



# ESG and EHS: From Principles to Practice

A Practical Guide to Sustainability Strategy,  
Management and Reporting

GORAN MILETIC



Civoxa

# **ESG and EHS: From Principles to Practice**

## **A Practical Guide to Sustainability Strategy, Management and Reporting**

Goran Miletic

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The guide provides general information for educational purposes. It does not constitute legal, financial, investment or accounting advice. Organisations should seek professional advice on their specific obligations.

References to companies and their practices are based on publicly available information. They illustrate approaches discussed in this guide and do not constitute an endorsement of any company, product or service.

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## Foreword

Between 2025 and 2026, sustainability regulation went through its most significant reset since the term ESG entered the vocabulary of business and finance. The European Union narrowed the scope of its flagship reporting and due diligence directives, cut the number of mandatory reporting datapoints and adopted a revised set of European Sustainability Reporting Standards. In the United States, environmental, social and governance considerations became the subject of open political conflict. Some commentators concluded that ESG had run its course.

That conclusion is wrong. What changed is the volume of paperwork, not the direction of travel. Investors still price climate risk. Banks still ask borrowers about their emissions and labour practices. Large companies still need reliable information from their suppliers. More than thirty jurisdictions have adopted the global sustainability disclosure standards of the International Sustainability Standards Board.<sup>1</sup> Human rights and environmental due diligence remain embedded in international standards that predate any recent legislation and will outlast it. The simplification makes the work more focused. It does not make it optional.

This guide was written for people who need to understand the field as a whole and act on it. It explains where ESG and EHS come from, what each pillar covers, which standards and laws apply, and what an organisation needs to have in place. Its practical core is a detailed checklist of the questions a sustainability report must answer, with guidance on what each answer must contain.

My own path to this subject runs through more than two decades of work on human rights, non-discrimination, the rule of law and the governance of organisations across Europe, the Western Balkans and the Middle East and North Africa. That work taught me that the social and governance dimensions of business conduct are not soft topics. They decide whether companies keep the trust of their workers, communities, customers and regulators. This guide gives all three pillars equal weight, because they only work together.

I hope it serves both those taking their first steps and those who need a reliable reference.

Goran Miletic

Stockholm, October 2026

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<sup>1</sup> S&P Global Sustainable1, *Where does the world stand on ISSB adoption?*, August 2026.  
<https://www.spglobal.com/sustainable1/en/insights/research-reports/issb-q3-2026>

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## About the Author

Goran Miletic is a lawyer and human rights strategist with more than 25 years of experience in leading organisations, programmes and policy work across Europe, the Western Balkans, Turkey, the Middle East and North Africa. His expertise lies at the core of the social and governance pillars of responsible business conduct: human rights, equality and non-discrimination, the governance of organisations, accountability and stakeholder engagement.

He holds a law degree and a Master of Arts in Democracy and Human Rights, and is completing a PhD in protection from discrimination. His academic and professional work focuses on equal treatment, the rights of minorities and vulnerable groups, freedom of expression and the rule of law, which are the same issues that today define a company's obligations towards its workforce, the communities in which it operates and the users of its products and services.

He has worked at Civil Rights Defenders, an international human rights organisation, for close to two decades, serving as Programme Director for the Western Balkans, then as Director for Europe and the Middle East and North Africa and Deputy Global Director, and since 2025 as Senior Advisor to the Executive Director. In these roles he has managed multi-office teams and multi-million euro portfolios covering more than 30 countries, worked with around 100 partner organisations, and was responsible for strategy, risk management, compliance with donor and regulatory requirements, and the internal governance of a complex international organisation.

He works closely with the Council of Europe and the European Union. He is a member of the Expert Council on NGO Law, which assesses the compliance of national legislation with European standards on freedom of association, and serves on the boards of several organisations and campaigns. He has served as an expert and consultant to the Council of Europe on hate speech and discrimination, authored studies in this field, and trained NGOs, companies, equality bodies, ombudsman institutions and national human rights institutions in Council of Europe member states. He has also built long-standing working relationships with the Organization for Security and Co-operation in Europe and United Nations bodies.

His governance experience extends to boards and leadership positions. He is the founder of Balkans Forward Foundation and leads Civoxa, an advisory firm based in Sweden.

This combination of legal training, international standard-setting experience and executive management gives him a practitioner's view of how human rights and governance standards translate into policies, processes and measurable results inside organisations. He lives in Stockholm.

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## About the Publishers

### **Balkans Forward Foundation**

Balkans Forward Foundation (BFF) was founded in 2025 to push for greater equality, dignity and opportunity in the Western Balkans. It works with people who are too often excluded from public life, so that they become visible, active and equipped to shape the societies they live in.

The Foundation's work rests on three pillars. Under Leaders, it builds the skills, confidence and networks that leaders from excluded communities need to take action, including through a structured mentorship programme for young leaders. Under Solutions, it develops concrete policy proposals that advance human rights, the rule of law and democratic values, and help move stalled parts of the European integration process. Under Spaces, it protects and expands the civic spaces, online and offline, in which marginalised communities can act freely and safely.

More information is available at [www.balkansforward.org](http://www.balkansforward.org).

### **Civoxa**

Civoxa is an advisory firm based in Sweden, founded in 2026. It advises companies, public institutions and civil society organisations on responsible business conduct, with a focus on the social and governance dimensions of ESG: human rights due diligence, equality and non-discrimination, stakeholder engagement, organisational governance and accountability. Its services include strategic advice, policy development, external review of policies and reports, and expert training for management teams, boards and staff.

