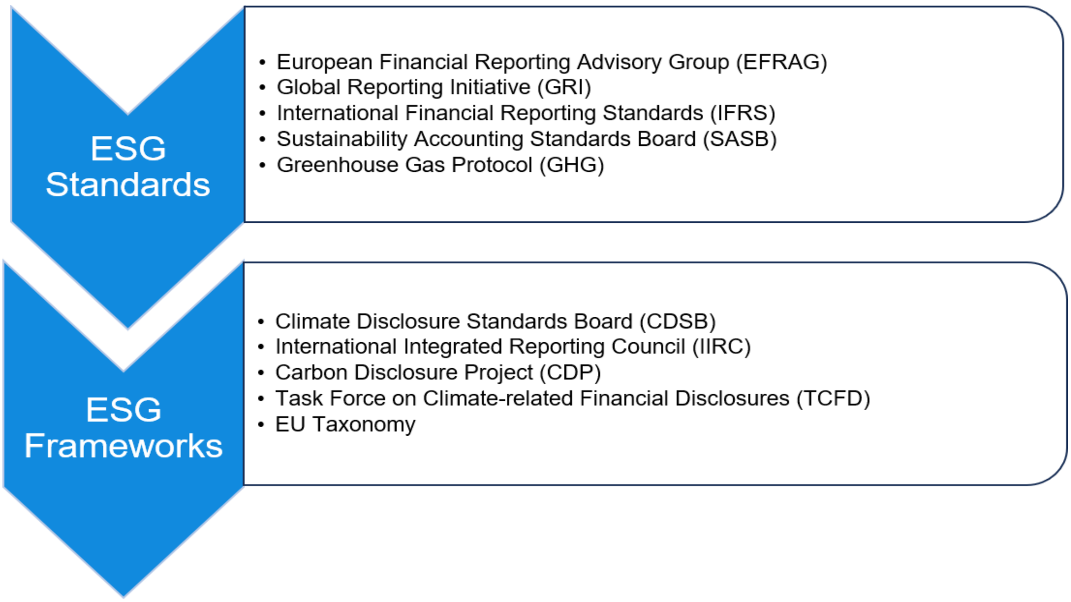
4 List of Key Organizations: ESG Standards and Frameworks

Corporate sustainability refers to a business strategy that involves delivering goods and services in a way that is both profitable for the company and ethical towards society and the environment, both in terms of how it uses and impacts natural, human, and social capital. Every global economic, social, governance, and environmental institution is required to act responsibly as nations, organizations, and people directly suffer the impacts of unsustainable operations. The majority of sustainability reporting standards, frameworks, and guidelines are built on the idea that all aspects of existence, including social demands and environmental requirements, must be preserved for economic progress to begin or continue.

Prior to diving into the many ESG frameworks and standards, it's crucial to comprehend how the Global Reporting Initiative defines the two:

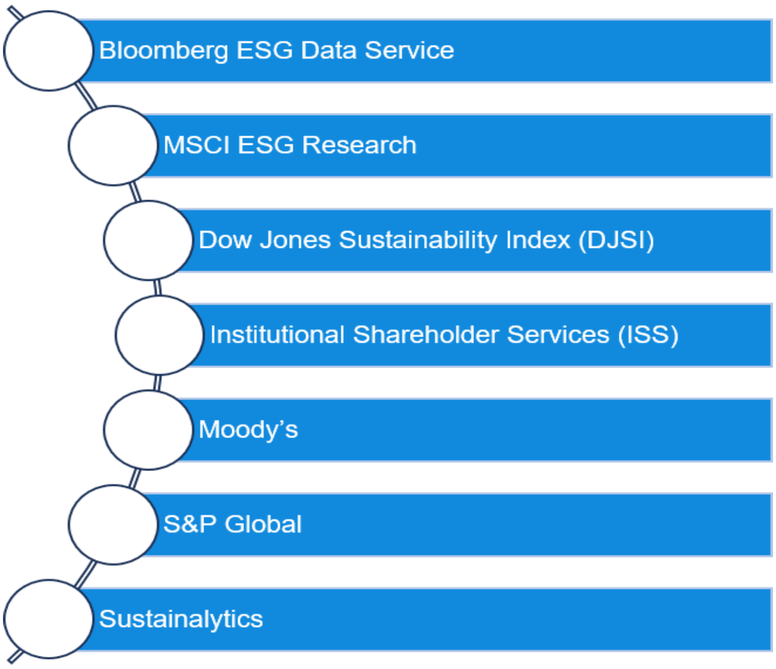
- A standard is a specific quality requirement for reporting. It contains detailed criteria, or ESG metrics, for "what" should be reported on a specific topic. Standards involve a public interest focus, independence, due process, and public consultation, strengthening the basis of what is being asked.
- A framework is a broader, contextual "frame" for information. It is a set of principles providing guidance and shaping understanding of a certain topic, defining the direction of information but not the methodology of collection or reporting itself. It may be used when a well-defined standard does not exist.

