



CLIENT ADVISORY

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ESG DISCLOSURE IN A POST-COVID WORLD A GLOBAL POLICY GUIDE FOR BUSINESS

Latest policies and implications for corporate leaders in today's new era of transparency and environmental, social and governance disclosures.

A companion guide to **ESG LEADERSHIP IN A POST-COVID WORLD** with more context on trends shaping ESG communications and engagement with stakeholders. Pressures for corporate disclosure on environmental, social and governance (ESG) factors are rising. Failure to prepare now means inviting regulatory and financial risks – as well as missed opportunities to build and protect reputation, attract capital, talent and customers, and drive sustainable business impact. In the guide that follows, we unpack the key global ESG policy developments shaping this new transparency mandate, and provide guidance on how companies can better prepare for new ESG regulations.

CONTEXT

NEW POLICY DEVELOPMENTS ON GLOBAL AND REGIONAL ESG STANDARDS

Beyond upending economies and societies and disrupting business and supply chains, the pandemic also reinforced global economic and societal gaps and disparities – prompting a new sense of urgency to build more inclusive and fairer economies.

Governments, businesses, investors and civil society are now calling for more accountability to address key challenges for society and the planet. Already this year, there have been significant developments on the ESG policy front:

- + The Group of Seven (G7) endorsed the Task Force on Climate-related Financial Disclosures (TCFD) and signaled support for making climate risk disclosure mandatory.
- + The Group of Twenty (G20) announced backing for a new International Sustainability Standards Board (ISSB) to create a climate disclosure standard by the middle of next year.
- + The European Union is moving forward with an overhaul of sustainable finance policy and larger climate initiatives, with its 'Fit for 55" legislative package this week.

And beyond climate, regulators are looking at broader social and governance disclosure to address diversity, equity and inclusion (DE&I) and social justice issues.

As a consequence, ESG policies, standards and disclosures are evolving. Companies are facing new ESG-related reporting requirements in the European Union and may soon face mandates in the United States. This is a time for boards, CEOs and executive leadership to monitor the emerging policy landscape and prepare for a new era of ESG action.

THE EMERGING ESG POLICY FRAMEWORK IN FOUR GLOBAL REGIONS

While ESG attention is growing globally, governments are acting at different scales and pace. Here is a global look at current developments that may impact companies, including what to watch for in the months ahead.

Europe and the UK

The most advanced policy on ESG disclosure is in Europe where they're carrying out a major overhaul of sustainable finance legislation, with consequences on both the financial services industry as well as the entire corporate sector. The new requirements aim to increase transparency, drive capital to climate solutions, and clamp down on greenwashing. There are also new policy initiatives on the S (Social) and G (Governance) side of sustainability.

- + The EU's Taxonomy Regulation sets out an EU-wide framework a classification system known as a "taxonomy," in which investors and other stakeholders can assess whether certain economic activities are "sustainable." The initial focus has been on defining what is sustainable on climate, but the intent is to create rules on other sustainability objectives, including social objectives, at a later stage.
- + The EU taxonomy is pivotal for ESG reporting as it will underpin several other pieces of legislation. Companies will be required to disclose information against the taxonomy framework under the Corporate Sustainability Reporting Directive (CSRD). The CSRD expands previous requirements for large corporations operating in the EU to disclose ESG-relevant information under the Non-financial Reporting Directive (NFRD). The NFRD's scope is broadened to tens of thousands of companies across Europe. Notably, these will include all large companies, listed SMEs and EU subsidiaries of non-EU businesses.
- + In addition to reporting requirements, audits of non-financial information can be expected. There will be a common, mandatory set of EU sustainability reporting standards developed by the European Commission separately and implemented via secondary legislation.
- Investors will need to report against the Sustainable Financial Disclosure Regulation (SFDR), which took effect in March 2021. The SFDR sets out the information that investors will need to collect from corporations regarding how they are addressing ESG risks. Investors also need to report on how they are addressing ESG in their investment decisions for products marketed as green.
- + In June 2021, the United Kingdom announced its new Green Technical Advisory Group (GTAG). The group will provide independent advice on the development of the UK's green taxonomy, with initial recommendations due in September. Given that several members of the GTAG also worked on the EU's taxonomy, it is expected that the UK framework will largely follow the EU's blueprint.
- + Europe is influencing policy developments at the global level. Other countries, such as China, Japan, Canada, and the ASEAN region, are in different stages of consultation and evaluation to establish their own taxonomies.