## How to Use This Guide

The guide is organised in five parts that build on each other, but each part can also be read on its own.

**Part 1, Understanding ESG and EHS**, explains the history of corporate sustainability, what ESG is and what it is not, what each of the three pillars covers, how ESG relates to EHS, why it matters, and the questions most often asked at the start.

**Part 2, Key Concepts**, defines the fifty terms a practitioner needs to know.

**Part 3, Sources**, maps the international norms, voluntary standards, laws and management system standards that shape the field, and explains who must comply with what.

**Part 4, Practice**, explains what an organisation needs to have in place and provides a detailed checklist of reporting questions, with guidance on what each answer must contain. It also presents examples from global companies and a chapter for non-profit organisations.

**Part 5, Annotated Resources**, lists the key documents and websites with a short explanation of each.

Readers can follow the path that suits their role:

| Reader                                                 | Suggested path                                                                                                             |
|--------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| Executive or board member                              | Chapters 3, 4, 6, 7 and 8, then chapters 17 and 19                                                                         |
| Sustainability, EHS, HR, compliance or finance manager | The whole guide, with particular attention to Parts 3 and 4                                                                |
| Owner or manager of a small or medium-sized enterprise | Chapters 4, 7 and 8, the sections of chapter 13 on the voluntary standard and the value chain cap, then chapters 17 and 18 |
| Non-profit organisation                                | Chapters 4 and 7, then chapter 21                                                                                          |
| Newcomer to the field                                  | Part 1 and Part 2 first, then the rest of the guide in order                                                               |

Every term used in the guide is defined in Part 2. Every standard and law is explained in Part 3, and the official sources are listed in Part 5.

## List of Abbreviations

| Abbreviation | Meaning                                                          |
|--------------|------------------------------------------------------------------|
| AASB         | Australian Accounting Standards Board                            |
| BAFA         | Federal Office for Economic Affairs and Export Control (Germany) |
| CBAM         | Carbon Border Adjustment Mechanism                               |
| CDP          | Formerly the Carbon Disclosure Project                           |
| CHS          | Core Humanitarian Standard on Quality and Accountability         |
| CO2e         | Carbon dioxide equivalent                                        |
| CSDDD        | Corporate Sustainability Due Diligence Directive                 |
| CSO          | Civil society organisation                                       |
| CSR          | Corporate social responsibility                                  |
| CSRD         | Corporate Sustainability Reporting Directive                     |
| DEI          | Diversity, equity and inclusion                                  |
| EBA          | European Banking Authority                                       |
| EBRD         | European Bank for Reconstruction and Development                 |
| EFRAG        | European Financial Reporting Advisory Group                      |
| EHS          | Environment, health and safety                                   |
| EIB          | European Investment Bank                                         |
| ERP          | Enterprise resource planning                                     |
| ESG          | Environmental, social and governance                             |
| ESMA         | European Securities and Markets Authority                        |
| ESRS         | European Sustainability Reporting Standards                      |
| ETS          | Emissions Trading System                                         |
| EU           | European Union                                                   |
| EUDR         | EU Deforestation Regulation                                      |
| EU-OSHA      | European Agency for Safety and Health at Work                    |
| FATF         | Financial Action Task Force                                      |
| FCA          | Financial Conduct Authority (United Kingdom)                     |
| FCPA         | Foreign Corrupt Practices Act (United States)                    |
| GDPR         | General Data Protection Regulation                               |

| Abbreviation | Meaning                                                                               |
|--------------|---------------------------------------------------------------------------------------|
| GHG          | Greenhouse gas                                                                        |
| GRI          | Global Reporting Initiative                                                           |
| HSE          | Health, safety and environment; also the Health and Safety Executive (United Kingdom) |
| IAASB        | International Auditing and Assurance Standards Board                                  |
| IASC         | Inter-Agency Standing Committee                                                       |
| IBAT         | Integrated Biodiversity Assessment Tool                                               |
| ICVCM        | Integrity Council for the Voluntary Carbon Market                                     |
| IFC          | International Finance Corporation                                                     |
| IFRS         | International Financial Reporting Standards                                           |
| ILO          | International Labour Organization                                                     |
| IOSCO        | International Organization of Securities Commissions                                  |
| IPCC         | Intergovernmental Panel on Climate Change                                             |
| IRO          | Impact, risk or opportunity                                                           |
| ISAE         | International Standard on Assurance Engagements                                       |
| ISO          | International Organization for Standardization                                        |
| ISSA         | International Standard on Sustainability Assurance                                    |
| ISSB         | International Sustainability Standards Board                                          |
| KPI          | Key performance indicator                                                             |
| LEAP         | Locate, Evaluate, Assess, Prepare (TNFD approach)                                     |
| LTIFR        | Lost time injury frequency rate                                                       |
| MWh          | Megawatt hour                                                                         |
| NCP          | National Contact Point (OECD Guidelines)                                              |
| NGO          | Non-governmental organisation                                                         |
| OECD         | Organisation for Economic Co-operation and Development                                |
| OHS          | Occupational health and safety                                                        |
| OSHA         | Occupational Safety and Health Administration (United States)                         |
| PRI          | Principles for Responsible Investment                                                 |
| PSEA         | Protection from sexual exploitation and abuse                                         |

