



The way forward for sustainability reporting

Priorities for C-suite executives



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Every year, Mazars' C-suite barometer surveys business leaders around the world to understand the opportunities and challenges they see for the year ahead.

This year's report shows that two-thirds of organisations have budgeted costs for environmental, social and governance (ESG) reporting to help address the lack of expertise needed to address growing regulatory requirements. However, building up the required ESG key competencies and allocating internal and external resources takes time, meaning complacency is not an option.

In the European Union (EU), large public interest entities (PIEs) with more than 500 employees are already subject to the Non-Financial Reporting Directive (NFRD). The arrival of the [Corporate Sustainability Reporting Directive](#) (CSRD), with its mandatory reporting requirements, will push the bar even higher as companies move to focus on quality and standards-driven sustainability reporting that will be an integral part of the management report.

Challenges for smaller entities

The challenge now is that companies with more than 250 employees, as well as listed small and medium-sized enterprises (SMEs), will come into CSRD's scope within the next few years. As a result, they will need to prepare and publish reliable information on the full spectrum of ESG topics. In many cases, these companies that have yet to report on sustainability at a granular level will lack the time needed to [put the necessary structures and processes in place](#) to report effectively and on schedule.

International considerations

One of the challenges at a global level is the different ESG reporting initiatives and taxonomies in force. In Latin America, Sustainability Accounting Standards Board (SASB) guidelines and the Task Force on Climate-Related Disclosures (TCFD) are becoming more appealing. Whereas in North America, the Global Reporting Initiative (GRI) is gradually gaining ground, although proposed new sustainability rules by the Securities and Exchange Commission (SEC) applying to companies listed on US stock exchanges are set to impact sustainability reporting significantly.



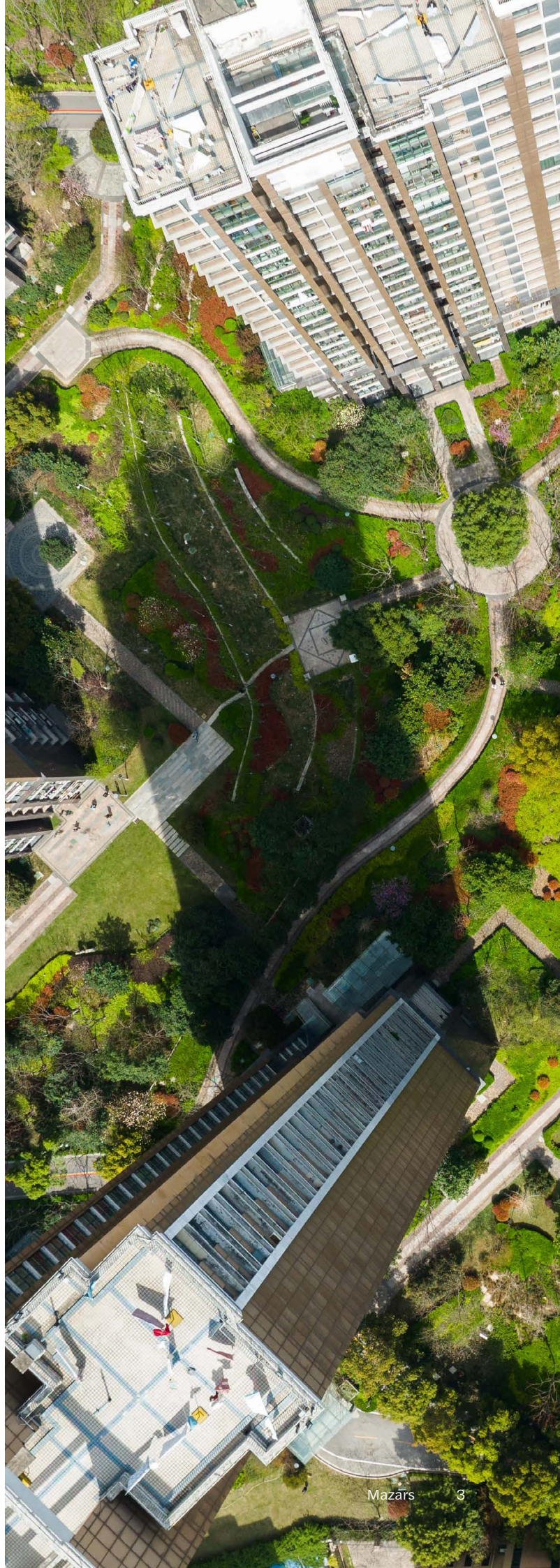
Likewise, in the Asia Pacific (APAC) region, countries are starting to tackle ESG issues through the implementation of sustainability regulations across their stock exchange. While this represents a need for reporting standardisation, it suggests a growing awareness that sustainability reporting is set to become the norm on a global scale, albeit through different frameworks.

Supply chain issues

Of course, even for those countries that have yet to embrace mandatory sustainability reporting fully, more robust requirements in Europe do put companies who supply to EU-based companies indirectly in scope of CSRD. This places an obligation on international companies based in Europe or within the supply chain to understand and respond to CSRD reporting requirements. EU companies will gradually become more demanding in terms of data and ESG performance required from suppliers to prepare and improve their own reporting – this requires consideration of the social and environmental impacts across the entire value chain and Scope 3 is the clear current example. In addition, EU companies require some ESG information and data from their suppliers as part of the tender process and documentation.

