



REGULATION AND SUSTAINABILITY:

Five questions, answered

Regulation can be a powerful force in driving sustainable practices amongst businesses – from corporate reporting to mandatory action. But what are the right metrics for sustainability and who should be responsible for tracking them? The response to these questions may be different based on geography, sector and market segment.

As demand for sustainability grows from a diverse array of players, global regulators are divided on how to keep up. Most sustainability-based regulations are not shared internationally, meaning each country has different standards.

In such a dynamic landscape, there are five questions set to shape the conversation over the coming months:

1. Who is pushing for the incorporation of sustainability into business operations and ESG reporting?

While many of the world's largest companies already follow voluntary reporting standards to report on extra financial metrics such as ESG risks, there is no global agreement on sustainability reporting requirements. Even so, the most powerful force in initiating such reporting is due to pressure from stakeholders – whether that be investors, asset owners, non-government organizations or the general public. This increased demand for transparency without a global unified agreement means that there are substantial differences in how countries are developing frameworks, legislations and programs in response. In order to respond to stakeholder pressure, companies need to obtain meaningful feedback on their sustainability performance via reporting processes which will help to achieve this global shift toward sustainability.

2. How to bridge the SDG funding gap?

The SDGs have come to symbolize sustainability in today's world but achieving them by 2030 requires serious engagement and investment, as the cost of achieving them is estimated at \$6trn per year upwards. Funding the 17 Sustainable Development Goals (SDGs) is a much-debated topic amongst experts, strategists and legislators. Moving away from the concept of funding towards private sector capital or social impact investing could be potential new avenues to leverage in order to achieve the tremendous ambition of the SDGs.

3. How to balance government incentives with regulatory action

Finding the right mix between subsidies or tax relief for companies that initiate sustainable practices with the harsher action of fines is a tricky balance for governments to accomplish. However, businesses have perceived the increase of ESG regulations to also be an opportunity for them to play a role in designing solutions. One example of this is the green bond market, where financing is made to be more attractive at a low cost or with added benefits.

4. Where are companies positioned in the push towards sustainability regulation?

Many of the world's biggest businesses are calling for better – and more challenging – corporate ESG reporting to increase transparency with their stakeholders and to reap the benefits that it can bring to their strategy and long-term growth. This business-based call for policy change represents a significant shift in the corporate mindset, as corporations have committed to adopt the UN's SDGs as well as sign the Paris agreement. The concept of sustainability is no longer seen as a bonus, but rather integral to a business' operations.

5. How will regulation impact companies during their path to sustainable growth?

There is no question that regulation, particularly environmental regulation, can have a tremendous impact on a companies' ambition toward long-term growth and marketplace success. Moreover, companies are generally unprepared when it comes to dealing with the potential impact that environmental, social or governance-based regulation will have on their business. Taking the necessary time and steps to anticipate sustainability regulation across all geographies where a company operates will lead to significant ROI, especially when it can be seen as an opportunity rather than a financial or administrative burden.

Transparency via consistent and continued corporate disclosure and engagement in sustainability strategy is a quick win for companies to not only improve relationships with their stakeholders but also to better anticipate and react to environmental, social, economic and regulatory changes as they arise. There is no doubt that regulation when it comes to sustainability will continue to increase in different forms in various geographies, but the message is clear to businesses across the world: Sustainability regulation plays a turnkey role in driving superior business performance and the opportunity that it presents is one that should be seized and can be done by companies if they quantify and adjust accordingly.

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