Below are a list of some of the common ESG Standards and Frameworks:



5 ESG Ratings

An ESG rating measures a company's exposure to long-term environmental, social, and governance risks. These risks have financial repercussions since they relate to things like board independence, worker safety, and energy efficiency. However, they are frequently overlooked in conventional financial analyses. ESG ratings provide investors with a more comprehensive understanding of a company's long-term prospects than financial research alone. An excellent ESG grade demonstrates market acceptance of the company's social responsibility activities and results, which enhances brand perception. Additionally, the ESG rating has been taken into account in the investment screening process by numerous American and European financial institutions. A strong ESG rating can therefore assist businesses in investing and reduce their financing costs. Some well-known ESG rating agencies include:



Companies are rated by ESG rating agencies based on their ESG policies, systems, and metrics, which they obtain from a variety of sources such as business publications, government data banks, the media, non-governmental organizations (NGOs), and other stakeholders. Additionally, a questionnaire may be utilized to obtain more data from businesses. During the rating process, the agencies will make adjustments to the company's score based on its industry using a specified mechanism. In order to create a grade that is consistent across industries, the company's performance relative to its competitors will also be used as a benchmark.

In order to achieve good ESG performance and to create a loop to continuously improve and optimize the performance, the company must first establish a strong ESG governance structure. This will ensure that there are adequate and effective ESG management policies and systems, internal controls, and implementation measures. However, organizations should also check the data to make sure it accurately, completely, and efficiently addresses the rating criteria before submitting it to rating agencies.

6 Why report on ESG?

Understanding the significance of ESG reporting necessitates a change in perspective, one that sees reporting as a tool for transparency rather than as a burden brought on by ESG regulation. And transparency is a tool to free up money and come up with answers for the biggest problems that organizations are currently facing on a global scale. Both transparency and accountability are necessary for cooperation and the creation of workable solutions. Additionally, enterprises can monitor their progress, establish benchmarks, and share their ESG achievements.

ESG responsibility is being driven by more than just investors. Businesses are being demanded by both customers and employees. As a result, we are witnessing an intellectual change in business, where accountability extends beyond financial success. In other words, a profitable company supports and sustains society and the environment while turning a profit.

Investors and lenders will increasingly evaluate a company's risk exposure and potential future financial performance using the transparency provided by an ESG report. Additionally, regulatory pressure is being put on businesses to submit ESG reports. Brands that are proactive and future-oriented will recognize how crucial it is to achieve ESG standards in order to adapt to the shifting business environment. To lower the risks associated with the environment, society, and government, businesses must define clear goals, after which to assess their development and provide transparent reporting.

7 ESG Changes: Key developments

- **Global Reporting Initiative (GRI)**

In October 2021, the GRI launched the biggest update since their transition in 2016 to set the first global standards for sustainability reporting. The 2021 updates encompass a comprehensive alignment with best reporting practices established by international instruments such as the OECD Due Diligence Guidance for Responsible Business Conduct and the UN Guiding Principles on Business and Human Rights.

The updated GRI Standards will come into effect for reporting on January 2023 and require corporations to increase their degree of transparency and to allocate further resources to non-financial reporting.