Reporting versus action

In terms of who is responsible for ESG reporting, the Chief Executive Officer (CEO) may be more influential in driving the ESG strategy and implementing actions along with the Chief Sustainability Officer (CSO). However, with the green taxonomy and CSRD, we observe that the Chief Financial Officer (CFO) is increasingly responsible for ESG reporting, putting pressure on finance teams to upgrade competencies and make organisational changes. In countries with less ESG maturity, there is less clarity on how reporting responsibilities should be split. However, in terms of ESG transformation, ongoing discussions now point to the importance of the CEO's role as ESG is becoming a focus point for enterprise strategy.





Communicating performance

While there's often a focus on ESG reporting frameworks, how you communicate performance remains important. As ESG performance becomes standardised and comparable, it will be less about sharing all the positive work a company is doing for society or the environment. ESG key performance indicators (KPIs) and data points that link back to targets set will be as important. Dashboards that monitor year-on-year success or failure will help inform communication initiatives. Additionally, KPIs will be subject to comparisons and comments by analysts and ESG reporting data benchmarked against competitors. Serious explanations about the interconnectivity with financial information will also be needed for many stakeholders. This will require a review of current reporting and controlling dashboards and gradually a coordinated pushdown of the new KPIs to all levels of management to effect change.

While I hope we've illustrated that the time for ESG reporting complacency is over, equally, we expect this report to help companies take a few more steps along their reporting journey and broaden the discussion to how international developments can impact everyone's reporting landscape.

We hope that this guidance on how European standards set the bar high, how the US needs to prepare for elevated ESG compliance, how Latin America and APAC aim to strengthen sustainability reporting, as well as how one company in Chile is preparing for ESG reporting helps to shine a practical light on the way forward for ESG reporting.



Emmanuel Thierry
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Sustainability reporting begins to take the spotlight in Australia

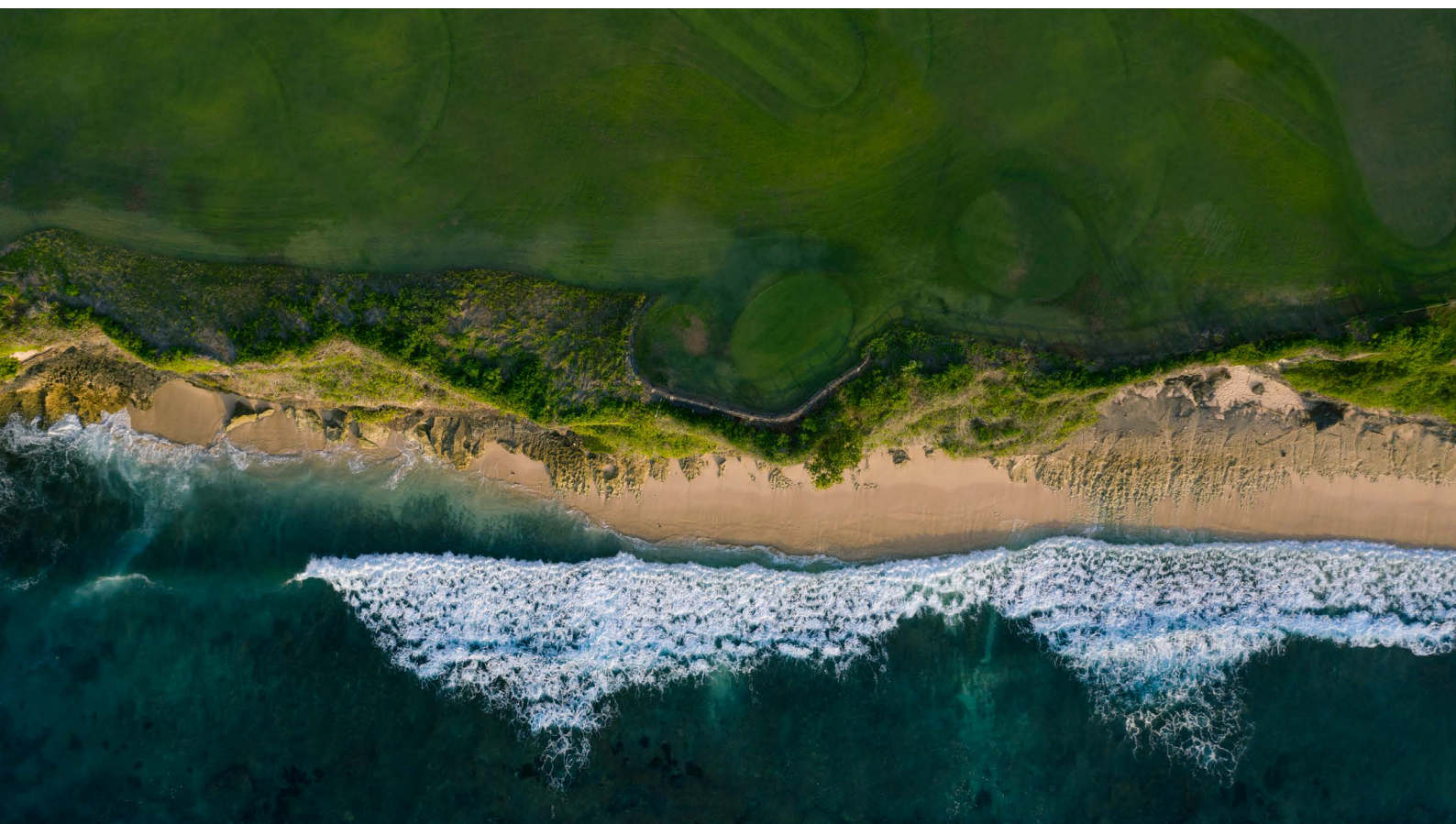
Insights from Australian companies

New sustainability reporting regulations have been introduced in many countries around the world, with the most demanding regulations being in the EU with the introduction of the CSRD. In Australia, more than a third (36%) of executives reported the need to make a substantial or significant effort to meet sustainability regulatory requirements. On the other hand, their international equivalents, such as the EU, seemed better equipped, with 28% indicating that a substantial amount of effort or significant effort would be necessary.