| Abbreviation | Meaning                                                                          |
|--------------|----------------------------------------------------------------------------------|
| SASB         | Sustainability Accounting Standards Board (standards now maintained by the ISSB) |
| SBTi         | Science Based Targets initiative                                                 |
| SDGs         | Sustainable Development Goals                                                    |
| SEC          | Securities and Exchange Commission (United States)                               |
| SFDR         | Sustainable Finance Disclosure Regulation                                        |
| SME          | Small and medium-sized enterprise                                                |
| SSBJ         | Sustainability Standards Board of Japan                                          |
| TCFD         | Task Force on Climate-related Financial Disclosures                              |
| TNFD         | Taskforce on Nature-related Financial Disclosures                                |
| TRIR         | Total recordable incident rate                                                   |
| UK SRS       | UK Sustainability Reporting Standards                                            |
| UNCAC        | United Nations Convention against Corruption                                     |
| UNFCCC       | United Nations Framework Convention on Climate Change                            |
| UNGPs        | United Nations Guiding Principles on Business and Human Rights                   |
| VS           | EU voluntary sustainability reporting standard                                   |
| VSME         | Voluntary Sustainability Reporting Standard for SMEs (EFRAG)                     |
| WRI          | World Resources Institute                                                        |

## **Part 1. Understanding ESG and EHS**

Part 1 lays the foundation for the rest of the guide. It traces the history of corporate sustainability, defines ESG, explains in detail what each of the three pillars covers, clarifies the relationship between ESG and EHS, sets out why the subject matters, and answers the questions most often asked by organisations at the start of their journey.

## 1. Introduction: Why This Guide?

Every organisation affects the environment and people, and every organisation is affected by environmental and social change. A manufacturer emits greenhouse gases and depends on stable energy prices. A retailer relies on suppliers whose workers may face unsafe conditions. A software company processes personal data and competes for scarce talent. A bank lends to all of them and carries their risks on its balance sheet. ESG is the framework through which organisations identify, manage and report on these impacts, risks and opportunities. EHS is the management discipline that keeps workplaces safe and healthy and keeps operations within environmental limits.

For a long time, both were treated as specialist subjects. ESG belonged to investor relations and the annual report. EHS belonged to the site manager and the safety officer. That separation no longer holds. Sustainability information now sits next to financial information in corporate reports. Boards are expected to oversee climate and human rights risks. Banks, insurers and large customers send ESG questionnaires to companies of every size. Safety performance, working conditions and environmental incidents are reported, compared and scrutinised by investors, regulators and the public.

The rules have also changed, and quickly. The European Union adopted its Corporate Sustainability Reporting Directive in 2022 and simplified it substantially in 2026.<sup>2</sup> A revised set of European Sustainability Reporting Standards was published in September 2026 and applies mandatorily from financial year 2027.<sup>3</sup> The global standards of the International Sustainability Standards Board are being adopted by a growing number of jurisdictions. Due diligence obligations on human rights and the environment are part of national and European law. For many organisations, the result is uncertainty about what is required, what is expected and where to begin.

This guide addresses that uncertainty. It brings together the history, the vocabulary, the standards and the practice in one place, and it does so on the basis of the rules in force or adopted at the time of writing. It is written for readers with little prior experience as well as for practitioners who need a structured reference. Its central message is simple: the reporting

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<sup>2</sup> Directive (EU) 2022/2464 (Corporate Sustainability Reporting Directive). <https://eur-lex.europa.eu/eli/dir/2022/2464/oj>; Directive (EU) 2026/470 (Omnibus I). <https://eur-lex.europa.eu/eli/dir/2026/470/oj>

<sup>3</sup> Commission Delegated Regulation (EU) 2026/1563 revising the European Sustainability Reporting Standards, published in the Official Journal on 21 September 2026. [https://eur-lex.europa.eu/eli/reg\\_del/2026/1563/oj](https://eur-lex.europa.eu/eli/reg_del/2026/1563/oj)

requirements may change, but the expectation that organisations understand and manage their impacts on people and the planet will not.

## 2. A Short History of Corporate Sustainability

ESG did not appear from nowhere. It is the latest stage of a debate that began more than seventy years ago about what business owes to society, shaped by industrial disasters, scientific evidence about the environment, financial crises and the gradual move from voluntary commitments to binding law.

### From Philanthropy to Corporate Social Responsibility

For most of the twentieth century, the social role of business was understood mainly as philanthropy: companies made profits and their owners gave part of them to good causes. In 1953, the American economist Howard Bowen published *Social Responsibilities of the Businessman*, which argued that business decisions themselves have social consequences and that managers have obligations that go beyond profit.<sup>4</sup> The book is widely regarded as the starting point of modern thinking on corporate social responsibility (CSR).

The opposing position received its best-known formulation in 1970, when Milton Friedman wrote in *The New York Times Magazine* that the social responsibility of business is to increase its profits within the rules of the game.<sup>5</sup> The tension between these two views, responsibility to society and responsibility to shareholders, still runs through today's debates on ESG.

In 1984, R. Edward Freeman published *Strategic Management: A Stakeholder Approach*, which argued that companies must take into account all groups that affect or are affected by their activities, including employees, customers, suppliers, communities and the environment.<sup>6</sup> Stakeholder theory provided the intellectual foundation for much of what followed, including the stakeholder engagement and materiality processes that are central to sustainability reporting today.

### Disasters That Changed the Rules: The Rise of EHS

While the debate on CSR remained largely voluntary, health, safety and environmental protection became matters of law. In 1970, the United States adopted the Occupational Safety

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<sup>4</sup> Bowen, H. R., *Social Responsibilities of the Businessman*, Harper & Brothers, New York, 1953.