The 2021 Updates to GRI Standards, as a revision to its 2016 Standards, include:

2021 Revisions to consider

2021 Update	Details
GRI Standards 2021 as a modular system of three interconnected standards	GRI is comprised of 3 series: • The GRI Universal Standards - It will apply to all organisations. • The GRI Sector Standards - It allows for reporting on sector-specific impacts. • The GRI Topic Standards - It lists the disclosures relevant to a particular topic.
Dispose of Core vs. Comprehensive	• The reporting options 'Core' and 'Comprehensive' have been replaced with one single way to report: 'In accordance' with GRI Standards. Companies can also report with reference to GRI Standards.
Higher standard for human rights reporting	• Three new mandatory disclosures to address human rights, including the company's human rights policy and its scope of application: due diligence process and remediation approach. • For material topics having an impact on human rights, it is required to describe the impacts and disclose their identification process.
Increased focus on impact reporting	• Impact will now determine the materiality of a topic. • New requirements to report what are the impacts and actions taken to address negative impacts and manage positive ones.
Introduction of sector-specific standards	• GRI plans to develop approximately 40 Sector Standards for consistency on sector-specific impacts. • Sector Standards for Oil and Gas (GRI 11), Coal (GRI 12), and Agriculture, Aquaculture and Fishing (GRI 13) have been released. • Organisations must use the Sector Standards that applies to their sector – if it is available at the time of reporting.
Stakeholder engagement - focused on impact on people	• A new step requires companies to identify relevant stakeholders to inform their choice of material topics (GRI 3). Companies need to capture the revised general reporting requirements on the provision of information for their stakeholder engagement. • The definition of stakeholders is now aligned with the *OECD Due Diligence Guidance for Responsible Business Conduct.*

GRI changes

2021 Update	Function	Details
GRI1: Foundation	To replace GRI 101:2016	• It introduces the purpose and system of GRI reporting. • Sets key concepts, requirements, and principles that all organizations must comply with to report in accordance, or with reference to, the GRI Standards.
GRI2: General Disclosures	To replace GRI 102:2016	• All GRI2 are now mandatory disclosures. • Changes include previous disclosures now merged into fewer disclosures, while others were moved to GRI1 or GRI3. • Impacts on human rights are included as a General Disclosure topic. • Less general disclosures are required. The 2021 Standards requires data to 30 disclosures in comparison to the 56 required by the 2016 Standards. • Disclosures have been consolidated/updated in the following areas: organisation and its reporting practices, corporate governance, strategy, policies and practices, reporting practices, activities and workers, and stakeholder engagement.
GRI3: Material Topics	To replace GRI 103:2016	• The definition of 'material topic' has been revised to focus on the organization's impact on the economy, environment, and people. This differs from the 2016 version which stated the stakeholder views as primary input. • The new Standard offers a focused approach to determine material topics and incorporates the due diligence concept. • The new Standards include a step-by-step guidance and revised disclosures on how the organization determines and manages each of its material topics.

For more information on the GRI Universal Standards 2021 click here.

- **Task Force on Climate-related Financial Disclosures (TCFD)**

On October 2021, the Financial Stability Board's (FSB) TCFD published the *2021 Status Report* that highlights the rapid progress and TCFD adoption by countries, organisations, and regulators, along with two annexes and guidance on developing metrics, targets and transition plans:

The updated implementation guidance that supersedes the 2017 Annex "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures"; and a guide to metrics, goals and transition plans. The Task Force has not altered the eleven recommended disclosures or the four overarching categories. Nevertheless, the Task Force made additional changes to the guidance and now provides both general and sector-specific guidance on core metrics and a progressive assessment framework to guide net-zero-aligned capital allocation. This development aligns with the 2021 G7 leaders' commitment to move towards TCFD-aligned mandatory disclosure pathways.

Task Force on Climate Financial Disclosures 2021 updates		
Document published	**Function**	**Noteworthy changes/updates**
Annex on Implementing the Recommendations (updated Implementation Guidance)	• Updates and supersedes the 2017 version called Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures. • Provides general and sector-specific guidance on implementing the TCFD recommendations.	• Updated Section A.3. Application of Recommendations to encourage all organizations to disclose Scope 1 and Scope 2 GHG emissions independent of a materiality assessment. Scope 3 disclosure is subject of materiality, however the TCFD encourages organizations to disclose it. • Removed tables on alignment of the recommendation with other frameworks. • Removed the illustrative examples of metrics for the four non-financial groups. • Recommends that financial institutions disclose the extent to which their lending, underwriting, asset management and investing activities are aligned with a well below 2°C scenario, pursuant to the Recommended Disclosure under "Metrics and Targets".
Guidance on Metrics, Targets and Transition Plans	• Builds on the existing Recommendations and guidance. • Provides additional context on selecting climate-related metrics and targets to report. It also supports financial statement preparers in disclosing decision-useful information and linking them with estimates of financial impact.	• **Climate-Related Metrics.** It identifies four definitions of effective climate-related metrics and seven cross-industry metric categories applicable to all organizations. • **Climate-Related Targets**. It adds specificity on the disclosure of climate-related target setting. It calls targets to be supported by contextual, narrative information in certain items. It encourages companies to "provide relevant information" when a target is determined confidential. • **Transition Plans**. It includes guidance for communicating transition plans to implement climate-related targets, as well as a guidance for disclosing actual or potential financial impacts of climate-related risks and opportunities.