A lower proportion of Australian executives did however report that their budgeted costs address sustainability reporting (48%) compared to their global counterparts (65%). Australian executives (45%) are also slightly less likely to go beyond the minimum compliance requirements, compared to the global average (49%).

ESG reporting readiness

Percentage of respondents expecting that a lot of effort or significant effort is needed to meet sustainability regulatory requirements.





Sustainability reporting responsibilities and priorities

According to the Mazars' C-suite barometer, a notable 53% of Australian companies entrust the task of sustainability reporting to their Chief Executive Officer or Chief Financial Officer. This percentage significantly surpasses the global average, where the responsibility for sustainability reporting is more commonly shouldered by the Chief Sustainability Officer.

While some Australian companies expect to relieve the Chief Executive Officer from these sustainability reporting responsibilities in the future, the role of Chief Sustainability Officer is not gaining momentum in Australia, instead respondents plan to allocate the responsibilities to the Head of Corporate Affairs, Chief Risk Officer or Chief Marketing Officer.

In terms of reporting, Mazars' C-suite barometer shows 65% of Australian respondents expressed a strong preference for disclosing sustainability reporting integrated with the financial reporting, a result much higher than the 50% global average. Some ESG topics received more budget attention than others with human rights being a prominent key topic in budget priority for 48% of Australian respondents, a figure higher than any other region. Conversely, in comparison to other regions, governance ranks considerably lower on the list of Australian priorities.

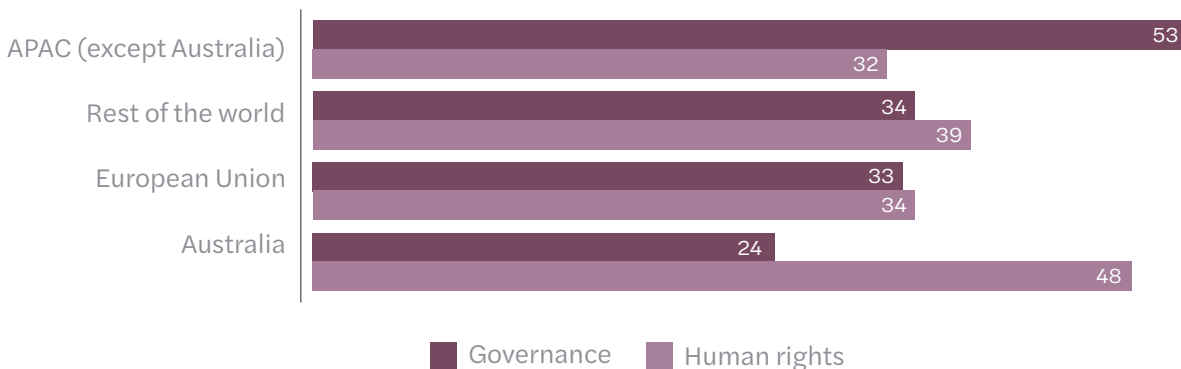
CEO or CSO Sustainability reporting responsibilities

Percent of respondents reporting that the Chief Executive Officer or the Chief Financial Officer is in charge of sustainability reporting.



Planned investments in specific ESG topics

Percent of respondents that budgeted cost around governance and human rights issues.



A rapidly evolving regulatory landscape

The regulatory sustainability landscape is changing in Australia. In June 2023, the Australian Treasury issued a proposal to introduce mandatory reporting on climate-related financial disclosures for many companies. Australian companies with significant business activities in Europe will fall in the scope of the CSRD. Companies that export cement, iron & steel, aluminium, fertiliser, hydrogen and electricity to the EU will need to accelerate their decarbonisation efforts to avoid being subject to a carbon tax in accordance with the [Carbon Border Adjustment Mechanism](#).

Australian subsidiaries of international groups will have to collect and prepare the ESG information requested by their head office abroad and so comply with the local ESG regulation of their head office. Smaller companies supplying large groups will be subject to the ESG requirements set by their clients or risk losing access. In brief, places to hide are becoming rare. If they haven't started yet, Australian companies will soon have to embark on their sustainability reporting journey.