- + In July 2021, the European Commission put forward a new proposal for a regulation on an EU Green Bond Standard, together with a communication on the renewed sustainable finance strategy. The "Strategy for Financing the Transition to a Sustainable Economy" covers several areas from continuing work on the EU taxonomy to climate-related risks into credit ratings and bank capital requirements, and sustainability standards and labels as tools to help channel finance to companies, issuers and investors.
- + New requirements are underway on the S (Social) and G (Governance) sides of sustainability. The upcoming Sustainable Corporate Governance Initiative (SCGI) aims to improve the EU regulatory framework on company law and corporate governance. It hopes to incentivize change from the top down and throughout the supply chain, including human rights. This initiative will set binding requirements for companies as well as company directors, and encourage businesses to consider ESG impacts and focus on long-term sustainable value creation.

United States

- President Biden has directed the Financial Stability Oversight Council, led by the U.S. Treasury Department and including the SEC, to improve ESG disclosures. SEC Chairperson Gary Gensler moved quickly to establish a regulatory framework for new ESG disclosures. The Biden Administration states that better corporate reporting on climate will channel more capital toward green industries and help governments reach their net-zero emissions goals by 2050 under the Paris Climate Agreement.
- + The SEC intends to increase investor access to important ESG drivers and measurements, pressuring public companies to step up their commitments. In March, the SEC requested public comments on whether and how it should require companies to disclose ESG actions. The comment period has concluded. A new rule could be proposed by October 2021.
- + The U.S. House of Representatives has passed legislation mandating new ESG reporting for public companies. The bill faces opposition in the Senate from Republicans. Even if Congress does not pass legislation, the SEC says it has the authority to issue regulations on its own.
- + Business groups are warning against imposing costly reporting burdens on companies, or mandating reporting that investors may not be able to understand. Companies in the energy, mining and manufacturing sectors are concerned that investors will place too much importance on a single factor such as carbon emissions.
- + Beyond climate, the SEC plans to require public companies to provide human capital disclosures, such as compensation and hiring policies, workforce metrics on gender, diversity and inclusion, turnover rates, and a breakdown of full, part-time and contract employees.
- + The SEC will also propose a rule for investment companies and investment advisors on ESG-related claims and disclosures. The rule is likely to tighten up requirements on what companies should disclose about how their ESG-promoted funds operate and are marketed.



Asia-Pacific

- + Asia is adopting a heightened focus on ESG. Prior to the pandemic, Asian consumers were already showing more attention toward sustainability. Reduced air pollution during the lockdown likely drove greater public support. China, Japan, South Korea and other countries across the region have set national net zero-emission target dates.
- + Asia is at high risk for climate impacts. Millions of people live in the path of seasonal monsoons, typhoons and melting Himalayan glaciers. Agriculture and food systems will be impacted by rising temperatures, changing rainfall patterns and drought. India and China today account for more than one-third of the world's population, so their ESG actions will impact everyone.
- + Asian companies are well positioned to address the climate challenge. Infrastructure is still being built out in many parts of Asia, which gives the region a chance to build more resilience. Leading companies in China, South Korea and Japan are innovating green technologies from electric vehicles to renewable energy.
- + Several markets in Asia remain dependent on coal for electricity production. If Asia is to move toward greener energy solutions, governments and multilateral institutions must determine how to finance such a significant transition.
- + Countries in Asia-Pacific are at various stages of ESG maturity and reporting. India's Securities and Exchange Board (SEBI) has introduced new ESG reporting requirements. The country's top 1,000 listed companies will need to submit a Business Responsibility and Sustainability Report. In China, regulators had set a goal for mandatory disclosures for listed companies by the end of 2020. Due to the pandemic, the new expected date is by the end of 2021. Japan's Ministry of Economy, Trade and Industry (METI) has created a label to identify companies reporting on ESG to improve disclosures and the long-term investing landscape.