Click here for the latest publications of the TCFD

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- **EU Taxonomy Update**

The EU Taxonomy Regulation (2020/852) was published in the Official Journal of the European Union on June 22nd 2020 and entered into force on 12 July 2020. It is intended to support the transformation of the EU economy to meet its European Green Deal objectives, including the 2050 climate-neutrality target.

The Taxonomy is a multifaceted system to help investors, companies, issuers, and project promoters navigate the transition to a low carbon and resource-efficient economy by classifying which parts of the economy can be marketed as a sustainable investment and combat the greenwashing of ‘sustainable’ financial products.

The Regulation outlines how to identify sustainable economic activities that align with one or more of the “six EU taxonomy environmental objectives”: climate change mitigation; climate change adaptation; the sustainable use and protection of water and marine resources; the transition to a circular economy; pollution prevention and control; and the protection and restoration of biodiversity and ecosystems.

Under the Taxonomy Regulation, an economic activity can be classified as “sustainable” if it meets the following criteria:

- Contributes substantially to at least one of the six environmental objectives of the Taxonomy.
- Do No Significant Harm (DNSH) to any of the six environmental objectives.
- Meet the minimum social and governance safeguards.
- Complies with the technical screening criteria (TSC) developed by the EU Technical Expert Group performance threshold.

Taxonomy mandatory application deadline

Environmental objectives	Mandatory application date
Climate change mitigation	January 2022
Climate change adaptation	January 2022
Sustainable use and protection of water and marine resources	January 2023
Transition to a circular economy	January 2023
Pollution prevention and control	January 2023
The protection and restoration of biodiversity and ecosystems	January 2023

Dates and timeline information obtained from *EU Taxonomy Timeline*, 2022, https://eu-taxonomy.info/info/eu-taxonomy-timeline

Who does the EU taxonomy apply to?

- Financial market institutions, including occupational pension providers, offering financial products in the EU.
- EU and its member states when setting public measures, standards or labels for green financial products or bonds.
- Large companies with more than 500 employees which are required to report under the Non-Financial Reporting Directive (NFRD).
- For 2023 reporting (to be published in 2024): Large companies with more than 250 employees and as required by the amended Corporate Sustainability Reporting Directive (CSRD).