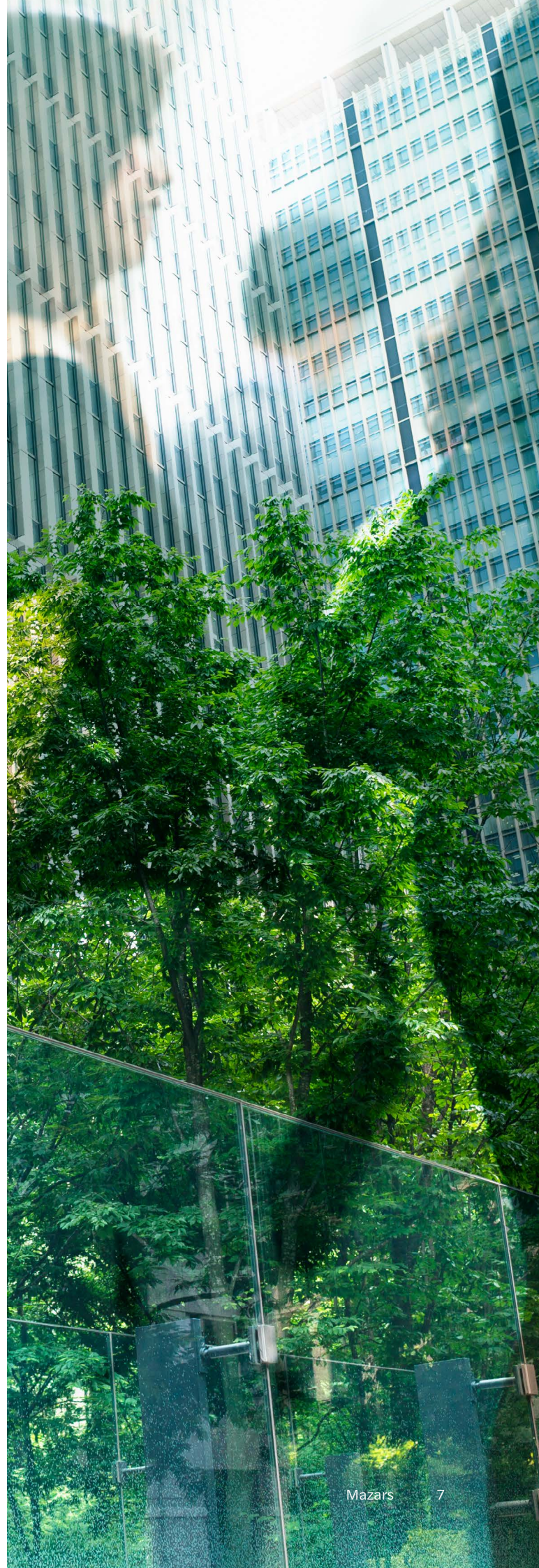
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Setting the bar high on European standards

European Sustainability Reporting Standards (ESRS) create new demanding transparency obligations on sustainability commitments. Under CSRD these standards prescribe both the content and format of sustainability-related information that companies will now be required to report on.

ESRS intend to meet users' needs for high-quality, comparable and relevant sustainability information, covering material information on impacts and the risks and opportunities relating to ESG matters.

With the EU setting the bar high on sustainability reporting, companies should structure themselves and engage their transition works rapidly to address the new reporting challenges in the most efficient and relevant way. This approach is key given the very tight timeline between now and the first release of CSRD-compliant sustainability reports.

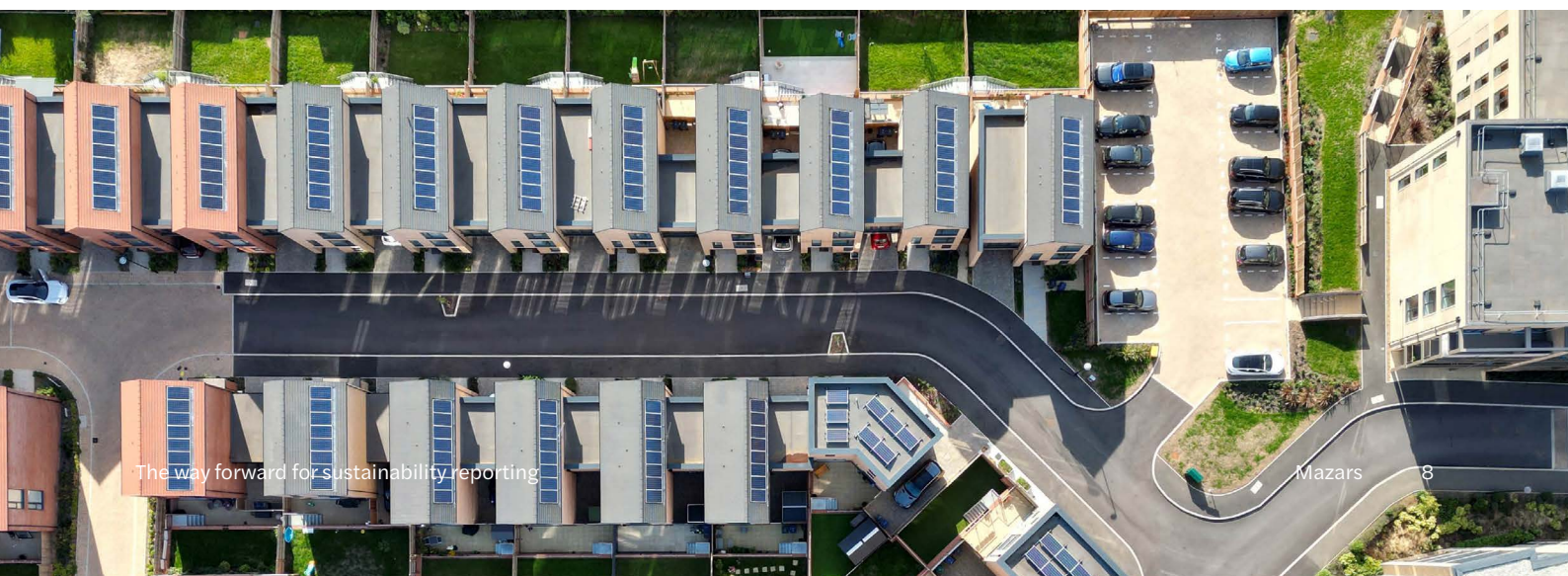
Timing is a major issue

According to Mazars' C-suite barometer, only a third of organisations consider themselves ready for ESG reporting requirements.

