

# The Increasing Demand for ESG Reporting

## Why You Should Care

*June 15, 2023*



# About UHY



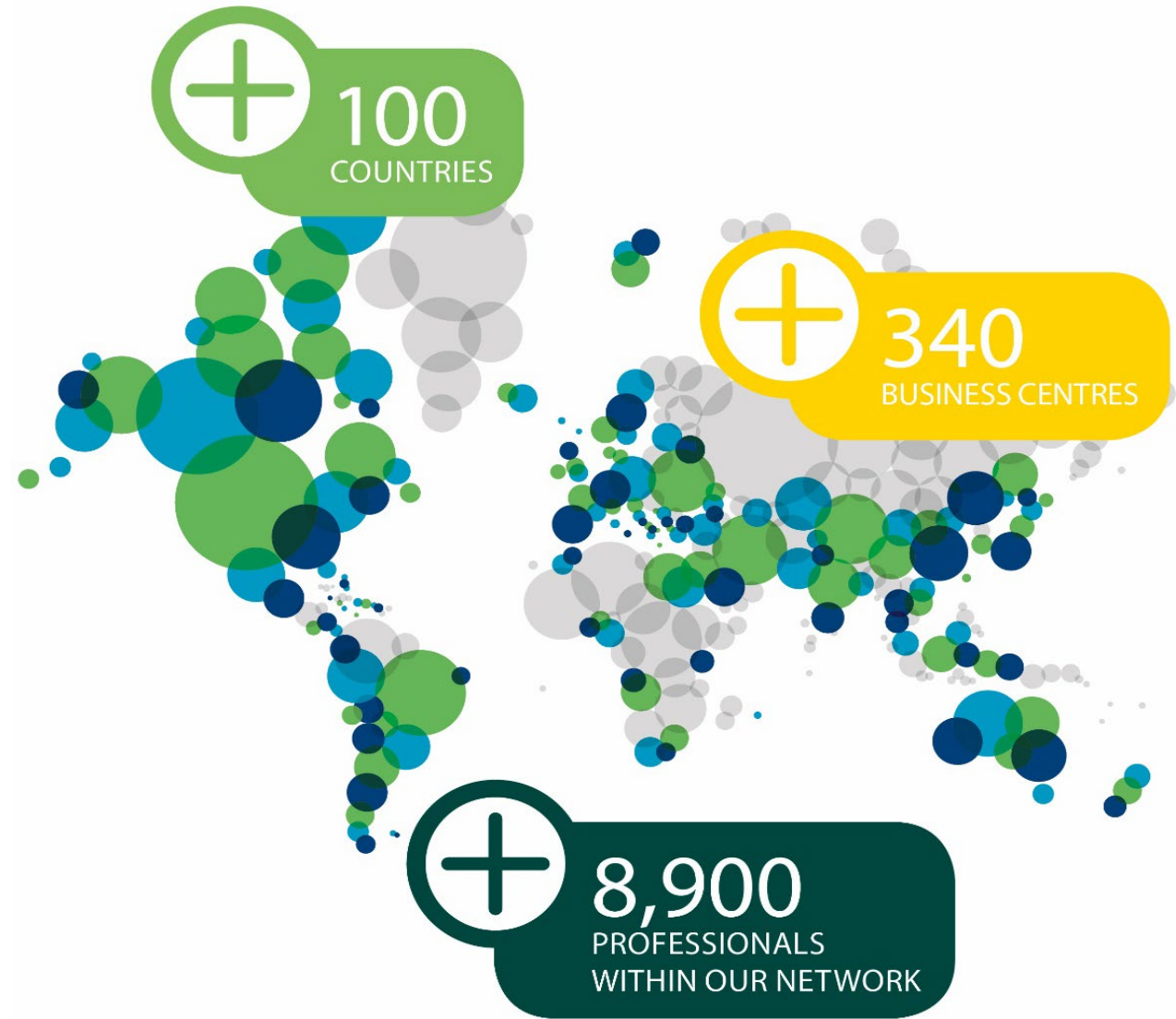
Audit & Assurance, Tax,  
Consulting, Advisory

Founding member of the  
16<sup>th</sup> largest global network

28<sup>th</sup> largest accounting  
firm in the U.S.

1,500+ U.S. employees

34 U.S. locations



# ESG Reporting Trends Survey

*The State Of Play: Sustainability Disclosure & Assurance* published February 2023 by the Association of International Certified Professional Accountants (International Federation of Accountants, AICPA & CIMA):

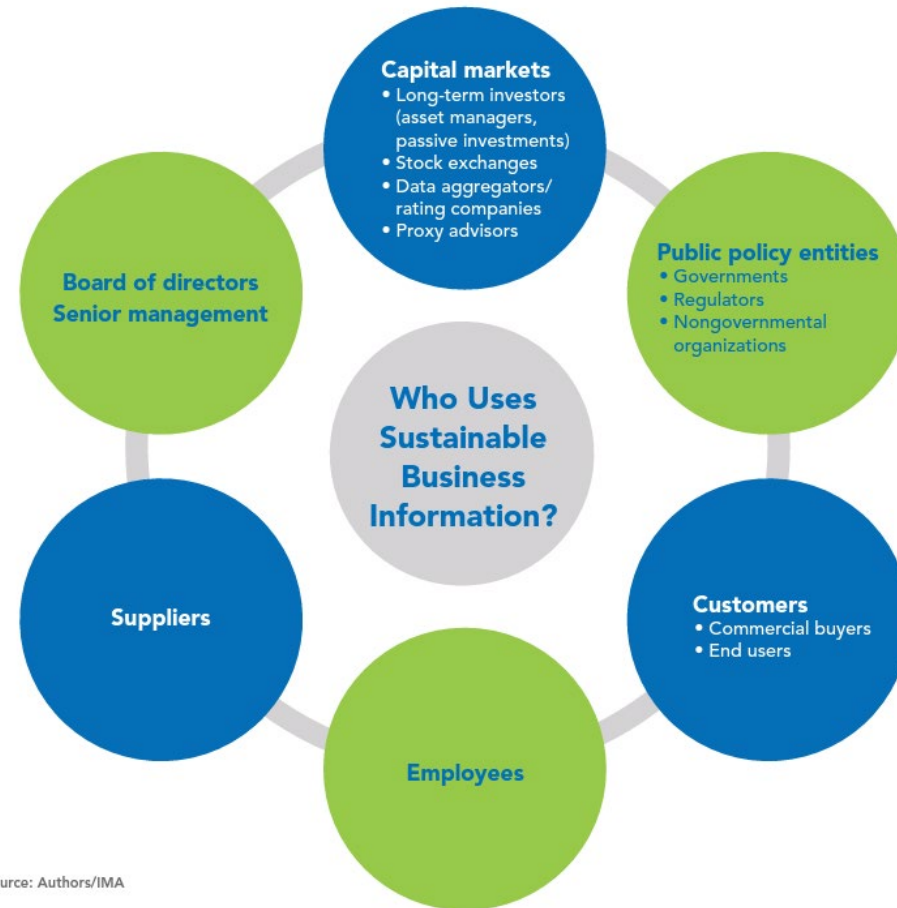
- Completed a study of the 2021 disclosures of 1,350 of the largest companies in 21 jurisdictions
- Found that in 2021, 95% of companies reported some ESG information and 64% obtained some level of assurance on that data; compared to 2019 when 91% of the companies reported some ESG information, and 51% obtained some assurance
- Study demonstrates a high frequency of global ESG reporting among **large organizations** with an increasing trend towards assurance.