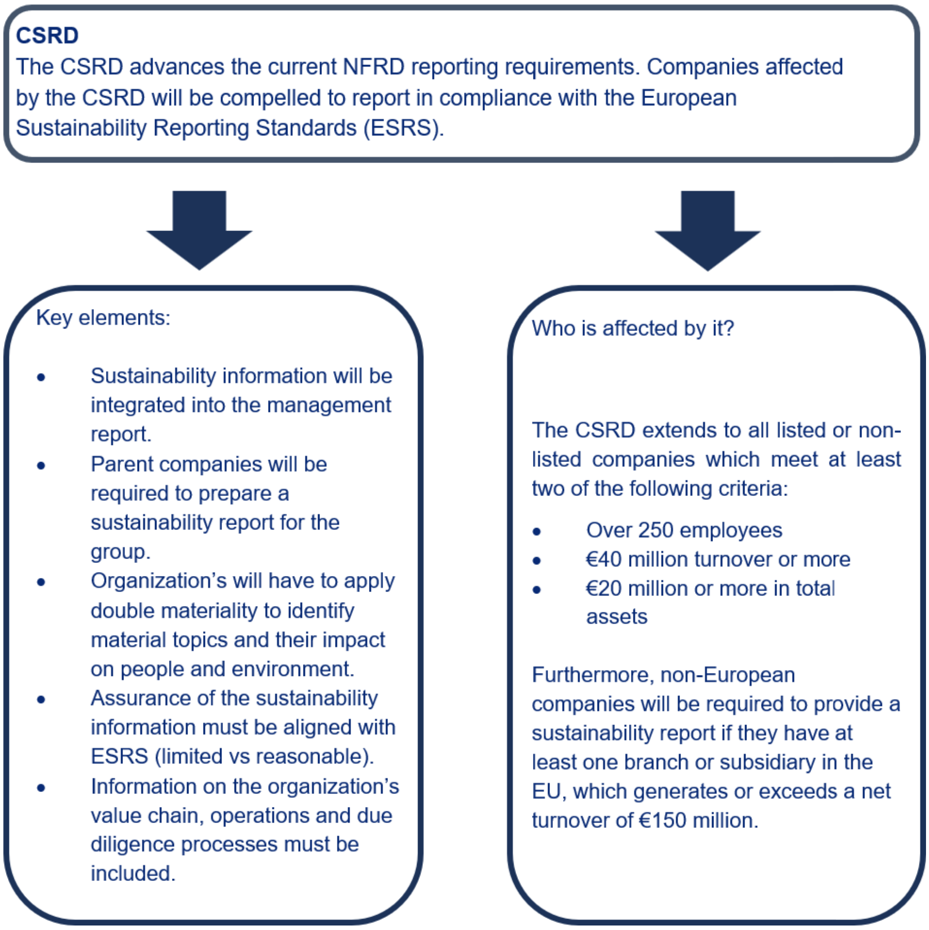
For more information on the EU Taxonomy click here.

- <u>**The Corporate Sustainability Reporting Directive (CSRD)**</u>

In June 2022, The Council of the EU and the European Parliament reached a provisional political agreement on the new Corporate Sustainability Reporting Directive (CSRD).

The CSRD will help stakeholders to evaluate large organization's non-financial performance, as it introduces a certification requirement for sustainability reporting and improved accessibility of information.

What will the CSRD do?



CSRD Timeline

If nothing changes along the way, companies must submit their report aligning with the CSRD on January 1st 2025, for the 2024 financial year.

For companies already in scope of NFRD (500+ employees). First report in 2025.

For new companies with CSRD requirements and not previously subject to NFRD. First report in 2026.

For listed SMEs, small and non-complex credit institutions and captive insurance undertaking will need to start to comply. First report in 2027.

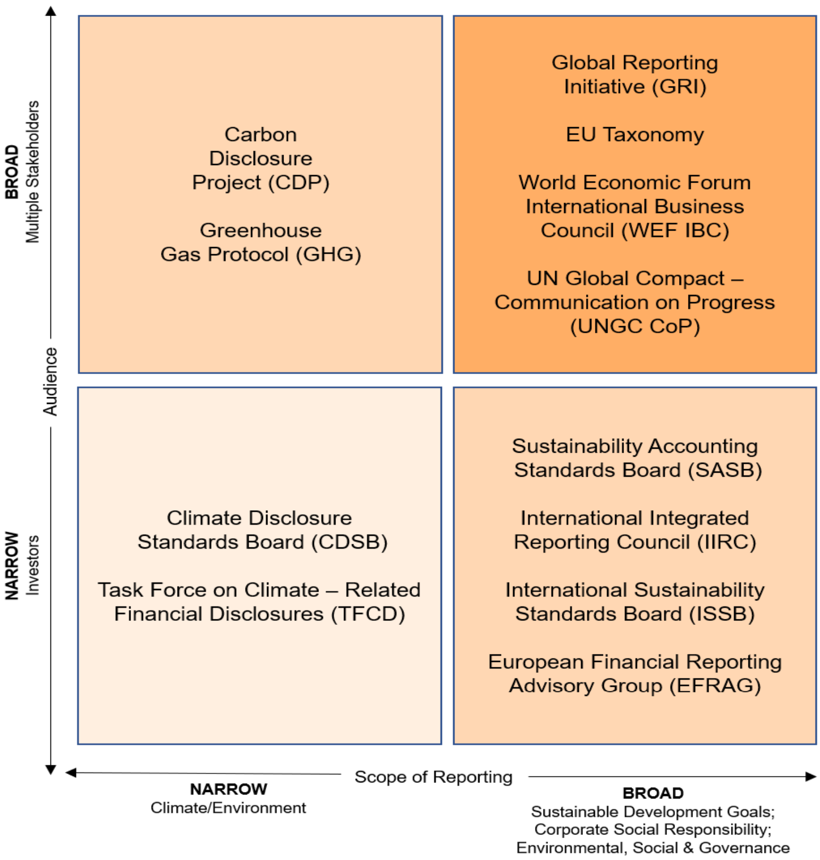
For more information on the CSRD, click [here].