As a reminder, in the EU large PIEs with more than 500 employees are already subject to the NFRD. According to the CSRD, those entities will have to [comply with ESRS for financial years starting on or after 1 January 2024](#). Therefore, they will have to start collecting data in 2024 to publish their first ESRS-compliant sustainability statements in early 2025. Other large companies, including

large PIEs with between 250 and 500 employees and large unlisted companies, will have to report one year later, so early 2026 for the 2025 financial year. Listed SMEs will have another year to prepare their sustainability statements based on a specific standard unless they opt out from the reporting requirements for two more years, therefore having to report for the first time in early 2029 for the 2028 financial year.

For the largest entities yet to put in place the necessary structures and processes to prepare and publish reliable sustainability information, timing is now a serious issue. The complexities of covering the full spectrum of ESG topics from a double-materiality perspective, whereby companies will have to report both on the impacts of their activities on people and the environment, as well as on how various sustainability matters affect them financially, should not be underestimated. This type and level of detail required by ESRS will be a challenge for many companies, particularly those that have yet to report on sustainability. In addition, reporting will have to be robust enough to stand up to scrutiny from market regulators and external auditors.





Non-EU groups also come within CSRD's scope

Responding to the CSRD is not only mandatory for EU companies; there are also consequences for non-EU groups depending on several factors. For example, [non-EU groups whose securities are listed on a regulated EU market will have to comply with CSRD requirements](#) and timetables equivalent to EU groups. Non-EU groups not listed on an EU regulated market but having a significant level of activity in the EU through a subsidiary or a branch, will also have to produce a sustainability report based on specific standards developed for them and applicable early 2029 for the 2028 financial year. In the meantime, their large unlisted European subsidiaries will not be able to apply the exemption offered by the CSRD. A sustainability report will thus have to be prepared at their level, using general ESRS, until a consolidated report is prepared by the non-EU mother company. It's worth noting that large, listed EU subsidiaries will never be able to apply the subsidiary exemption.

ESRS to be aligned with IFRS Sustainability Disclosure Standards

For EU companies with international ambitions, interoperability of ESRS with other generally accepted standards will be key. Currently, the European Commission (EC) – with the help of the European Financial Reporting Advisory Group (EFRAG), its technical advisor – and the International

Sustainability Standards Board (ISSB) – which is hosted by the International Financial Reporting Standards (IFRS) Foundation – are working closely together to align draft standards and reassure both preparers and users that they are travelling in a similar direction. The idea is that once a company complies with ESRS, it will also comply with IFRS Sustainability Disclosure Standards, the latter aiming at constituting a global baseline of sustainability disclosures focused on the needs of investors and the financial markets. Multiple reporting should be avoided since EFRAG has also cooperated with the GRI to develop its standards.

As a strategic lever for sustainability and business performance, assessing CSRD scope and ESRS alignment are now vital. To gain a competitive advantage, companies should set their own bar high and prepare as soon as possible to comply with the new requirements.



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Preparing for elevated ESG compliance in the US

Like elsewhere in the world, a big challenge for sustainability/ESG¹ reporting in the US is the number of sustainability-related standards that currently exist. For companies looking to start or progress their sustainability journey, assessing standards already in play and keeping track of changing or new standards continues to muddy the waters. From an operational viewpoint, there's also the more challenging task of gathering the correct data to report and track against chosen standards, implementing system changes and developing the required expertise.

According to Mazars' C-suite barometer, companies in North America are most likely to produce a standalone sustainability report, which in some ways reflects the different approaches to ESG frameworks that exist across the region. However, there are signs that change is on the way.

Current ESG drivers

While the United Nations Sustainable Development Goals (UN SDGs) provide guidance for organisations working towards sustainability, many CFOs of US companies prefer to report on ESG based on the more prescriptive and industry themed SASB standards, which are set to form the basis of the new IFRS Sustainability Disclosure Standards.

SASB and IFRS cover the financial consequences of a broad range of sustainability topics, known as financial materiality. Those organisations that also look to report their impact on the economy, environment, and people, and to identify and secure value creation opportunities, opt for the GRI standards, which facilitate transparency on an organisation's contribution to sustainable development, known as impact materiality.

GRI's value-driven approach to sustainability reporting has gained ground through its focus on specific topics such as climate change, the economy or people related to a company's most significant impacts. If we take the notable amount of work by US companies in the past five years on diversity and inclusion issues – particularly encouraging more women in the workforce and improving health and safety – GRI is seen as a better way to report on the long-term value that such improvements bring.

Both financial and impact materiality allow companies to determine their risks linked to sustainability as well as those value creation opportunities derived from how ESG impacts their financial performance and how the company impacts sustainability. For instance, sustainability can create value by reducing capital costs via enhanced risk management, also through operational efficiency and by helping to attract and retain new talent and customers.

Besides an organisation's responsibility and strategic goals, sustainability reporting in the US will soon be driven by the need to comply with new expected regulations.

Debunking reporting myths

As the US currently has no equivalent to Europe's CSRD, it's mistakenly assumed that sustainability reporting is entirely voluntary. However, alongside numerous state laws, there are at least ten major Federal laws protecting the environment and the health and safety of US residents plus many industry-specific regulations. Therefore, US companies already have a broad range of sustainability compliance reference points. These reference points provide a foundation for US companies expanding their ESG reporting, particularly if they supply to, or have suppliers in, Europe, bringing them into the scope of CSRD.