Source: <https://www.aicpa.org/professional-insights/download/global-benchmarking-study-state-of-play-in-sustainability-assurance>

# Increasing ESG Demand

**Achieving Effective Internal Control over Sustainability Reporting (ICSR):**  
*Building Trust and Confidence through COSO Internal Control - Integrated Framework*

**FIGURE B-6: WHO USES SUSTAINABLE BUSINESS INFORMATION?**



Source: Authors/IMA

Source: <https://www.coso.org/Shared%20Documents/COSO-ICSR-Report.pdf>

# Stephen Lathrop, P.E., PMP

## Professional Experience

Stephen Lathrop is a managing director with UHY's Transformation group. Stephen has over 25 years of consulting experience with a unique blend of engineering and business consulting. As a registered professional engineer, Stephen spent his first 18 years as an environmental engineering consultant helping his clients navigate regulatory frameworks and developing lines of business in sustainability, greenhouse (GHG) analysis and baselining, carbon credits, environmental compliance and site remediations. In the last 9 years, Stephen shifted to business consulting and has utilized his expertise as a registered project management professional to help companies optimize processes, prioritize project portfolios, and positively transform organizations.

This unique blend of skills enables Stephen to connect the implications and complexities of environmental regulations to business needs by developing actionable and realistic business plans that meet a client's strategic framework.

## Background

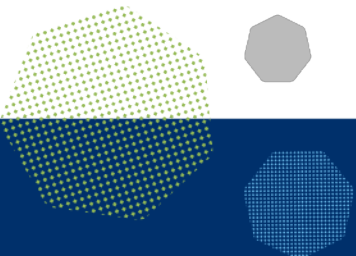
- Project Management Professional (PMP)
- Professional Engineer (PE)

## Education

- Georgia Institute of Technology, Bachelor of Science, Civil Engineering
- Georgia Institute of Technology, Master of Science, Environmental Engineering



*Stephen Lathrop  
Managing Director,  
Transformation Solutions*



# Luke Nelson

## Professional Experience

Luke Nelson is a Managing Director for UHY focusing on Cybersecurity Solutions and Technology Risk services. Luke is responsible for delivering all aspects of Cyber, Security, and Risk programs inclusive of leveraging new technological advancements, such as artificial intelligence (AI), cloud-based scalability, and advanced mathematical techniques along with optimized visualizations to deliver enhanced decision-making capabilities. He supports executives in analyzing their business plans to reassess strategies and focus on performance and risk-aligned prioritized agenda. These efforts revolve around planning, executing, tracking, and reporting performance and risk metrics, and root cause analysis aligned with measurable and actionable initiatives.

Luke also supports Securities and Exchange Commission (SEC) compliant financial statements and Internal Control Over Financial Reporting (ICOFR) external audit opinions for publicly traded companies including interaction with the Public Company Accounting Oversight Board (PCAOB).

## Background

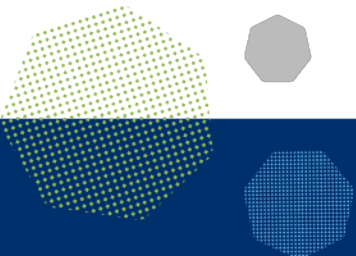
- Certified Information Systems Auditor (CISA)
- Open FAIR Foundation Certified

## Education

- Bachelor of Business Administration, University of Georgia, Management Information Systems
- Bachelor of Business Administration, University of Georgia, Business Management



*Luke Nelson  
Managing Director,  
Cybersecurity and Risk*



# What is ESG?



- **Environment:** Conservation of Natural World



- **Social:** Consideration of People and Relationships



- **Governance:** Standards for Running a Company



# Differing Considerations on ESG



Critical  
Considerations



Business  
Considerations

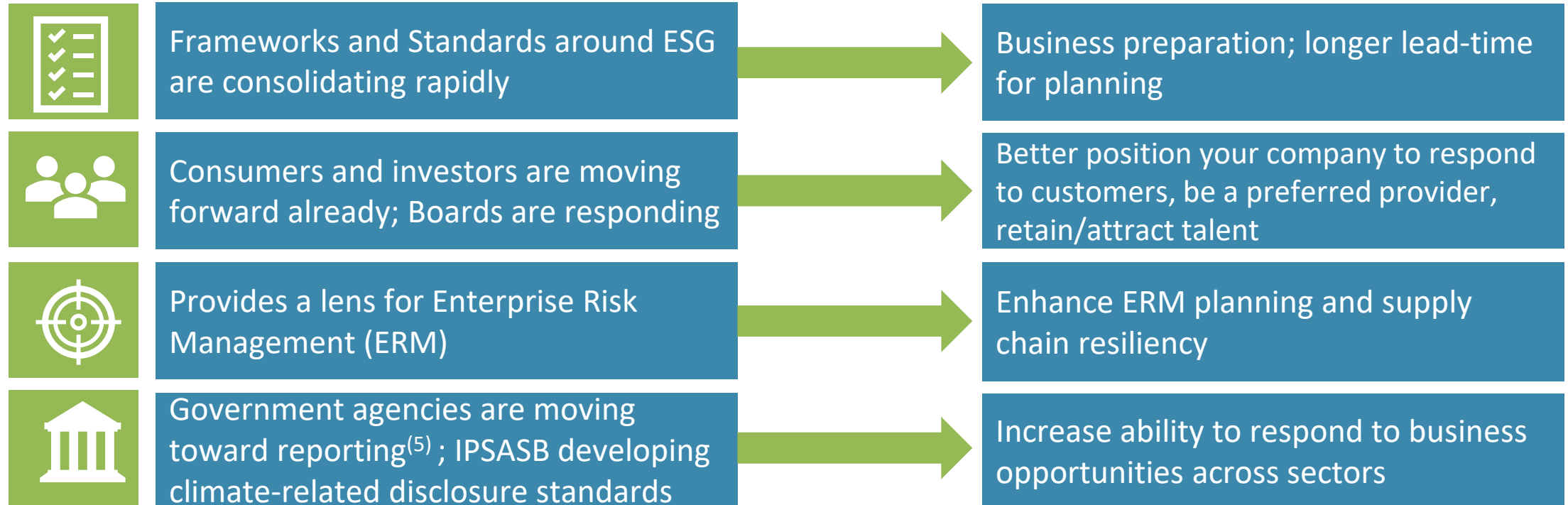


Supportive  
Considerations

Business Preparedness Applicable Through All Considerations



# Business Considerations

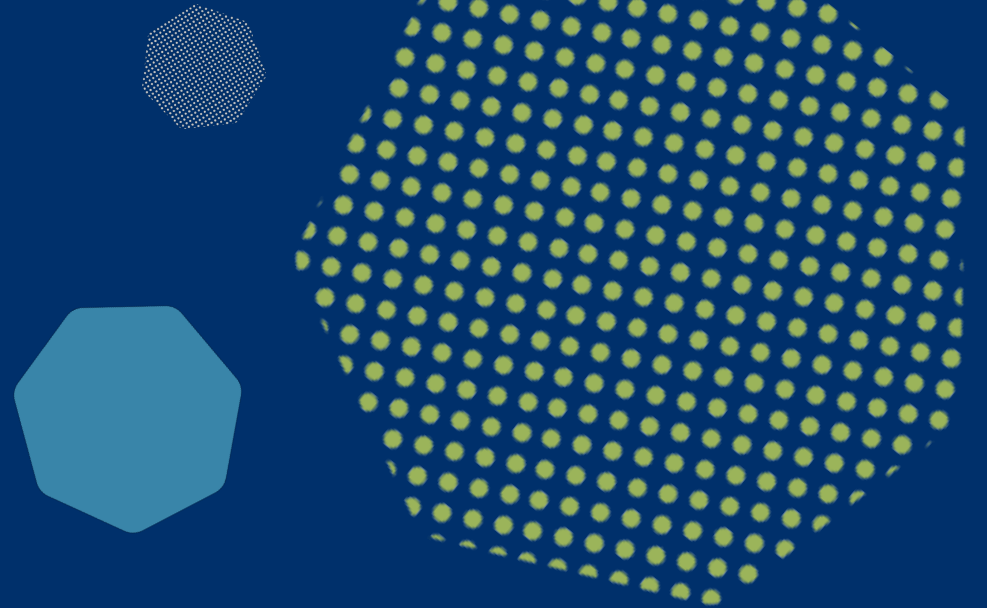


(5) <https://www.washingtonpost.com/climate-environment/2023/05/02/biden-corporate-climate-change-disclosure/>  
And International Public Sector Accounting Standards Board (IPASB)  
<https://www.esgtoday.com/ipsasb-launches-development-of-climate-related-reporting-standard-for-public-sector/>