<sup>5</sup> Friedman, M., "A Friedman doctrine: The Social Responsibility of Business Is to Increase Its Profits", *The New York Times Magazine*, 13 September 1970. <https://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html>

<sup>6</sup> Freeman, R. E., *Strategic Management: A Stakeholder Approach*, Pitman, Boston, 1984.

and Health Act and established the Environmental Protection Agency.<sup>7</sup> The United Kingdom followed with the Health and Safety at Work etc. Act 1974, which placed a general duty on employers to ensure the health, safety and welfare of their workers.<sup>8</sup> In 1981, the International Labour Organization (ILO) adopted the Occupational Safety and Health Convention (No. 155), which set out the principles of national policy on safety at work.

A series of industrial disasters then showed how severe the consequences of poor safety and environmental management could be, and each of them changed regulation and practice:

- **Seveso, Italy (1976).** A release of dioxin from a chemical plant contaminated the surrounding area. The European Community responded with the Seveso Directive of 1982 on the control of major accident hazards, which remains the basis of EU law in this field.<sup>9</sup>
- **Bhopal, India (1984).** A gas leak at a pesticide plant killed thousands of people and injured hundreds of thousands. It remains the worst industrial disaster in history and made process safety and community protection a global concern.
- **Chernobyl, Soviet Union (1986).** The nuclear accident demonstrated that environmental and health impacts cross borders and last for decades.
- **Piper Alpha, United Kingdom (1988).** An explosion and fire on an offshore oil platform in the North Sea killed 167 people. The public inquiry led to the safety case regime, under which operators must demonstrate that they have identified and controlled major hazards.<sup>10</sup>
- **Exxon Valdez, United States (1989).** The tanker spilled nearly 11 million gallons, or about 41 million litres, of crude oil in Alaska.<sup>11</sup> In response, investors and environmental groups formed the Coalition for Environmentally Responsible Economies (Ceres) and adopted principles of corporate environmental conduct.

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<sup>7</sup> Occupational Safety and Health Act of 1970. <https://www.osha.gov/laws-regs/oshact/completeoshact>; US Environmental Protection Agency, *The Origins of EPA*. <https://www.epa.gov/history/origins-epa>

<sup>8</sup> Health and Safety at Work etc. Act 1974. <https://www.legislation.gov.uk/ukpga/1974/37>

<sup>9</sup> Council Directive 82/501/EEC on the major-accident hazards of certain industrial activities. <https://eur-lex.europa.eu/eli/dir/1982/501/oj>

<sup>10</sup> Health and Safety Executive, *The Public Inquiry into the Piper Alpha Disaster*. <https://www.hse.gov.uk/offshore/piper-alpha-disaster-public-inquiry.htm>

<sup>11</sup> NOAA Office of Response and Restoration, *Exxon Valdez Oil Spill*. <https://response.restoration.noaa.gov/oil-and-chemical-spills/significant-incidents/exxon-valdez-oil-spill>

These events produced the modern EHS function: a management discipline based on risk assessment, prevention, emergency preparedness, incident investigation and continuous improvement. In 1996, the International Organization for Standardization (ISO) published ISO 14001 on environmental management systems, and in 2018 ISO 45001 on occupational health and safety management systems.<sup>12</sup>

## Sustainable Development and the Triple Bottom Line

In 1987, the World Commission on Environment and Development, chaired by Gro Harlem Brundtland, who served as Prime Minister of Norway, published *Our Common Future*.<sup>13</sup> The report defined sustainable development as development that meets present needs without compromising the ability of future generations to meet theirs. The definition remains the most widely cited in the field.

The 1992 United Nations Conference on Environment and Development in Rio de Janeiro produced the United Nations Framework Convention on Climate Change (UNFCCC) and the Convention on Biological Diversity, both of which shape corporate environmental obligations today. In 1994, the British consultant John Elkington introduced the concept of the triple bottom line, which asks companies to measure their performance in social and environmental terms as well as financial ones, often summarised as people, planet and profit.<sup>14</sup>

The idea that companies should report on their non-financial performance followed. In 1997, Ceres and the Tellus Institute, with the involvement of the United Nations Environment Programme, founded the Global Reporting Initiative (GRI). GRI published its first reporting guidelines in 2000.<sup>15</sup> In the same year, the United Nations launched the Global Compact, which invites companies to commit to ten principles on human rights, labour, the environment and anti-corruption.<sup>16</sup>

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<sup>12</sup> ISO 14001:2015 Environmental management systems. <https://www.iso.org/standard/60857.html>; ISO 45001:2018 Occupational health and safety management systems. <https://www.iso.org/standard/63787.html>

<sup>13</sup> Report of the World Commission on Environment and Development: *Our Common Future*, UN document A/42/427, 1987. <https://digitallibrary.un.org/record/139811>

<sup>14</sup> Elkington, J., "Towards the Sustainable Corporation: Win-Win-Win Business Strategies for Sustainable Development", *California Management Review*, Vol. 36, No. 2, 1994, pp. 90 to 100.

<sup>15</sup> Global Reporting Initiative, *Who we are*. <https://www.globalreporting.org/about-gri/mission-history/>

<sup>16</sup> UN Global Compact, *The Ten Principles of the UN Global Compact*. <https://unglobalcompact.org/what-is-gc/mission/principles>

## The Investor Turn: The Birth of ESG

The term ESG was introduced in 2004 in *Who Cares Wins*, a report produced by a group of major financial institutions at the invitation of the UN Global Compact.<sup>17</sup> The report argued that environmental, social and governance issues affect the long-term value of companies and should therefore be integrated into investment analysis. The choice of words was deliberate: it presented sustainability in the language of risk and value that investors understand.