For many US companies, the next step is to recognise the value of presenting its links to sustainability and to showcase ESG reporting holistically within an integrated framework, rather than a reliance on ad-hoc statements.

¹ Used interchangeably to describe non-financial reporting. ESG: Environmental, Social, and Governance.

Mounting pressure

Using a robust ESG framework helps explain the value of actions and identify gaps. This is particularly important when there are elevated expectations on ESG reporting from investors, clients and other stakeholders. In addition, proposed new sustainability rules by the Securities and Exchange Commission (SEC) applying to companies listed on US stock exchanges are set to impact sustainability reporting significantly.

Such a huge shift is expected to move the needle towards compliance and what controls and systems companies should put in place to collect, track, monitor and analyse ESG-related data. Indeed, US companies already in scope of CSRD are not only being asked for more extensive ESG reporting but also for third-party assurance. As pressure mounts to comply and report, companies will need to have KPIs in place and explain their ESG strategy in a way that shows real commitment and action.

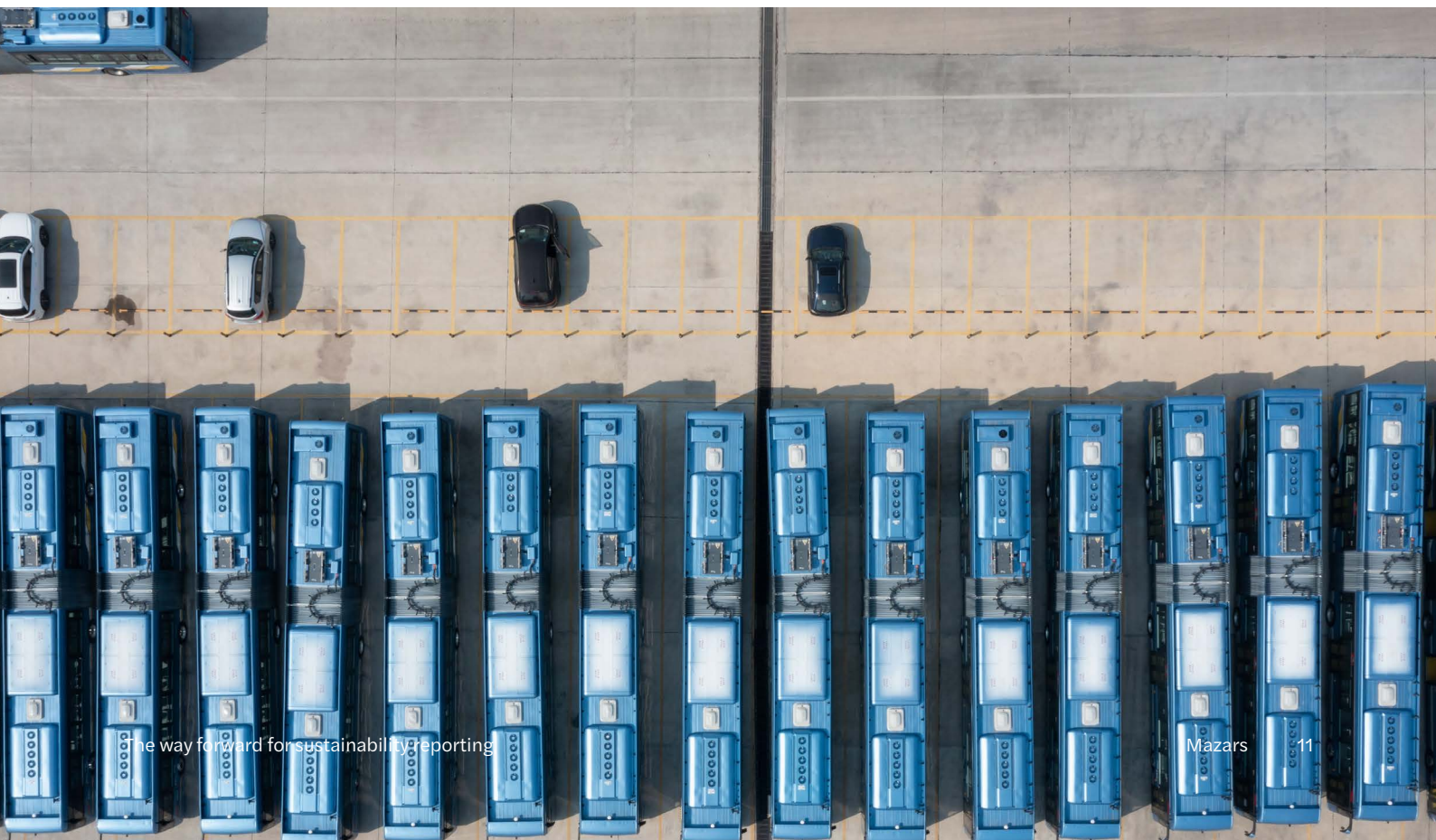
An evolving compliance and reporting landscape

While US companies are at different stages of their sustainability journey, the need to comply with evolving legislation is clear. Ultimately, companies need to plan or ensure the route they take gets them to the point of producing a sustainability report that can be third-party assured.

However, strategies and roadmaps take time to develop, and systems and processes must be put in place and tested, allowing for many iterations. With a shortened timeframe ahead, sitting on the fence or waiting for a triggering event is no longer an option.