# Polling Question 1

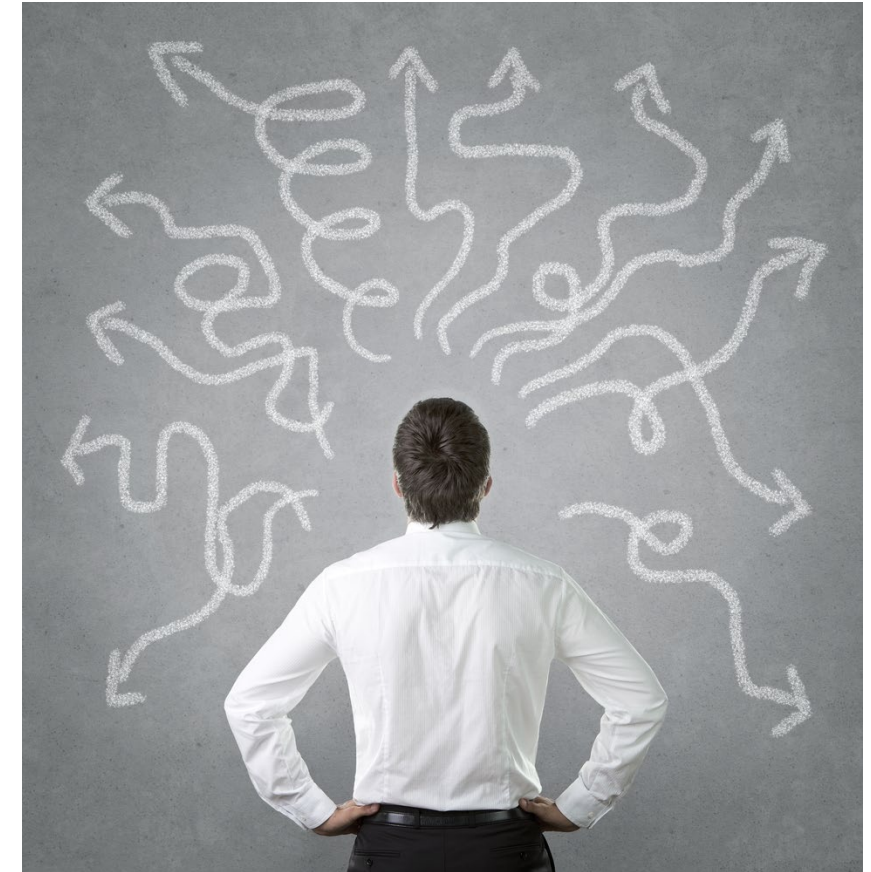
What is your current level of involvement with ESG at your company?

- A. Have not started, only need minimum
- B. Basics are started, looking to expand
- C. Have full ESG report, but not aligned to upcoming rules
- D. Have robust ESG report aligned to upcoming rules

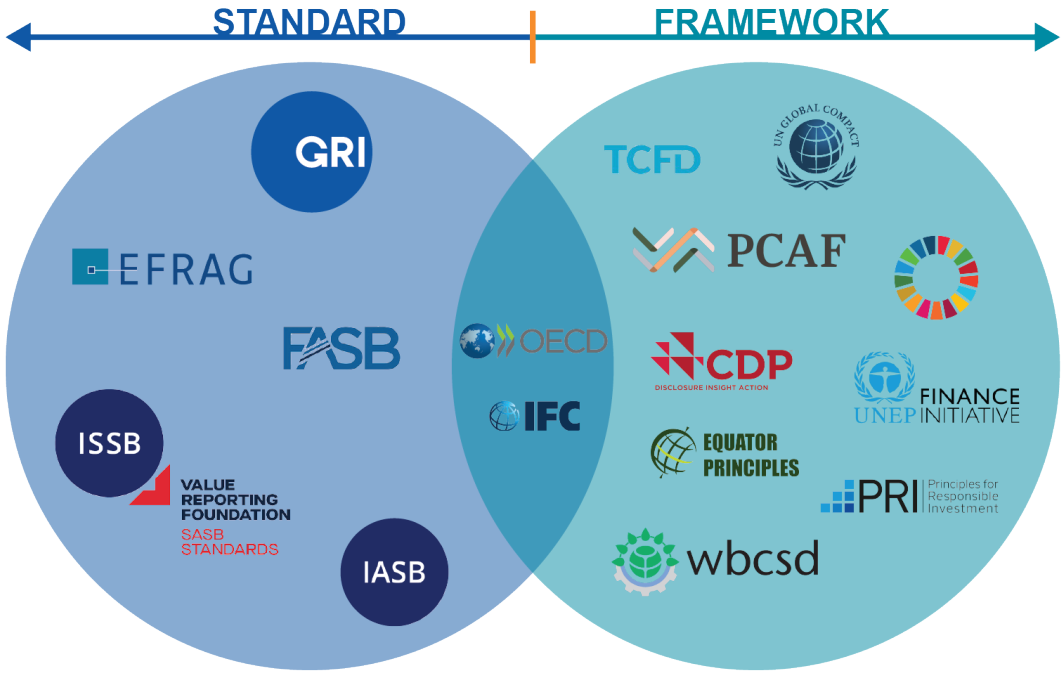


# Confusing Landscape

- **CDP:** Formerly Climate Disclosure Project and now just CDP
- **CDSB:** Climate Disclosure Standards Board
- **GRI:** Global Reporting Initiative
- **IIRC:** International Integrated Reporting Council
- **IASB:** International Accounting Standards Board
- **IFRS:** International Financial Reporting Standards
- **FASB:** Financial Accounting Standards Board
- **SASB:** Sustainability Accounting Standards Board
- **IOSCO:** International Organization of Securities Commissions
- **CSRD:** Corporate Sustainability Reporting Directive
- **VRF:** Value Reporting Foundation
- **EFRAG:** European Financial Reporting Advisory Group
- **SFDR:** Sustainability Finance Disclosure Regulation
- **TCFD:** Task Force on Climate-Related Financial Disclosures
- *...so many more*



# Current ESG Global Standards Landscape



## RANKERS & RATERS

# What to Focus On

1. Securities and Exchange Commission (SEC) Climate Change Disclosure Rule
  - *Proposed regulation – compliance required*
2. International Financial Reporting Standards (IFRS) and its International Sustainability Standards Board (ISSB)
  - *Consolidated Standard – could be mandated*
3. Corporate Sustainability Reporting Directive (CSRD)
  - *Standards that are regulated in the EU*
4. Committee of Sponsoring Organizations to the Treadway Commission (COSO)
  - *Supplemental guidance related to Internal Audit controls for sustainability published in 2023*



# SEC Climate Change Disclosure Rule



## The What:

- SEC has issued a rule proposal<sup>(6)</sup> to standardize the way organizations make climate-related disclosures
- The rule proposal requires US publicly traded companies to disclose annually how climate-related risks are assessed, measured and managed.
- Includes disclosure of greenhouse gas emissions (GHGs)

## The Why:

- Investors are seeking clear and accurate information related to climate-related risks to inform investment decisions for a business
- Provides for consistent, standardized data that can be relied upon

(6) <https://www.sec.gov/files/33-11042-fact-sheet.pdf>

# SEC Climate Change Disclosure Rule

## The How:

- The SEC proposal leverages the Task Force on Climate-Related Disclosures (TCFD) framework<sup>(7)</sup>
- TCFD framework utilizes a lens of financial materiality to focus on climate-related risks and opportunities on an organization

### Governance

Disclose the organization's governance around climate-related risks and opportunities.

### Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.

### Risk Management

Disclose how the organization identifies, assesses, and manages climate-related risks.

### Metrics & Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

(7) <https://www.fsb-tcfd.org/>

# SEC Climate Change Rule Key Disclosures

The proposed rule would require SEC-registered domestic or foreign companies to include climate-related information in registration statements and periodic reports such as 10-K annual reports, including<sup>(6)</sup>:

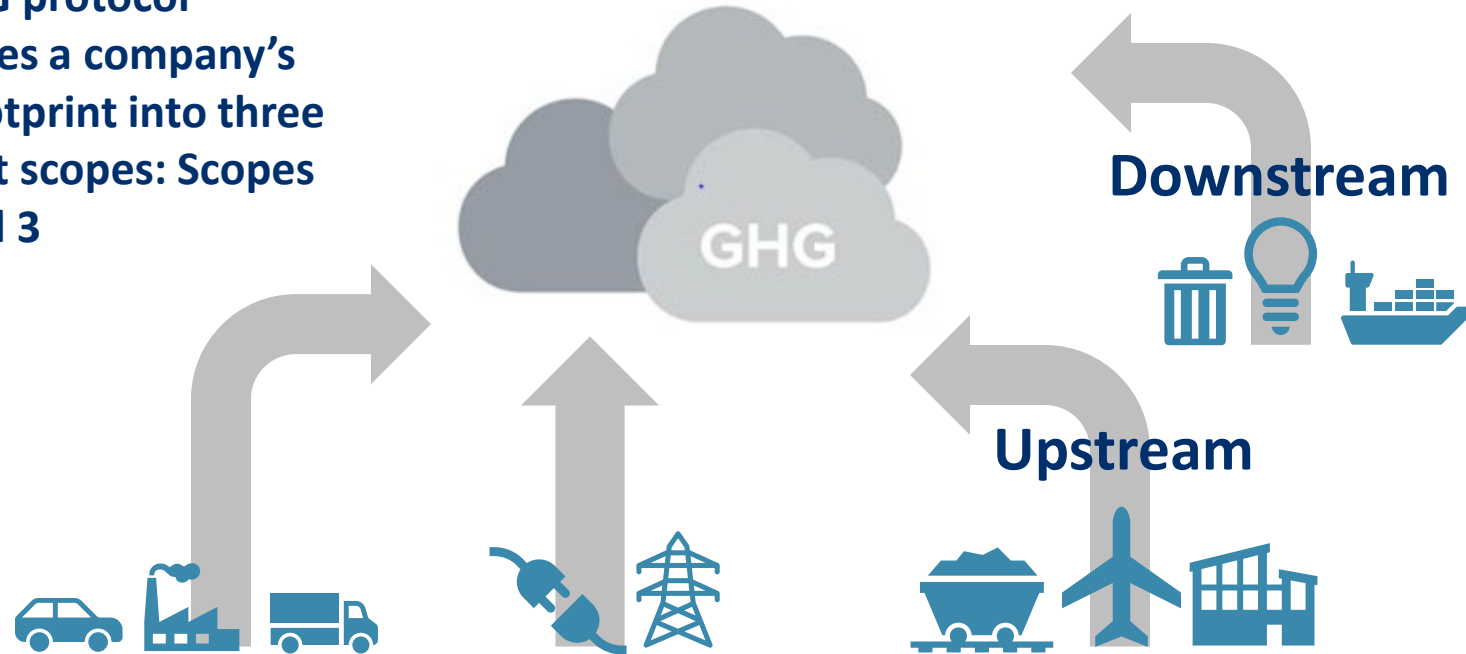
- Climate-related risks and actual or likely material impacts on business, strategy, and outlook.
- Details about governance practices on climate-related risks and risk management processes.
- Certain climate-related financial statement metrics and related disclosures in a note to audited financial statements.
- Information about climate-related targets and goals, and transition plan, if any.

(6) <https://www.sec.gov/files/33-11042-fact-sheet.pdf>



# Three Scopes of GHG Emissions

The GHG protocol categories a company's GHG footprint into three different scopes: Scopes 1, 2, and 3



## Scope 1

Emissions are direct emissions from owned or controlled sources.

## Scope 2

Emissions are indirect emissions from the generation of purchased energy.

## Scope 3

Emissions are all indirect emissions (not in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions from the generation of purchased energy.

Scope 3 emissions can account for 65% to 95% of emissions

Upstream Sources	Downstream Sources
Purchased Goods	Investments
Capital Goods	Franchises
Fuel & Energy	Leased Assets
Transportation	End-of-life Allotting
Waste from Ops	Use of Sold Goods
Business Travel	Transportation
Commuting	Processing Goods
Leased Assets	

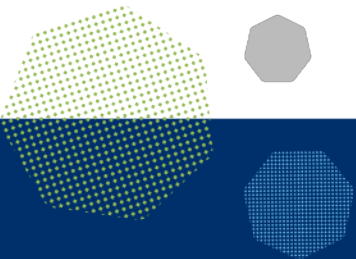
# SEC Climate Change Rule GHG Disclosures

- Scope 1 and Scope 2 greenhouse gas emissions, which would require attestation reports for accelerated filers.
  - Disaggregated & aggregated (CO2e)
  - Absolute & intensity (per unit of economic value or production)
  - Excludes carbon offsets
- Scope 3 emissions if: 1) emissions are material, or 2) if the company has Scope 3 emissions targets
  - Materiality assessed using the Supreme Court's reasonable investor standard (quantitative and qualitative);
  - Proposal provides examples to consider regarding materiality determination.
  - Scope 3 accommodations: new safe harbor, longer phase-in, no assurance
- Additionally: If the registrant has publicly set climate-related targets, disclose progress toward those targets and how the registrant intends to meet them