Two developments reinforced this approach. In 2005, a legal analysis prepared for the United Nations Environment Programme Finance Initiative concluded that taking ESG factors into account is consistent with the fiduciary duties of investors.<sup>18</sup> In 2006, the United Nations launched the Principles for Responsible Investment (PRI), under which signatories commit to incorporate ESG issues into investment decisions and ownership practices.<sup>19</sup>

Corporate scandals and crises strengthened the governance pillar. The collapse of Enron in 2001 led to the Sarbanes-Oxley Act of 2002 in the United States, which tightened rules on financial reporting and internal control.<sup>20</sup> The global financial crisis of 2008 exposed the cost of weak risk management and of remuneration systems that rewarded short-term gains.

The social pillar received its normative foundation in 2011, when the UN Human Rights Council unanimously endorsed the UN Guiding Principles on Business and Human Rights (UNGPs).<sup>21</sup> The UNGPs established that companies have a responsibility to respect human rights, which they meet through human rights due diligence. In the same year, the OECD Guidelines for Multinational Enterprises were revised to include a chapter on human rights. In 2013, the

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<sup>17</sup> UN Global Compact, *Who Cares Wins: Connecting Financial Markets to a Changing World*, 2004.

[https://www.unepfi.org/fileadmin/events/2004/stocks/who\\_cares\\_wins\\_global\\_compact\\_2004.pdf](https://www.unepfi.org/fileadmin/events/2004/stocks/who_cares_wins_global_compact_2004.pdf)

<sup>18</sup> Freshfields Bruckhaus Deringer, *A legal framework for the integration of environmental, social and governance issues into institutional investment*, UNEP Finance Initiative, 2005. [https://www.unepfi.org/fileadmin/documents/freshfields\\_legal\\_resp\\_20051123.pdf](https://www.unepfi.org/fileadmin/documents/freshfields_legal_resp_20051123.pdf)

<sup>19</sup> Principles for Responsible Investment, *About the PRI*. <https://www.unpri.org/about-us/about-the-pri>

<sup>20</sup> Sarbanes-Oxley Act of 2002, H.R. 3763, 107th Congress. <https://www.congress.gov/bill/107th-congress/house-bill/3763>

<sup>21</sup> United Nations, *Guiding Principles on Business and Human Rights*, endorsed by Human Rights Council resolution 17/4, 2011. [https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr\\_en.pdf](https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr_en.pdf)

collapse of the Rana Plaza building in Bangladesh, which housed garment factories supplying global brands, killed 1,134 people, most of them garment workers.<sup>22</sup> It demonstrated that the social impacts of a company extend deep into its supply chain.

## From Voluntary to Mandatory Disclosure

From the mid-2010s, governments began to turn voluntary expectations into legal obligations. The EU Non-Financial Reporting Directive of 2014 required large public-interest companies to disclose information on environmental, social and employee matters, human rights, and anti-corruption.<sup>23</sup> The United Kingdom adopted the Modern Slavery Act in 2015, and France adopted its law on the corporate duty of vigilance in 2017, the first national law to require large companies to establish and implement a due diligence plan.<sup>24</sup>

In 2015, the international community adopted the Paris Agreement on climate change and the 2030 Agenda for Sustainable Development with its 17 Sustainable Development Goals (SDGs). In the same year, the Financial Stability Board established the Task Force on Climate-related Financial Disclosures (TCFD), whose recommendations of 2017 became the reference for reporting on climate risk.<sup>25</sup>

The European Union then built a comprehensive framework. The Action Plan on Financing Sustainable Growth of 2018 and the European Green Deal of 2019 led to the EU Taxonomy Regulation of 2020, which defines environmentally sustainable economic activities, and to the Sustainable Finance Disclosure Regulation, which has applied to financial market participants since 2021. In 2022, the EU adopted the Corporate Sustainability Reporting Directive (CSRD), and

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<sup>22</sup> ILO Vision Zero Fund, *A turning point for occupational safety and health in supply chains*. <https://vzf.ilo.org/Photo%20Exhibition/a-turning-point-for-occupational-safety-and-health-in-supply-chains>

<sup>23</sup> Directive 2014/95/EU as regards disclosure of non-financial and diversity information. <https://eur-lex.europa.eu/eli/dir/2014/95/oj>

<sup>24</sup> Modern Slavery Act 2015. <https://www.legislation.gov.uk/ukpga/2015/30>; Loi n° 2017-399 du 27 mars 2017 relative au devoir de vigilance. <https://www.legifrance.gouv.fr/jorf/id/JORFTEXT000034290626>

<sup>25</sup> UNFCCC, *The Paris Agreement*. <https://unfccc.int/process-and-meetings/the-paris-agreement>; United Nations, *Transforming our world: the 2030 Agenda for Sustainable Development*. <https://sdgs.un.org/2030agenda>; Task Force on Climate-related Financial Disclosures, *Recommendations*, 2017. <https://www.fsb-tcf.org/recommendations/>

in 2023 the first set of European Sustainability Reporting Standards (ESRS). In 2024, it adopted the Corporate Sustainability Due Diligence Directive (CSDDD).<sup>26</sup>