8 *Choosing the right sustainability framework/ standards*

When selecting a framework or standard, it is critical to be aware of these distinctions. Frameworks and standards are frequently developed by non-governmental organizations or non-profits, which are typically regarded as independent entities and are frequently recognized globally. ESG frameworks can be more qualitative in character and allow for more interpretation, whereas ESG standards typically have KPIs that are explicitly stated.

Both ESG frameworks and standards often take the shape of a survey or set of rules that businesses are expected to disclose either in their private or public reports (such as CR or financial disclosures), and which are subsequently graded by these impartial organizations.

With so many acronyms, it might be confusing to choose which framework is most appropriate and what each acronym stands for. Here are some well-known sustainability reporting frameworks and standards, each one backed by credible organizations and with reputable individuals on their Board.

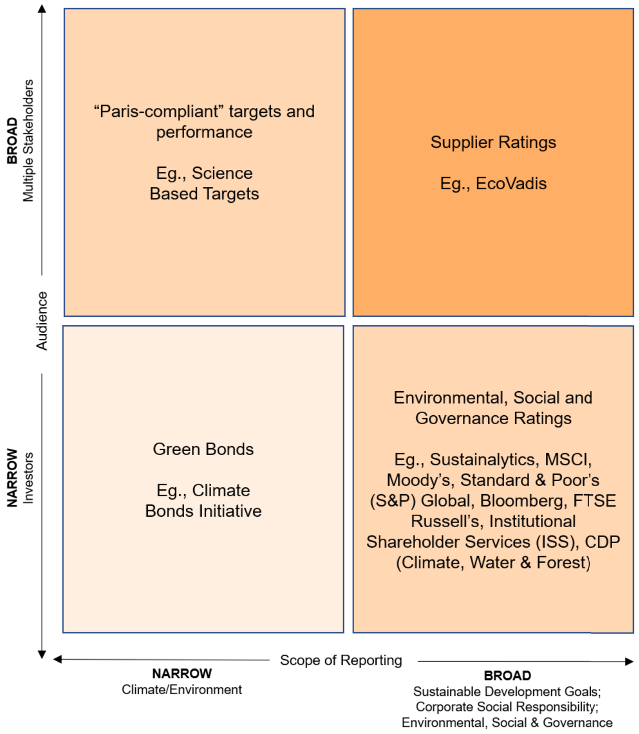


Reference taken from "*Designing Your Company's Sustainability Report*", *Harvard Business Review,* with additional research and input from Easy To Trust.

When using this matrix, managers can choose whether to limit reporting to environmental factors or to cover a wider range of non-financial subjects. The impact that businesses have on the environment (particularly climate change) and on the organization as a whole are two additional factors to take into account. The first question is essential to a wide range of stakeholders, but the second is particularly important to the management and investors of the organization. Both are founded on a thorough knowledge of climate change and its causes, but they are fundamentally different questions, and they employ various reporting standards. The sustainability reporting standards matrix offers recommendations for which standards to use in each of the four possible scenarios.

9 *Choosing the right sustainability rating*

Typically, raters and rankers are made for certain investors or third-party research companies looking to evaluate investments in light of ESG. While there may be specific KPIs involved, a major distinction is that the ESG data inputs are frequently gathered by third-party research organizations (as opposed to being provided by the ranking company) and are taken from publicly-available information. After that, a company is given a rating or ranking and may or may not have the chance to offer feedback.
Based on a predetermined set of criteria, a sustainability rating offers an independently assessed, standardized summary indicator of sustainability performance. The organization being rated typically solicits and pays for these ratings. Ratings act as simple-to-understand communication tools that enable performance comparisons between enterprises and across time. Compared to reporting standards, executives are subject to an even wider range of sustainability-related ratings. Companies must first determine if they require a rating that is focused just on environmental issues or one that covers a wider range of themes, such as ESG concerns, in order to make decisions about which ratings, if any, to adopt. Companies must concurrently decide whether they want a rating that is directed solely at investors or at a broader group of stakeholders.