(6) <https://www.sec.gov/files/33-11042-fact-sheet.pdf>

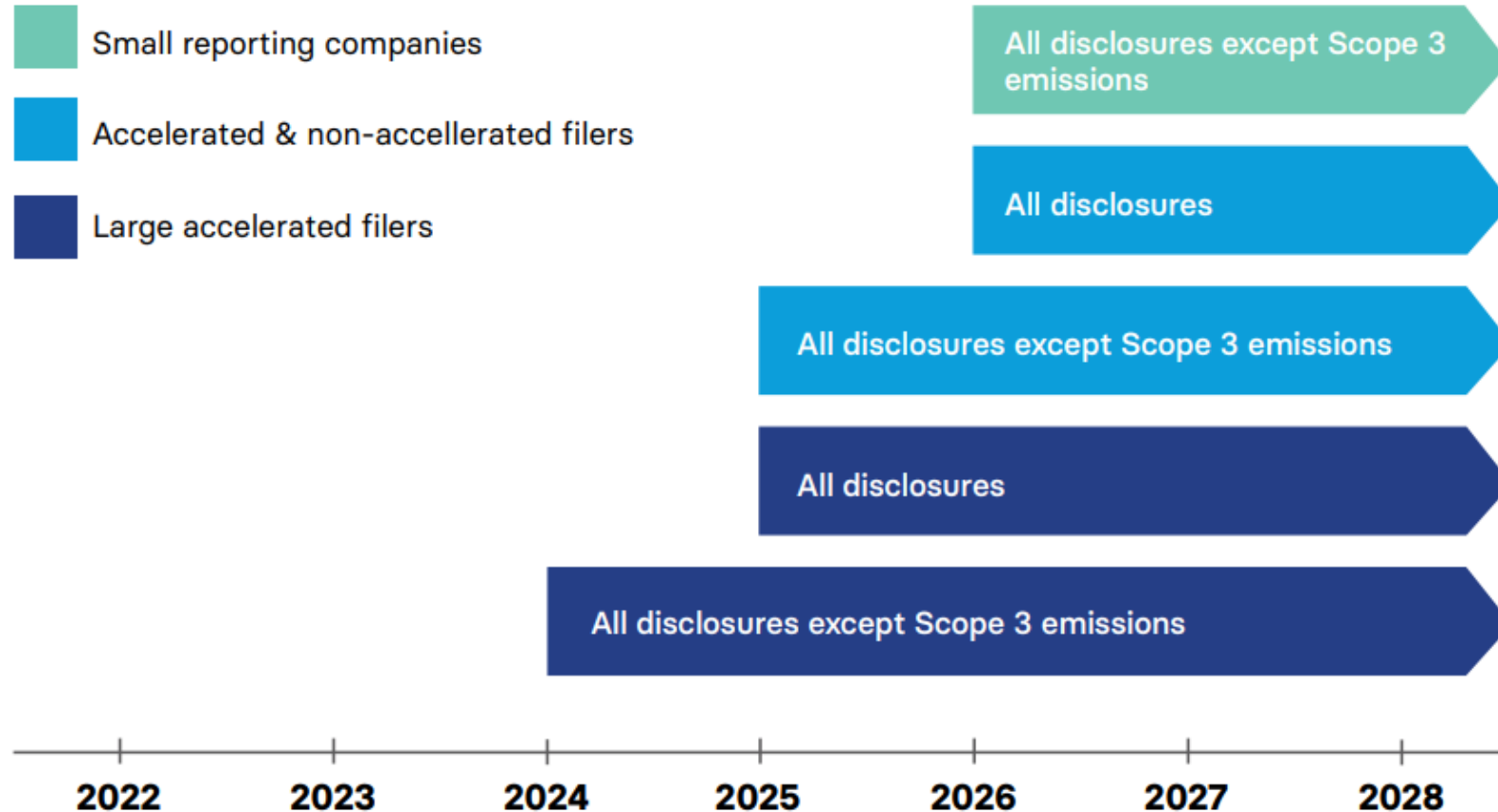
# SEC Climate Change Disclosure Rule Assurance

- Scope 1 and Scope 2 emissions first subject to limited assurance, then later reasonable assurance; Scope 3 emissions would require no assurance
- Assurance providers must be:
  - Independent
  - Have significant experience in measuring, analyzing, reporting or attesting to GHG emissions
- Registrant would make disclosures about whether:
  - The provider has a license from a licensing or accreditation body
  - The engagement is subject to an oversight inspection program
  - The provider is subject to record-keeping requirements for the engagement
- SEC does not specify attestation standards that would need to be used but does provide criteria for standards that would be acceptable



# SEC Climate Change Disclosure Rule Timeline\*

## The When:



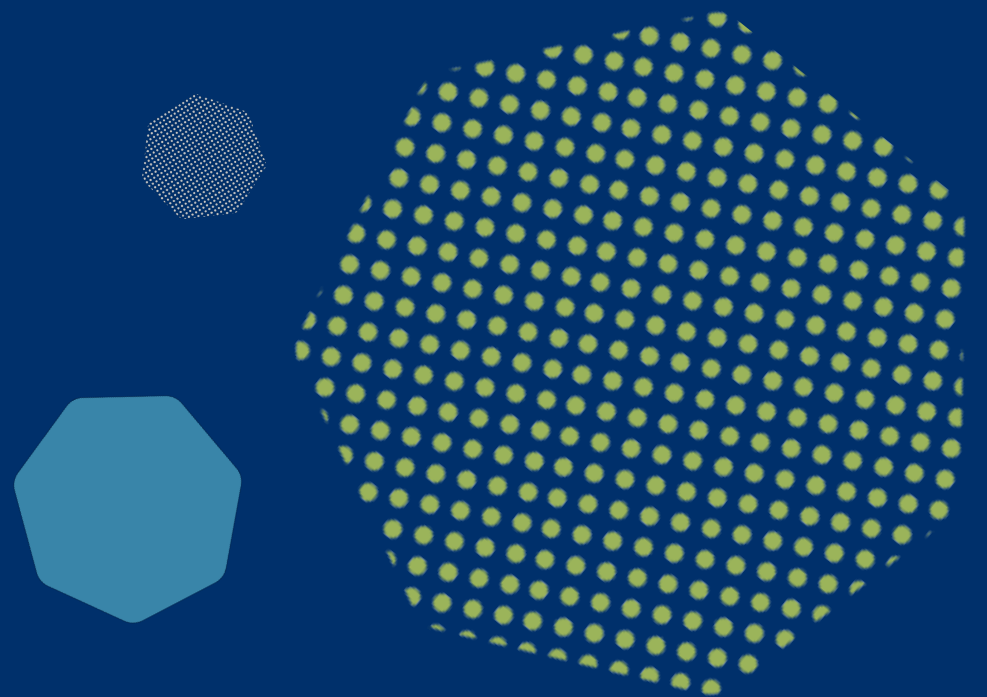
\* Finalization of the SEC Proposed Rule has been delayed twice in 2023. Currently slated for fall 2023. Lawsuits are expected.

• <https://www.reginfo.gov/public/do/eAgendaViewRule?pubId=202304&RIN=3235-AM87>

## Polling Question 2

What is your level of readiness for Scope 3 emissions data collection?