At the global level, the IFRS Foundation announced the creation of the International Sustainability Standards Board (ISSB) at the COP26 climate conference in 2021. In 2023, the ISSB published its first two standards, IFRS S1 on general sustainability-related disclosures and IFRS S2 on climate-related disclosures, which absorbed the TCFD recommendations.<sup>27</sup> In 2022, the International Labour Conference added a safe and healthy working environment to the ILO fundamental principles and rights at work, which placed occupational safety and health alongside the prohibition of forced labour and child labour.<sup>28</sup>

## The 2025 to 2026 Reset

In February 2025, the European Commission proposed the first Omnibus simplification package in response to concerns about the reporting burden and the competitiveness of European companies. The final directive, Directive (EU) 2026/470, was published in February 2026 and entered into force on 18 March 2026. It limited the scope of the CSRD to the largest companies and the scope of the CSDDD to the very largest. A revised set of ESRS, with a substantially reduced number of mandatory datapoints, was published in the Official Journal of the EU on 21 September 2026 together with a voluntary reporting standard for companies outside the scope of the CSRD.<sup>29</sup> Meanwhile, the number of jurisdictions adopting ISSB standards continued to grow. These developments are explained in detail in chapter 8 and in Part 3.

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<sup>26</sup> Regulation (EU) 2020/852 (Taxonomy Regulation). <https://eur-lex.europa.eu/eli/reg/2020/852/oj>; Regulation (EU) 2019/2088 (Sustainable Finance Disclosure Regulation). <https://eur-lex.europa.eu/eli/reg/2019/2088/oj>; Commission Delegated Regulation (EU) 2023/2772 (first set of ESRS). [https://eur-lex.europa.eu/eli/reg\\_del/2023/2772/oj](https://eur-lex.europa.eu/eli/reg_del/2023/2772/oj); Directive (EU) 2024/1760 (Corporate Sustainability Due Diligence Directive). <https://eur-lex.europa.eu/eli/dir/2024/1760/oj>

<sup>27</sup> IFRS Foundation, *ISSB issues inaugural global sustainability disclosure standards*, 26 June 2023. <https://www.ifrs.org/news-and-events/news/2023/06/issb-issues-ifrs-s1-ifrs-s2/>

<sup>28</sup> International Labour Organization, *International Labour Conference adds safety and health to Fundamental Principles and Rights at Work*, 10 June 2022. <https://www.ilo.org/resource/news/ilc/110/international-labour-conference-adds-safety-and-health-fundamental>

<sup>29</sup> Directive (EU) 2026/470. <https://eur-lex.europa.eu/eli/dir/2026/470/oj>; Commission Delegated Regulation (EU) 2026/1563 (revised ESRS). [https://eur-lex.europa.eu/eli/reg\\_del/2026/1563/oj](https://eur-lex.europa.eu/eli/reg_del/2026/1563/oj); Commission Delegated Regulation (EU) 2026/1560

## Timeline of Key Milestones

| Year | Milestone                                                                                                                             |
|------|---------------------------------------------------------------------------------------------------------------------------------------|
| 1953 | Howard Bowen publishes Social Responsibilities of the Businessman                                                                     |
| 1970 | Milton Friedman's essay on shareholder primacy; US Occupational Safety and Health Act; US Environmental Protection Agency established |
| 1974 | UK Health and Safety at Work etc. Act                                                                                                 |
| 1976 | Seveso disaster in Italy                                                                                                              |
| 1981 | ILO Occupational Safety and Health Convention (No. 155)                                                                               |
| 1982 | First EU Seveso Directive on major accident hazards                                                                                   |
| 1984 | Bhopal disaster in India; Freeman's stakeholder theory                                                                                |
| 1987 | Brundtland Report, <i>Our Common Future</i>                                                                                           |
| 1988 | Piper Alpha disaster in the North Sea                                                                                                 |
| 1989 | Exxon Valdez oil spill; Ceres founded                                                                                                 |
| 1992 | Rio Earth Summit; UNFCCC and Convention on Biological Diversity                                                                       |
| 1994 | John Elkington introduces the triple bottom line                                                                                      |
| 1996 | ISO 14001 on environmental management systems                                                                                         |
| 1997 | Global Reporting Initiative founded                                                                                                   |
| 2000 | UN Global Compact launched; first GRI Guidelines                                                                                      |
| 2002 | Sarbanes-Oxley Act in the United States                                                                                               |
| 2004 | <i>Who Cares Wins</i> introduces the term ESG                                                                                         |
| 2006 | UN Principles for Responsible Investment launched                                                                                     |
| 2011 | UN Guiding Principles on Business and Human Rights; revised OECD Guidelines                                                           |
| 2013 | Rana Plaza collapse in Bangladesh                                                                                                     |
| 2014 | EU Non-Financial Reporting Directive                                                                                                  |
| 2015 | Paris Agreement; Sustainable Development Goals; UK Modern Slavery Act; TCFD established                                               |
| 2017 | TCFD recommendations; French Duty of Vigilance Law                                                                                    |
| 2018 | ISO 45001 on occupational health and safety management systems; EU Action Plan on Financing Sustainable Growth                        |

(voluntary sustainability reporting standard).