Latin America

- + Latin America will bear an outsized impact of global climate change and is bearing an outsized impact of the COVID crisis, with recovery expected to take longer than other regions. COVID has reversed some of Latin America's economic and social progress, and exacerbated disparities between urban and rural populations, gender inequities, and healthcare infrastructure.
- Amazon deforestation remains at the center of global climate conversations. Multinational
 companies are under pressure to embrace responsible raw material sourcing from the Amazon
 and other forests. Food and paper companies are creating complex traceability metrics into
 products sourced from these regions.
- + There is a history of social conflict in Latin America tied to foreign investments in energy, mining, and infrastructure, with harmful impacts on local and indigenous populations. This gives importance to a company's focus on "S" performance. "G" is also important in a region plagued by bribery and corruption scandals in recent years.



- + Global companies that do business in Latin America will face heightened scrutiny on environmental issues, worker and indigenous rights, and bribery and corruption scandals in the region.
- + The Inter-American Development Bank (IDB)'s Index Americas now includes about 30% of Latin American firms among the most sustainable 100 firms in the region demonstrating that corporate sustainability is gaining force.
- + Global decarbonization efforts will impact Latin American markets dependent on oil and gas, mining and heavy manufacturing for exports and growth.

IMPLICATIONS

PRACTICAL POLICY GUIDANCE FOR BUSINESS

In addition to developing more robust ESG strategies and communications programs, companies must now navigate new pressures for transparency on ESG factors and performance. As the policy landscape evolves, companies must prepare now.

Here is some practical guidance for corporate leaders:

- TRACK ESG REGULATION: Put processes in place to carefully track and evaluate the proposed legislation and regulatory developments in markets such as the EU, UK, U.S., India, China and other regions that impact your operations.
- ASSESS DISCLOSURE RISK: Companies should review their current processes, data and controls related to ESG disclosures and ensure these are accurate, up to date and reliable.
 Companies should also identify policy areas that will expose risk or gaps in existing transparency policies and proactively update those policies and practices ahead of policy adoption.
- EVOLVE ESG GOALS: Companies should ensure their portfolio of ESG activities and goals are both aligned with stakeholder expectations for transparency and anticipate new reporting mandates. All companies should set tangible and timebound ESG goals – ideally evidence-based – and report on impact at least annually, using commonly accepted frameworks understood by investors and other stakeholders.
- + ADVOCATE WITH STAKEHOLDERS: The business sector has an opportunity to help shape the ESG disclosure policy landscape by engaging with key stakeholders – including policymakers and investors. Articulating a clear agenda for ESG transparency and the role business can and should play is an important component of the policy development process. The business sector can demonstrate alignment with global collaborative frameworks such as the Paris Climate Agreement and commit to transparent communication about progress against them.

CONTACT US

Weber Shandwick is a leading global communications network that delivers next-generation solutions to brands, businesses and organizations in major markets around the world. Data-led, with earned ideas at the core, the agency deploys leading and emerging technologies to inform strategy, develop critical insights and heighten impact across sectors and specialty areas.

The agency's global sustainability taskforce brings together experts from across core practice areas to accelerate best-in-class sustainability solutions with clients. This effort is led by the agency's Social Impact and Sustainability specialists, a network of more than 150 strategists with deep issue expertise in purpose, sustainability, ESG, and social issues communications with client work that spans all 17 UN Sustainable Development Goals.

For more information about how we can help, please contact one of our experts:

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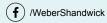
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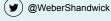
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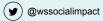


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