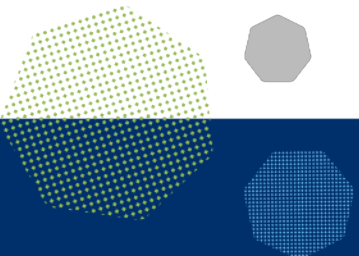
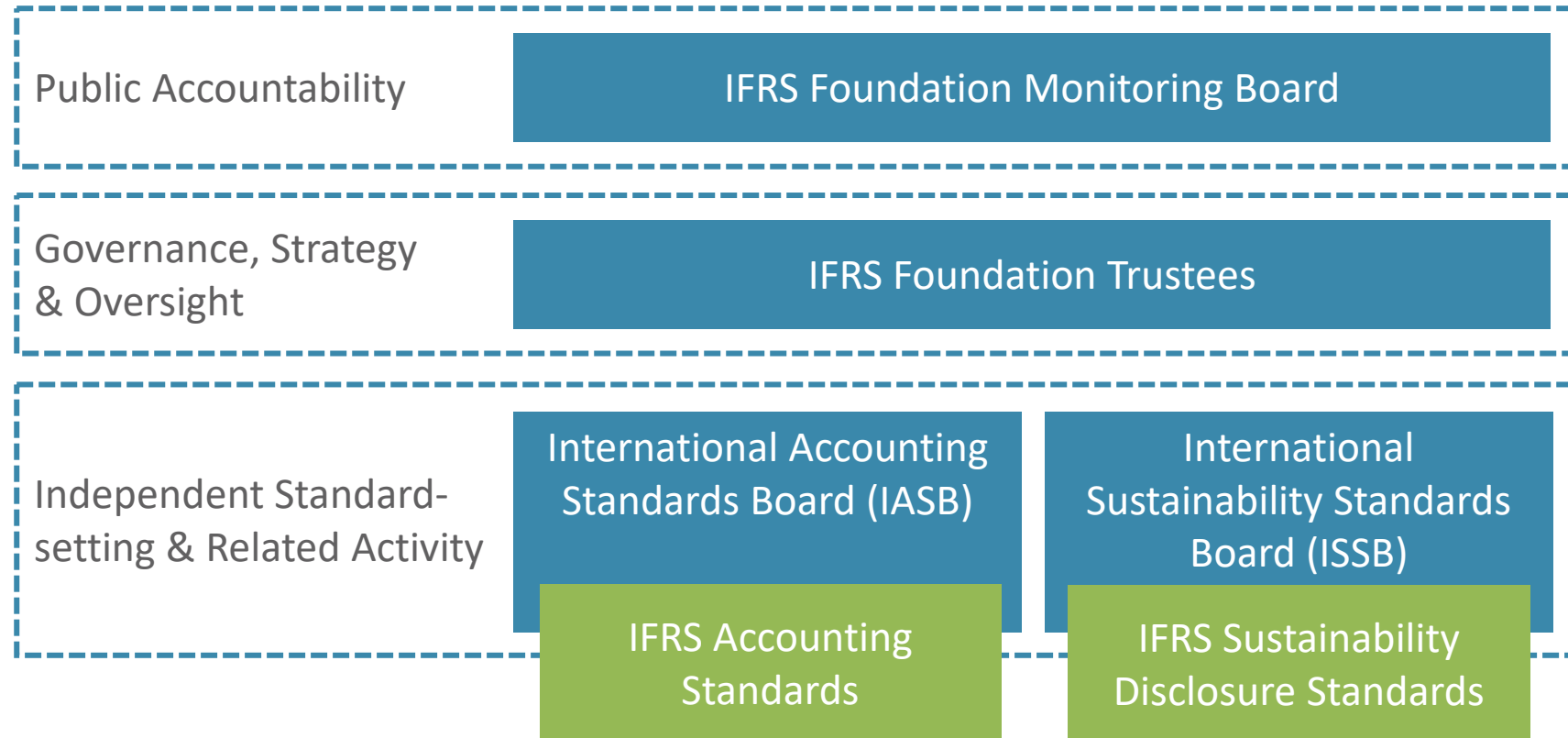
- A. Not sure we know who all our vendors are
- B. Understand Scope 3 emissions but waiting for rules to finalize
- C. Started Scope 3 emissions conversations with largest vendors
- D. Actively collecting Scope 3 emissions from my vendors



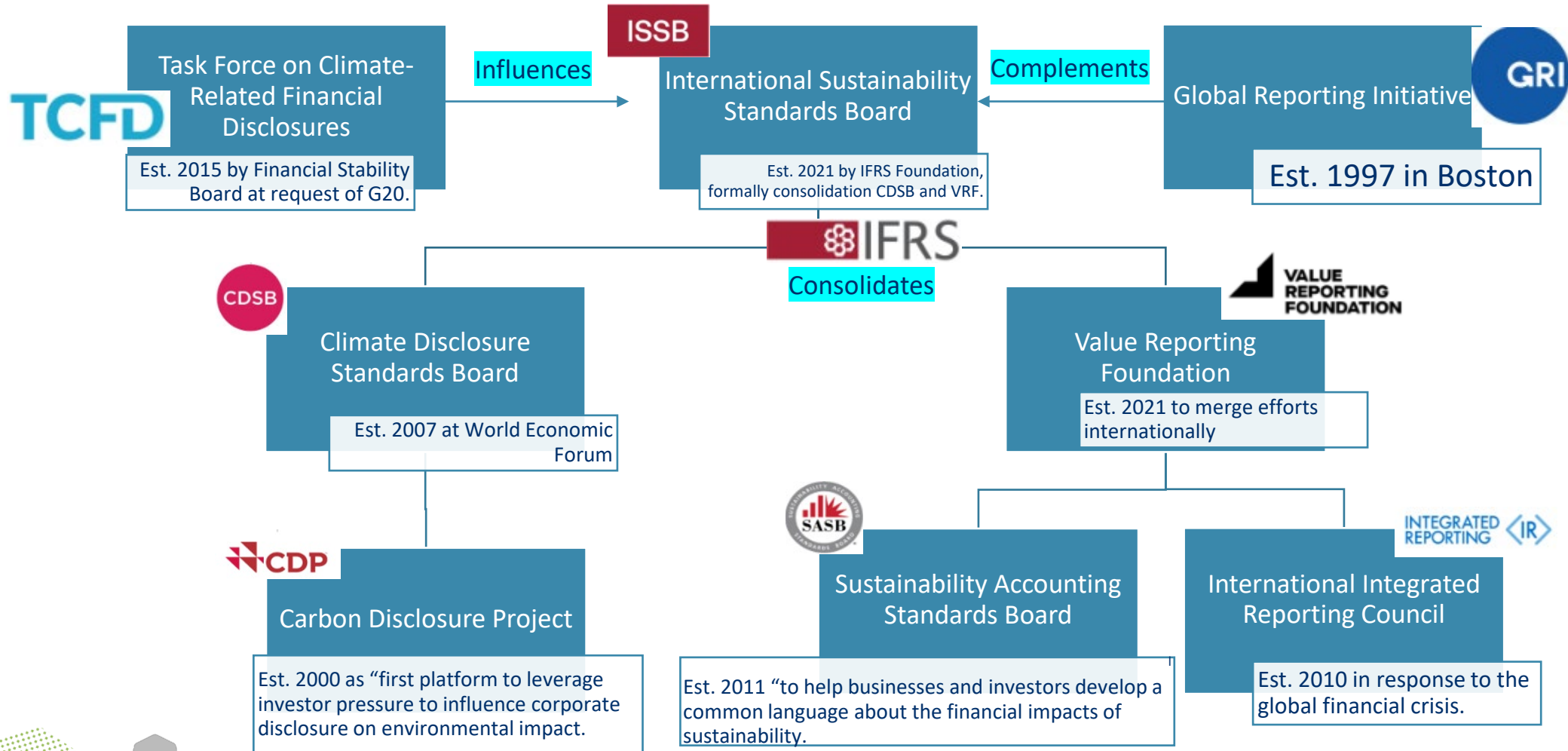
# IFRS & ISSB Sustainability Standards Structure



## Structure of IFRS, IASB & ISSB Standard-setting Boards



# IFRS Convergence of Sustainability Standards



# ISSB Sustainability Standards

## The What:

- The ISSB published two draft IFRS Sustainability Disclosure Standards (ISDS) in March 2022
  - Exposure Draft Proposed IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information; and
  - Exposure Draft Proposed IFRS S2: Climate-related Disclosures

## The Why:

- To develop a truly global baseline of sustainability disclosures to further inform economic and investment decisions<sup>(8)</sup>
- Four Objectives:
  1. Develop standards for a global baseline of sustainability disclosures
  2. Meet the information needs of investors
  3. Enable companies to provide comprehensive sustainability information to global capital markets
  4. Facilitate interoperability with disclosures that are jurisdiction-specific and/or aimed at broader stakeholder groups

(8) <https://www.ifrs.org/groups/international-sustainability-standards-board/issb-frequently-asked-questions/#:~:text=The%20ISSB%20is%20responsible%20for,inform%20economic%20and%20investment%20decisions.>