Reference taken from "[Designing Your Company's Sustainability Report](#)", *Harvard Business Review,* with additional research and input from Easy To Trust.

The motivation behind a company's reporting requirements can be for a single reason or a combination of pressures. The need to comply with regulations is one of the main motivations for reporting. A company may use reporting as a critical tool to communicate how it creates value and to disclose future plans regarding the management of non-financial risks and opportunities. Another factor is to figure out who is requesting for non-financial disclosures, what disclosures are being asked for specifically, and why. Making sure the company discloses and reports the most pertinent information in a way that is practical for an organization's identified stakeholders is essential because doing so can be time- and resource-consuming. There are several frameworks and standards that demand similar and even overlapping information, whether by coincidence or by more deliberate efforts to promote industry harmony. To get the most out of an organization's resources, concentrating on these frameworks can be a smart move. All information users will find it simpler as a result of the alignment, even though each framework will continue to serve its particular purpose and audience. Additionally, it is crucial to keep track of changing market and policy developments at all levels, update material topics annually, and make sure companies are ready to adapt to any changes.

Although there are numerous things to take into account when selecting an ESG framework or standard, keep in mind that not all of these things are equally important. Depending on each company's unique needs, these aspects' relative importance can change. By simply recognizing and classifying these factors, companies will start to understand which elements are more important than others.

The impact of measuring, reporting, and controlling a company's sustainability performance on its productivity, reputation, and risk will only grow. Selecting the best strategy is essential as businesses move toward net-zero, and senior executives must be well-informed to be able to actively engage in the discussion and decision-making. Sustainability reporting and grading matrices can be helpful tools to help companies think through their decisions, ensure regulatory compliance, be responsive to stakeholder concerns, and ultimately improve sustainability and corporate performance.

10 *Who is ESG Reporting for?*

Understanding ESG risks is crucial for making investment decisions because the detrimental effects of climate change on businesses are already evident in all industries. However, the lack of accessibility and the poor quality of ESG data from corporations prevents investors from making wise and sustainable investment choices, which slows down the transition to a greener economy.

More nations are introducing laws requiring ESG disclosure in order to close the informational gap between investors' demand for it and companies' ability to deliver it. ESG disclosure requirements are being introduced in several countries, primarily for financial institutions, state-owned businesses, and big, publicly traded organizations. This does not preclude the possibility of impact on other businesses. In-scope financial institutions and businesses are already putting more pressure on small and medium-sized enterprises (SMEs) to report their ESG KPIs.

SMEs play a crucial and unique role in the international ESG movement, and one of the reasons for this is their size and unique economic, social, and environmental impacts globally. The World Bank reports that SMEs “represent about 90% of businesses and more than 50% of employment worldwide,” and according to Moody’s ESG Solutions, “as the backbone of every economy, small and medium-sized enterprises are at the forefront of sustainability impact.” SMEs also present unique stakeholder engagement opportunities in comparison to larger companies, and stakeholders often have better access to SME management teams to convey their expectations for the business concerning positive, long-term changes impacting ESG, including diversity, equity, and inclusion.

The EU and the European Parliament announced an agreement on the Corporate Sustainability Reporting Directive (CSRD). According to an amendment to the 2014 non-financial reporting directive, and the new legislation, by January 1st 2026, listed SMEs, small and non-complex institutions, and captive insurance undertakings will have to start reporting on their ESG initiatives. SMEs that are disclosing the development of their sustainability practices under the guidance of international standards such as the GRI and ISSB, will undoubtedly have a smoother transition to satisfying the reporting demands once released. SMEs can use this period as an opportunity to identify business areas and processes that they would like to track with KPIs and start collecting data wherever it is needed. SMEs will be able to opt out for a “transitional period” of two years, where they will be exempt from the application of the directive until January 2028. This will ensure that there’s no need for SMEs to make extreme shifts in their operations to demonstrate their efforts. Making smaller improvements in a short space of time and recording an immediate impact showing the company’s commitment to sustainability can still be effective, like investing in green energy or office equipment such as LED lighting with time and motion tracking sensors, or reducing paper waste by transitioning to more digital forms of communication.

