New global ESG/CSR mandates require that companies must document how they manage the ESG factors and disclose them to stakeholders

New proposed rules by the Securities and Exchange Commission (SEC) and the EU will require enhanced disclosures on environmental, social, and governance (ESG) strategies that drive investments with a "substantial impact" on how companies go about regarding their global ESG/CSR responsibilities.

On the one hand, The SEC and global oversight authorities remain vigorously engaged in reviews and enforcement activities to avoid greenwashing. However, on the other hand, it is in the business's best interest to implement and execute the carbon footprint component of their corporate social and environmental responsibility and disclose the GHG emissions and create business value of their environmental privileges in the investment strategy.

Significant compliance burden

Some companies are pushing against the proposed rule due to the broad categorisation of certain ESG plans requiring companies to provide specific disclosures in prospectuses, annual reports, and other details based on the pursued ESG strategies. We recommend that businesses start the process implementation to get enterprise value out of the exercise and not end up with yet another worthless check the box disclosures;

1. Define the ESG/CSR business strategy as the oversight authorities do not include any general definitions of ESG or the individual parts of the term. What ESG means will vary from the market participant and location and will change over time
2. Companies whose primary business is, e.g. drilling, weapons and related, must adjust their ESG strategies based on the current public perceptions and business factors
3. Identify what is perceived as unfavourable in ESG in the current market environment, and that can change to a positive relatively quickly and vice versa
4. Strike the right balance between stakeholder disclosures to avoid dense, technical and useless information and avoid claims of greenwashing that can lead to fines
5. Avoid duplication of efforts from other mandates that require companies to make full and fair disclosure of material ESG/CSR information and the uniformity of these disclosures
6. Address the specific corporate concerns and the nature of the CSR7ESG disclosures and do not reveal proprietary information that can create an unfair competitive disadvantage.
7. The disclosures also include non-ESG factors in investment decisions. If the fund tracks an index, as described in the available SEC fact sheet.
8. ESG-focused funds (where ESG factors are a significant consideration) must provide detailed disclosures describing the specific impact and summarise their progress in a standardised ESG strategy overview table
9. A subset of ESG-focused funds, called impact funds, must disclose how they measure progress on their objectives. For example, funds that focus on environmental factors reveal the carbon footprint and the weighted average carbon intensity, including greenhouse gas (GHG) emissions.
10. Watch out for changes when a fund classified as an integration fund (with one set of requirements) could transition during a period into another type of classification, e.g. an ESG-focused fund, as the disclosure requirements also change after the transition.

Therefore companies need to evaluate compliance implementation by managing investments and funds to be consistent with the ESG/CSR strategies across all product types to ensure that the uniform approach complies with ESG rules and laws in the USA and the European Union.
On the 31st of October 2022, @jeffrey Avina and Kersi Porbunderwalla will conduct a certificate seminar on the above and other ESG/CSR disclosures at the Westin Bellevue hotel in Seattle. Write to info@corporate-governance.institute to get more information to register and get certified.