# ISSB Sustainability Standards

## The How:

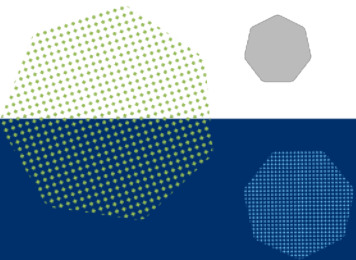
- The ISSB, like the SEC, leverages the Task Force on Climate-Related Disclosures (TCFD) framework
- TCFD framework utilizes a lens of financial materiality to focus on climate-related risks and opportunities on an organization
- The ISSB has built its ISDSs around the TCFD Framework

Governance

Strategy

Risk Management

Metrics & Targets



# IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information<sup>(9)</sup>

TCFD Framework Area	Key Points
Governance	Investors to understand the governance processes, controls and procedures used to monitor and manage significant sustainability-related risks and opportunities
Strategy	<p>Investors to assess a company's strategy for addressing significant sustainability-related risks and opportunities</p> <ul style="list-style-type: none"> <li>- If risks and opportunities are incorporated into strategic and financial planning</li> <li>- If the risks and opportunities are core to its strategy</li> </ul>
Risk Management	Investors to understand the process by which a company identifies, assesses and manages current and anticipated sustainability-related risks and opportunities and whether that process is integrated into its overall risk management processes
Metrics and Targets	Investors to understand how a company measures, monitors and manages significant sustainability-related risks and opportunities and assesses its performance, including progress towards the targets it has set

(9). <https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/snapshot-exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information-and-exposure-draft-s2-general-sustainability-related-disclosures.pdf>

# IFRS S2: Climate-Related Disclosures<sup>(9)</sup>

TCFD Framework Area	Key Points
Governance	<ul style="list-style-type: none"><li>• Terms of reference for company's climate-monitoring governance body</li><li>• Management's role in assessing and managing climate-related risks</li><li>• Ensure people with right skills oversee company's strategy</li></ul>
Strategy	<ul style="list-style-type: none"><li>• Companies to disclose information about how climate change could reasonably be expected to affect their business model, strategy and cash flows over the short, medium or long term, their access to finance and their cost of capital</li><li>• How the company plans to adapt or mitigate climate-related risks, including carbon offsets</li></ul>
Risk Management	<ul style="list-style-type: none"><li>• Investors to understand the process by which a company identifies, assesses and manages current and anticipated climate-related risks and opportunities and whether that process is integrated into its overall risk management processes</li></ul>
Metrics and Targets	<ul style="list-style-type: none"><li>• Disclose absolute gross Scope 1, Scope 2 <b>and Scope 3</b> GHG emissions and the intensity of those emissions.</li><li>• Calculate emissions using the GHG Protocol.</li></ul>

(9) <https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/snapshot-exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information-and-exposure-draft-s2-general-sustainability-related-disclosures.pdf>

# ISSB Sustainability Standards

## The When:

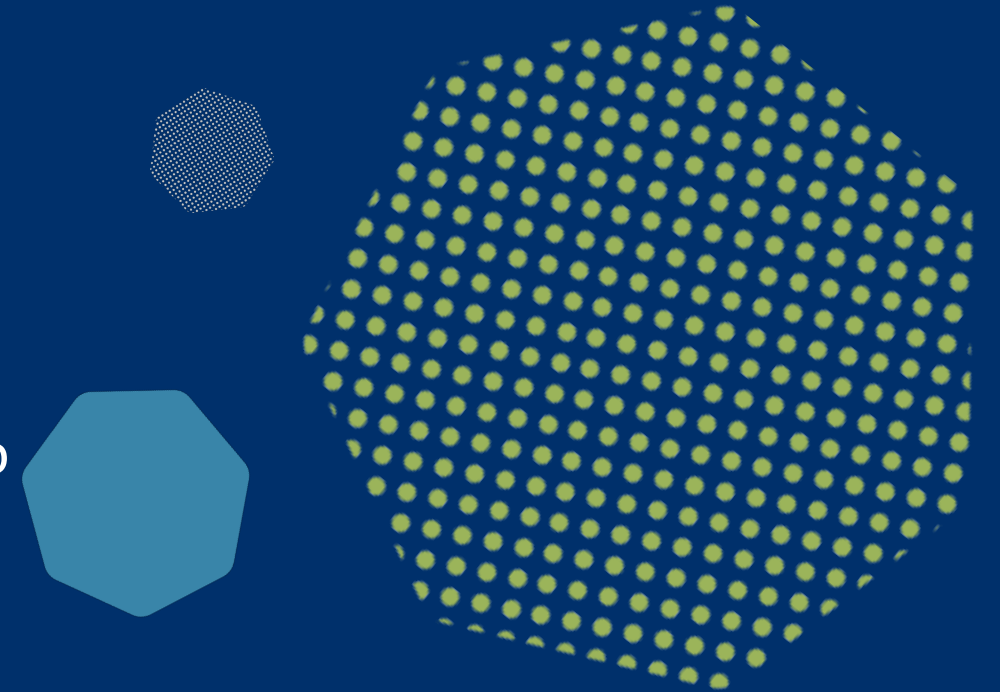
- NOW!
- The ISSB is expected to finalize IFRS 1 and IFRS 2 in June of 2023; effective January 2024
- Stay tuned into the ISSB:
  - <https://www.ifrs.org/news-and-events/updates/issb/2023/issb-update-may-2023/#>
- The ISSB is already working on priorities for additional standards
  - Biodiversity, ecosystems and ecosystem services
  - Human Capital
  - Human Rights
  - Connectivity in reporting



## Polling Question 3

What is your reaction to the consolidation of ESG standards?

- A. I don't see the need for it, I have my own system
- B. I can see some benefits, but this will be a lot of work to adapt
- C. About time! This will make reporting easier to prepare and defend



# CSRD

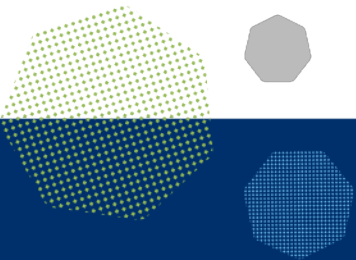


## The What:

- The Corporate Sustainability Reporting Directive (CSRD) is a European Union (EU) standard that was passed on November 28, 2022
- The CSRD applies to all companies with:
  - More than 250 employees
  - More than 40€ in annual revenue and 20 € in total assets
  - Publicly-listed equities that have more than 10 employees or 20€ million revenue
  - International and non-EU companies with more than 150€ million annual revenue within the EU and which have at least one subsidiary or branch in the EU exceeding certain thresholds

## The Why:

- Enhance transparency and comparability of corporate sustainability reporting
- Part of the European Union's (EU) sustainability initiatives to establish a comprehensive reporting framework covering Environment, Social, and Governance factors



# CSRD

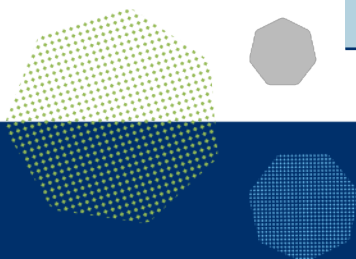
**The How:** Starting in 2024 impacted companies are required to annually:

- Prepare and submit a CSRD report (large company reports due early 2025, others 2026)
- Track and disclose required information, including:
  - Process of identify material ESG themes, topics, and risks
  - ESG performance targets, goals and progress
  - ESG risk impacts to business performance
  - Environmental protection policies and actions
  - Anti-corruption and bribery practices
  - Corporate ESG governance
- Digital Data and Tagging: must prepare in XHTML and tag data to a taxonomy
- Provide “Limited” third party assurance of the information