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Joining the dots on sustainability reporting in Singapore

The Asia Pacific (APAC) region is gradually adopting more robust sustainability standards, particularly in Hong Kong and Singapore. In Singapore, a significant driver has been the Singapore Stock Exchange (SGX), which introduced new sustainability regulations for all listed companies. The aim is for sustainability reporting to complement financial reporting by highlighting the material risks and opportunities of ESG impacts. The idea is that combined financial and sustainability reports join the dots to provide a better assessment of a company's economic prospects and quality of management.

In terms of climate reporting, SGX has used the recommendations of the TCFD and introduced a phased approach for different sectors with effect from financial year 2022 for publication in 2023 on a comply or explain basis. While SGX has prescribed the TCFD recommendations for climate-related disclosures, listed companies should prioritise globally recognised frameworks that are industry relevant to guide their reporting on a broader range of sustainability impacts.

While these new sustainability regulations offer a more precise roadmap for all listed companies in Singapore that allows reporting to be better understood and comparable with peers and jurisdictions worldwide, challenges remain.

Policy challenges

There is no doubt that these new regulations represent a considerable change for Singapore companies, given the timeline and mandatory approach now required. As a result, developing relevant climate-related disclosure policies consistent with TCFD requirements remains a challenge. Assessing Scope 1, 2 and 3 emissions is not straightforward, particularly for companies in the financial sector. The other big challenge we are witnessing is the requirement to establish board diversity policies and produce statements. As well as the gender make-up of boards, there also needs to be an assessment of the range of skill sets each board member possesses, with sustainability training for company directors as mandatory. These assessments must then align with the sustainable business model targets and outcomes.

The fact that reports are subject to internal assurance, with the likelihood of external assurance within the next four years, means that collected data must be accurate and aligned with the chosen sustainability reporting framework. Importantly, it requires focusing on best practices that underpin authentic and credible ESG reporting.



Resources remain an issue

It is not unusual for Singapore to have a talent crunch and sustainability talent is no exception. In addition, a scarcity of sustainability expertise puts pressure on wage budgets. While blue chip companies may already have CSOs in place to drive the process, other listed companies may face the predicament to have dedicated sustainability resources. Thirdly, the Singapore government's efforts to improve sustainability across all businesses mean it is likely that larger SMEs will begin to embrace sustainability reporting for funding or reputational purposes, putting additional pressure on sustainability talent available.

Developing a roadmap and raising standards

While the new sustainability regulations provide a roadmap on the who, what and when of sustainability reporting, it is up to companies to strategise and develop policies that underpin obligations. Initial regulations requiring Singapore companies to comply or explain puts the emphasis on solid policies and data that back up reporting or lack thereof. Roadmaps will be influenced by the reporting framework chosen and the risks and opportunities of material ESG impacts identified. From this starting point, companies can develop a template that focuses on collating relevant data and can be used for addressing ESG changes needed, such as developing greener manufacturing models or backing up reporting information subject to assurance.

Finally, an increasing number of initiatives by Singapore companies and sustainability consultants are helping to raise standards through workshops and kitemarks that define goals and promote best practices. As Singapore and the rest of the APAC region look to embed sustainability into business models, higher regulatory standards and the trickle-down effect of best-in-class sustainability reporting models will be game-changing.



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Strengthening sustainability reporting in Latin America

An increasing number of local ESG regulatory initiatives are beginning to emerge in Latin America. Pressure to reduce environmental and climate impacts in the region, specific social challenges in the region and the need to meet global sustainability standards is leading Latin American countries to raise sustainability ambitions and strengthen reporting standards.

In terms of meeting global ESG initiatives at corporate level, Latin American companies also look to the SASB, the TCFD and GRI standards.

Developing a new norm

When aligning with sustainability standards, companies are not currently focusing on synergies but more on how standards complement each other. In this respect, the more general SASB guidelines and the climate-related focus of TCFD are proving appealing to many Latin American companies, whereas less companies are aligning with GRI standards, which are seen as having more in common with CSRD.

In Chile, the new sustainability reporting norm for large and medium-sized companies includes the SASB guidelines and parts of the TCFD. In terms of a timetable, large companies need to comply by April 2023, medium-sized companies in 2024, with smaller companies following the guidelines in 2025. In addition, Colombia has developed a green taxonomy, Mexico has recently released its own sustainable taxonomy and other countries, including Chile, are also working on green taxonomies.

While assurance is still voluntary across Latin America, some companies are getting external assurance on sustainability reporting. However, as countries look to strengthen reporting standards, compulsory assurance is expected to arrive eventually.

Challenges remain

The often-unique nature of ESG issues in Latin America presents challenges for companies developing sustainability strategies. Many companies in Latin America are in the mining, energy and agriculture sectors, where there are a number of environmental challenges. Plus, corporate interaction with indigenous communities requires a strong social focus when implementing ESG measures. In addition, companies in the financial sector are struggling with the technicalities of incorporating indirect climate impacts into the sustainability reporting process.

At a corporate level, many of the largest listed companies in countries such as Chile, Colombia, Brazil, Mexico and Peru are still mainly family owned. This presents specific governance challenges as independent directors and ESG committees are often minority shareholders facing the additional pressure of convincing majority shareholders, who are also family members, to commit and move forward with sustainability measures and investments.

A further challenge for Latin American companies is the lack of sustainability knowledge and expertise in the region, particularly at board level. This is a concern as there is a growing awareness that for sustainability strategies to be successful, they must be developed and led by the C-suite.

Until Latin American companies reach a higher level of ESG maturity, a more significant role for external support and expertise to build up sustainability knowledge will be essential.