[lex.europa.eu/eli/reg\\_del/2026/1560/oj](https://eur-lex.europa.eu/eli/reg_del/2026/1560/oj)

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| Year | Milestone                                                                                                                 |
|------|---------------------------------------------------------------------------------------------------------------------------|
| 2019 | European Green Deal                                                                                                       |
| 2020 | EU Taxonomy Regulation                                                                                                    |
| 2021 | ISSB announced at COP26; EU Sustainable Finance Disclosure Regulation applies                                             |
| 2022 | Corporate Sustainability Reporting Directive adopted; occupational safety and health becomes an ILO fundamental principle |
| 2023 | First ESRS adopted; IFRS S1 and IFRS S2 published; OECD Guidelines updated                                                |
| 2024 | Corporate Sustainability Due Diligence Directive adopted                                                                  |
| 2025 | European Commission proposes the Omnibus simplification package                                                           |
| 2026 | Omnibus I Directive (EU) 2026/470 enters into force; revised ESRS and the EU voluntary reporting standard published       |

### 3. What ESG Is, and What It Is Not

#### A Working Definition

ESG stands for Environmental, Social and Governance. It is a framework for identifying, managing and disclosing how an organisation affects the environment and people, and how environmental, social and governance factors affect the organisation's performance, risks and long-term value.

Three features distinguish ESG from earlier approaches. First, it is systematic: it covers a defined set of topics and requires an organisation to assess which of them are significant, or material, for its business. Second, it is measurable: it relies on indicators, targets and data that can be tracked over time and compared between organisations. Third, it is integrated: it treats sustainability as part of strategy, risk management and governance, not as a separate activity.

ESG is not a law, a single standard or a rating. Laws such as the CSRD, standards such as GRI or the ISSB standards, and ratings produced by data providers all use the ESG framework, but each of them does so for its own purpose and with its own rules.

#### ESG Compared with Related Concepts

The terms used in this field overlap, and they are often used interchangeably. The table below sets out the main differences.

| Concept                               | Core idea                                                                                                     | Main audience                                        | Nature                                                                              |
|---------------------------------------|---------------------------------------------------------------------------------------------------------------|------------------------------------------------------|-------------------------------------------------------------------------------------|
| Philanthropy                          | Giving part of the profits to good causes                                                                     | Communities, the public                              | Voluntary, separate from the core business                                          |
| Corporate social responsibility (CSR) | The company's responsibility for its effects on society                                                       | Stakeholders broadly                                 | Largely voluntary, often managed by communications or community relations functions |
| Sustainability                        | Meeting present needs without compromising the future                                                         | Society as a whole                                   | A broad goal and a policy concept                                                   |
| ESG                                   | Systematic management and disclosure of environmental, social and governance impacts, risks and opportunities | Investors, lenders, regulators, customers, employees | Increasingly regulated, data-driven and integrated into governance                  |

| Concept          | Core idea                                                                                                       | Main audience             | Nature              |
|------------------|-----------------------------------------------------------------------------------------------------------------|---------------------------|---------------------|
| ESG investing    | Using ESG information in investment decisions                                                                   | Asset owners and managers | Investment practice |
| Impact investing | Investing with the intention of achieving measurable social or environmental results alongside financial return | Investors                 | Investment strategy |

The practical difference between CSR and ESG is the difference between doing good and managing performance. A company can fund a school and still pay its workers below a living wage. CSR traditionally reported the first. ESG asks about the second, and expects the answer to be supported by data.

## Two Lenses: Financial Materiality and Impact Materiality

An organisation can look at sustainability issues through two lenses.

**Financial materiality** looks from the outside in. It asks how environmental, social and governance issues affect the organisation's cash flows, access to finance, cost of capital and value. This is the investor perspective, and it is the basis of the ISSB standards.<sup>30</sup>

**Impact materiality** looks from the inside out. It asks how the organisation affects people and the environment through its own operations and its value chain, whether positively or negatively, actually or potentially. This is the perspective of affected stakeholders, and it is the basis of the GRI Standards.<sup>31</sup>

**Double materiality** combines both lenses. A topic is material if it is material from either perspective, or from both. Double materiality is the foundation of the European Sustainability Reporting Standards, and it was retained in the revised ESRS published in 2026.<sup>32</sup>

A simple example shows how the two lenses work together. A food processing plant draws large volumes of water in a region affected by drought. Its water use reduces the water available to

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<sup>30</sup> IFRS Foundation, *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information*. <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements/>

<sup>31</sup> Global Reporting Initiative, *GRI Standards*. <https://www.globalreporting.org/standards/>

<sup>32</sup> Commission Delegated Regulation (EU) 2026/1563. [https://eur-lex.europa.eu/eli/reg\\_del/2026/1563/oj](https://eur-lex.europa.eu/eli/reg_del/2026/1563/oj)

farmers and households nearby, which is an impact on people and the environment. At the same time, water shortages can force the plant to reduce or stop production, and regulators can restrict its water permits, which is a financial risk to the company. Under double materiality, the company must report on both.

The choice of lens has practical consequences. An organisation that applies only financial materiality can overlook serious harm to workers or communities until it becomes a legal or reputational crisis. An organisation that applies only impact materiality can fail to explain to investors how sustainability issues affect its business. Most organisations that report under the ESRS, and many that use GRI and ISSB standards together, therefore apply both.

## 4. The Three Pillars Explained

The letters E, S and G are easy to remember, but they cover a wide range of topics. This chapter explains each pillar in plain language. For every topic, it describes what the topic covers, why it matters, which questions investors, customers and regulators typically ask, and which metrics organisations use to measure performance.