# Summary

	Regulation (Draft)	Standards	
	SEC	ISSB	CSRD
<b>Location</b>	<ul style="list-style-type: none"> <li>• United States</li> </ul>	<ul style="list-style-type: none"> <li>• International</li> </ul>	<ul style="list-style-type: none"> <li>• European Union</li> </ul>
<b>Authority</b>	<ul style="list-style-type: none"> <li>• Mandated disclosure requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Can be jurisdictionally mandated through regulation</li> </ul>	<ul style="list-style-type: none"> <li>• Required ESG reporting to impacted companies</li> </ul>
<b>Materiality</b>	<ul style="list-style-type: none"> <li>• Materiality in line with Supreme Court; Investor-centric</li> </ul>	<ul style="list-style-type: none"> <li>• Investor and company value-centric</li> </ul>	<ul style="list-style-type: none"> <li>• Double materiality               <ol style="list-style-type: none"> <li>1: Impacts of company outward</li> <li>2: Outward impacts to company</li> </ol> </li> </ul>
<b>Focus</b>	<ul style="list-style-type: none"> <li>• Climate-related disclosures (industry agnostic)</li> </ul>	<ul style="list-style-type: none"> <li>• Two Standards set to finalize in June 2023 (industry-specific):               <ul style="list-style-type: none"> <li>S1: Sustainability disclosures</li> <li>S2: Climate-related disclosures</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• ESG annual reporting (industry-specific)</li> </ul>
<b>Assurance</b>	<ul style="list-style-type: none"> <li>• Financial statement audit (ICFR) Scope 1 and 2 GHG emissions: Limited assurance, then reasonable</li> </ul>	<ul style="list-style-type: none"> <li>• Subject to jurisdictional requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainability disclosures follow limited assurance, then reasonable assurance</li> </ul>



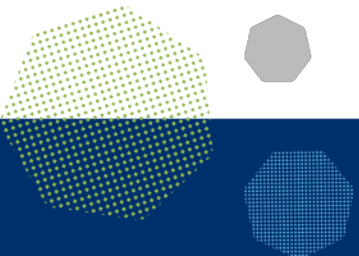


# ESG Risk Ratings

- ESG Risk Ratings measure and quantify exposure to long-term ESG risks
- Typically performed by specialized rating agencies such as MSCI or Sustainalytics
- Ratings agencies evaluate material risks to companies within their respective sectors or sub-industries
- Higher scores indicate lower ESG risk in comparison to other companies within the same sector or sub-industry
- Utilized by investors and asset managers to inform investment decisions

MSCI 

 SUSTAINALYTICS



# Internal Control Over Sustainability Reporting

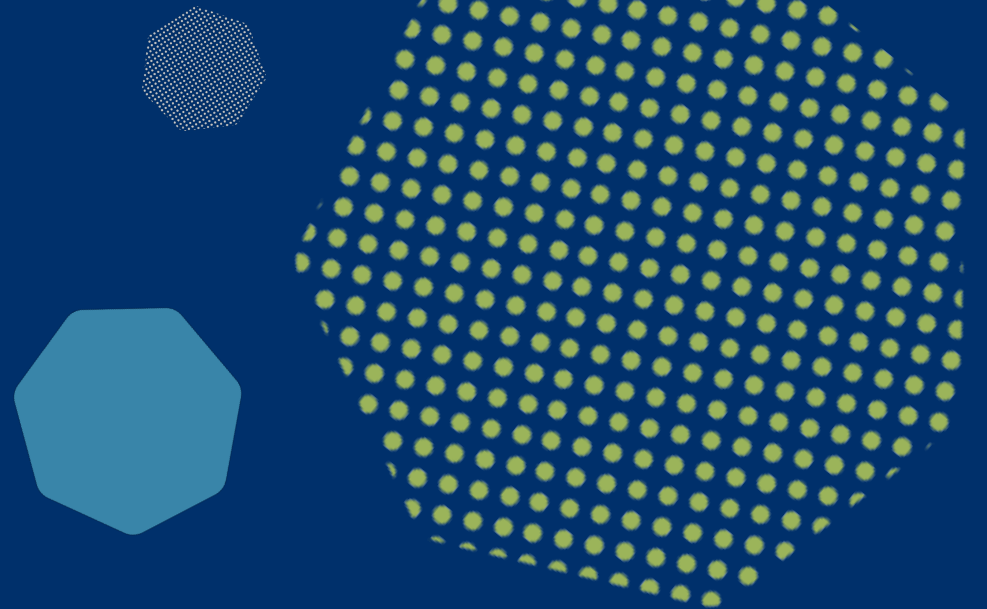
- The COSO Internal control framework was expanded in 2023 with supplemental guidance:
  - “Achieving Effective Internal Control of Sustainability Reporting (ICSR)”
- Inclusive of:
  - Sustainable business information. Often referred to as “nonfinancial,” “environmental, social, and governance (ESG)”
  - Role of Internal Audit in sustainability reporting
  - Themes for effective systems of internal control over financial and sustainable business information



## Polling Question 4

What level of involvement does your internal audit team have with ESG?

- A. They are not involved
- B. There have been some conversations, but not a lot of formal planning
- C. We have a game plan and committed resources
- D. Internal Audit is part of ESG & understands the COSO guidance



# Starting Your ESG Reporting Journey

- Successful implementation and reporting is contingent upon understanding:
  - The ESG landscape (Frameworks, Standards, Regulations)
  - How your industry fits within the context of this landscape
  - Requirements relevant to you from ISSB Standards and the TCFD framework, based on stakeholder demands, including regulators
  - How your ESG reporting aligns with what is important to your key customers and their needs
  - Your ability to successfully develop, implement, and maintain the program



# Questions?



Stephen Lathrop  
Managing Director  
UHY Consulting

678-602-4485  
slathrop@uhy-us.com



Luke Nelson  
Managing Director  
UHY Consulting

678-602-4370  
lnelson@uhy-us.com



Mike Poveda  
Managing Director  
UHY Advisors

518-694-5945  
mpoveda@uhy-us.com



# About UHY

UHY is one of the nation's largest professional services firms providing audit, tax, consulting and advisory services to clients primarily in the dynamic middle market. We are trailblazers who bring our experience from working within numerous industries to our clients so that we can provide them a 360-degree view of their businesses. Together with our clients, UHY works collaboratively to develop flexible, innovative solutions that meet our clients' business challenges. As an independent member of UHY International, we are proud to be a part of a top 20 international network of independent accounting and consulting firms.



UHY-US.COM | An independent member of UHY International





## We Serve You Where You Work

For a complete listing of our U.S. offices, please visit: [www.uhy-us.com/locations](http://www.uhy-us.com/locations)

## GLOBAL

As an independent member of UHY International, we are proud to be a part of a top 20 international network of independent accounting and consulting firms. For a complete listing of our member firms, please visit: [www.uhy.com/locations](http://www.uhy.com/locations)

UHY LLP is a licensed independent CPA firm that performs attest services in an alternative practice structure with UHY Advisors, Inc., and its subsidiary entities. UHY Advisors, Inc.'s subsidiaries, including UHY Consulting, Inc., provide tax and business consulting services through wholly owned subsidiary entities that operate under the name of "UHY Advisors" and "UHY Consulting". UHY Advisors, Inc., and its subsidiary entities are not licensed CPA firms. UHY LLP, UHY Advisors, Inc. and UHY Consulting are U.S. members of Urbach Hacker Young International Limited, a UK company, and form part of the international UHY network of legally independent accounting and consulting firms. "UHY" is the brand name for the UHY international network. Any services described herein are provided by UHY LLP, UHY Advisors and/or UHY Consulting (as the case may be) and not by UHY or any other member firm of UHY. Neither UHY nor any member of UHY has any liability for services provided by other members.