Recognising the opportunities

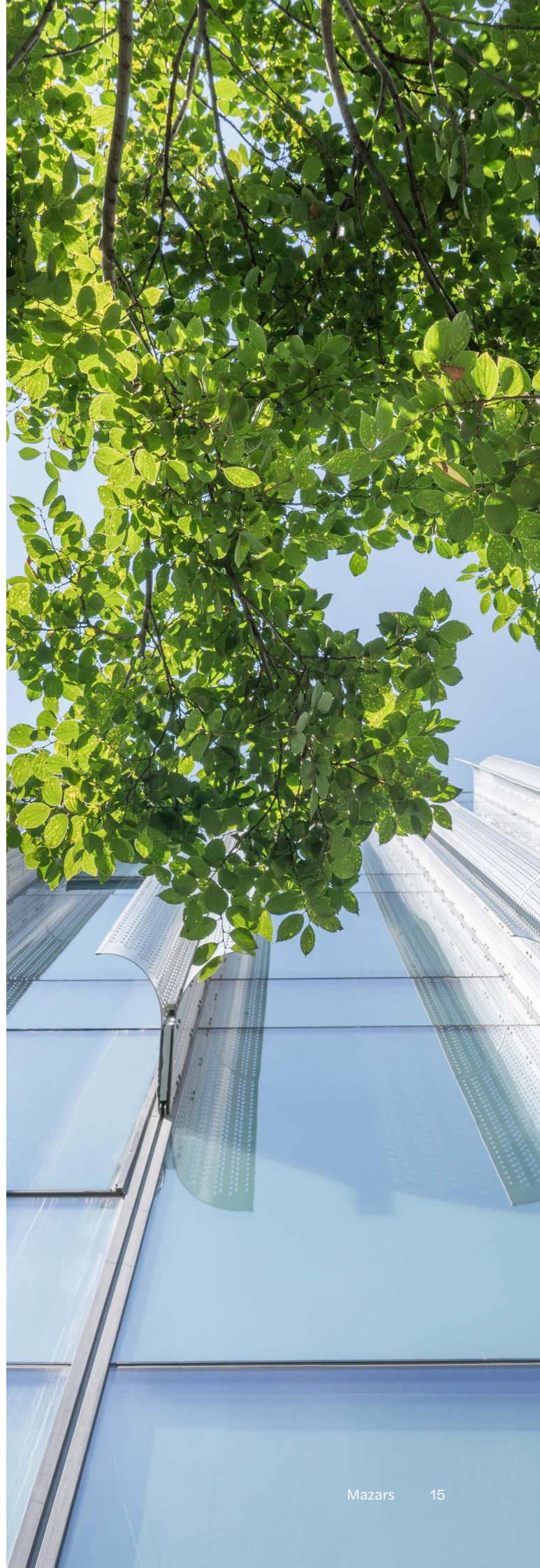
While many companies are beginning to understand the need to operate sustainably from a client and regulatory perspective, there still needs to be a greater understanding of the clear benefits and opportunities at a business level. Perhaps as Latin America's sustainable finance sector continues to grow, the link between having a sound sustainability strategy and cheaper finance can help to improve understanding of how sustainability can add to the bottom line.

Responses from Mazars' most recent C-suite barometer suggest that companies spend a large proportion of their time, effort and budget on ESG reporting. While this is understandable in the early stages of reporting, companies now need to put a foot on the accelerator to implement sustainability actions, particularly concerning environmental, social and human rights impacts.

As discussions between private and public sector stakeholders evolve in Latin America, a more integrated approach to ESG regulation and implementation will help support companies' sustainability ambitions. The aim is for reporting to become a natural, easy consequence of a good ESG strategy and not the sole driver.



Fanny Tora
Director of Sustainability and ESG,
Mazars Chile



Aspiring to go above and beyond reporting requirements

Mazars supported Chilean construction company, Salfacorp, in collecting data and helping to compile their integrated sustainability report. Jorge Correa Carvallo, Chief Administration Officer at Salfacorp, explains the company's aspiration to go above and beyond reporting requirements and why sustainability will remain high on its agenda.

First, it is essential to highlight that the construction industry has a direct relationship with people and the environment. So, reporting on our sustainability impacts allows us to highlight the strengths associated with the work we have been carrying out and the improvements we can achieve.

It is an opportunity that we could not miss and reflects our choice to not only align with the new Chilean sustainability reporting norm, the SASB and TCFD but also to become compliant with the GRI and seek external assurance.

High ambitions

It also reflects Salfacorp's primary ambition, which is to position itself as the most outstanding construction company in Latin America in connection with sustainability. To accomplish this aim, it was clear that we had to go beyond what is required in regulatory terms and provide our stakeholders with more information in a transparent and responsible manner.

In terms of challenges, the main one for Salfacorp was to ensure leadership was fully prepared for sustainability reporting and to coordinate groups within the company to implement our strategy. With regards to collecting data required from external suppliers and the supply chain, the decision to work with our providers and subcontractors on sustainability reports early on in the process meant understanding and support were at a high level.

Appreciating the risks

Looking to the future, climate change issues highlight that our responsibility to the environment and respect for people is here to stay. It's clear that companies that do not take sustainability issues seriously will be excluded from the market, and the industry is taking this on board. Salfacorp, along with our mining, real estate and construction clients understands this.

As a company, we remain resolute in our aim to demonstrate to stakeholders and clients that we continue to be sustainably efficient and deliver products and services that engage with the environment and people's well-being.

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