With three years to go until ESG reporting becomes mandatory, it’s important for SMEs to start planning on how they will meet these new regulatory reporting demands. Smaller companies may find reporting to be a challenge because they are less likely to have the resources (time and money) and data to compile these reports as required in comparison to a larger firm. Fortunately, there are tech-enabled solutions automating the reporting processes that SMEs can take advantage of to increase transparency into ESG data, which will help ensure that they can produce the required reports. Complying with regulations will be made easier as well, with companies being able to identify the areas that need monitoring with KPIs.

Glossary

CDP	Carbon Disclosure Project
CDS	Climate Disclosure Standards Board
COP21	Climate Change Conference
CSRD	Corporate Sustainability Reporting Directive
DE&I	Diversity, Equity and Inclusion Percentage
DJSI	Dow Jones Sustainability Indices
DNSH	Do not significant harm
EFRAG	European Financial Reporting Advisory Group
ESG	Environmental, Social and Governance
ESRS	European Sustainability Reporting Standards
FSB	Financial Stability Board
FTSE	Financial Times Stock Exchange
GHG	Greenhouse Gas Protocol
GRI	Global Reporting Initiative
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
ISS	Institutional Shareholder Services Inc.
KPI	Key Performance Indicator
MSCI	Morgan Stanley Capital International
NFRD	Non-Financial Reporting Directive
OECD	Organisation for Economic Co-operation and Development
SASB	Sustainability Accounting Standards Board
SDGs	Sustainable Development Goals
SFDR	Sustainable Finance Disclosure Regulation
SMEs	Small and Medium Enterprises
TCFD	Task Force on Climate – Related Financial Disclosures
TNS	The Natural Step
TSC	Technical Screening Criteria
UNGC CoP	United National Global Compact Communication on Progress
WEF IBC	World Economic Forum International Business Council

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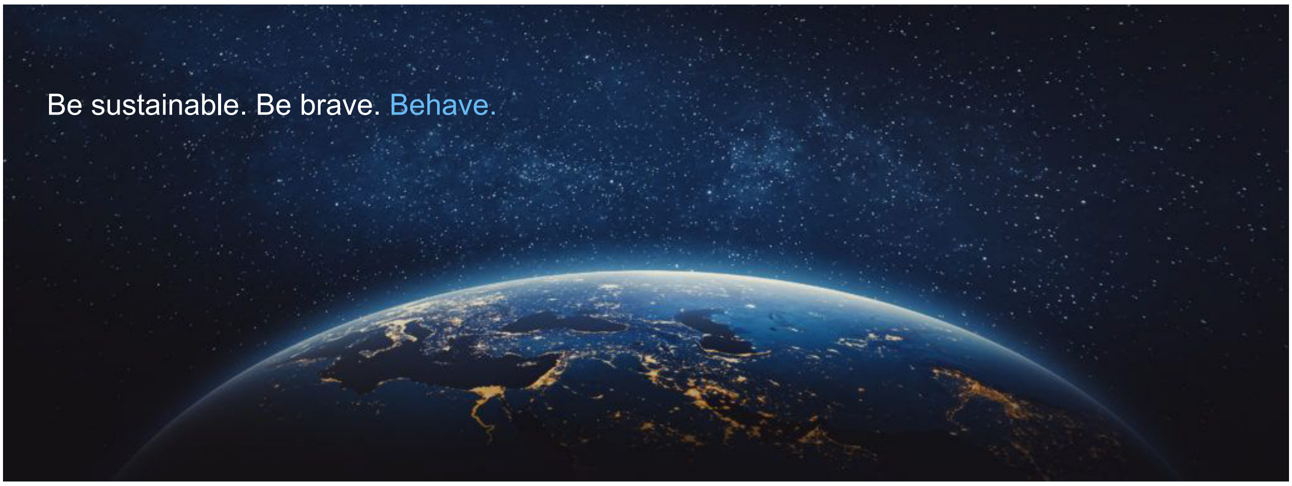

Skepparbacken 5
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