The structure of the chapter follows the topical standards of the revised European Sustainability Reporting Standards, which divide sustainability matters into five environmental standards, four social standards and one standard on business conduct.<sup>33</sup> The GRI Standards and the ISSB standards use different structures, but they cover largely the same ground. Following one recognised structure makes it easier to move from understanding a topic to reporting on it, which is the subject of chapter 18.

### How to Read the Pillars

Three principles help in reading this chapter.

First, every topic has two sides. The organisation affects the topic, and the topic affects the organisation. Emissions contribute to climate change, and climate change damages assets and supply chains. Poor working conditions harm workers, and they also increase staff turnover, absenteeism and legal risk.

Second, not every topic is material for every organisation. A software company has little to say about soil pollution, and a mining company cannot ignore it. The materiality assessment described in chapter 17 determines which topics an organisation must manage and report on.

Third, the pillars are a way of organising information, not separate compartments. Many issues belong to more than one pillar, as explained at the end of this chapter.

| Pillar              | Topics                                                                                                                                                                                                                       |
|---------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| E:<br>Environmental | Climate change; pollution; water; biodiversity and ecosystems; resource use and circular economy; environmental management and compliance                                                                                    |
| S: Social           | Own workforce: working conditions; own workforce: equal treatment and opportunities; health and safety at work; workers in the value chain; affected communities; consumers and end users; human rights as the common thread |

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<sup>33</sup> Commission Delegated Regulation (EU) 2026/1563 revising the European Sustainability Reporting Standards. [https://eur-lex.europa.eu/eli/reg\\_del/2026/1563/oj](https://eur-lex.europa.eu/eli/reg_del/2026/1563/oj)

| Pillar        | Topics                                                                                                                                                                                                                                              |
|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| G: Governance | Board and leadership; ownership and shareholder rights; business ethics and anti-corruption; risk management and internal control; transparency and accountability; whistleblowing; data protection and cybersecurity; governance of sustainability |

## E: Environmental

The environmental pillar covers the ways in which an organisation affects the natural environment and the ways in which environmental change affects the organisation. It applies to every organisation that uses energy, materials, water or land, which means to every organisation, although the scale and nature of the impacts differ widely.

### *Climate Change*

Climate change is the most developed topic in sustainability reporting and, for most organisations, the starting point. It covers greenhouse gas (GHG) emissions, energy consumption, emission reduction targets, transition plans and the organisation's exposure to climate-related risks.

GHG emissions are reported in three categories defined by the GHG Protocol.<sup>34</sup> Scope 1 covers direct emissions from sources the organisation owns or controls, such as boilers, vehicles and industrial processes. Scope 2 covers indirect emissions from the electricity, heat, steam and cooling the organisation buys. Scope 3 covers all other indirect emissions in the value chain, from purchased goods and business travel to the use and disposal of sold products. For many companies, particularly in retail, consumer goods, technology and finance, Scope 3 accounts for most of the total.

Climate-related risks fall into two groups. Physical risks arise from extreme weather events such as floods, storms and heatwaves, and from long-term changes such as rising temperatures and sea levels. Transition risks arise from the shift to a low-carbon economy, including carbon pricing, new regulation, changes in technology and changes in customer preferences.

The topic matters because the science is unequivocal. The Intergovernmental Panel on Climate Change has concluded that human activities, principally through emissions of greenhouse gases, have caused global warming, with global surface temperature reaching 1.1°C above pre-industrial

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<sup>34</sup> World Resources Institute and World Business Council for Sustainable Development, *GHG Protocol Corporate Accounting and Reporting Standard*. <https://ghgprotocol.org/corporate-standard>

levels in the decade 2011 to 2020.<sup>35</sup> Governments, investors and customers expect organisations to reduce their emissions in line with the Paris Agreement and to prepare for the physical consequences of the warming that is already locked in.

Example: a logistics company reports the fuel consumption of its fleet (Scope 1), the electricity used in its warehouses (Scope 2) and the emissions of the subcontracted carriers it uses (Scope 3). It sets a target to reduce Scope 1 and 2 emissions by replacing diesel trucks with electric vehicles and by installing solar panels on warehouse roofs.

### *Pollution*

Pollution covers emissions to air, discharges to water and contamination of soil, as well as the use and release of substances that are hazardous to health or the environment. Typical air pollutants include nitrogen oxides, sulphur oxides, particulate matter and volatile organic compounds. The topic also covers substances of concern and substances of very high concern in products and processes, microplastics, and environmental incidents such as spills and leaks.

Pollution matters because it harms human health and ecosystems directly, often in the communities closest to industrial sites. It is also one of the most regulated environmental areas. Exceeding permitted limits leads to fines, suspension of permits and liability for clean-up costs.

Example: a chemical manufacturer reports its annual emissions of nitrogen oxides and volatile organic compounds, the number of environmental incidents at its sites, and its plan to replace a hazardous solvent with a safer alternative.

### *Water*

Water covers the withdrawal, consumption and discharge of water, the quality of wastewater, and operations in areas of water stress, where demand for water is high relative to the available supply. In the revised ESRS, this topic is covered by ESRS E3 Water, while marine resources have been moved to the standard on resource use and circular economy.<sup>36</sup>

Water matters because it is a shared and finite resource. An organisation that draws large volumes of water in a water-stressed region competes with households and farmers for the same

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<sup>35</sup> Intergovernmental Panel on Climate Change, *AR6 Synthesis Report: Climate Change 2023*, Summary for Policymakers. <https://www.ipcc.ch/report/ar6/syr/>

<sup>36</sup> PwC, *Global ESRS Viewpoint: ESRS (2026) deep dive*, 2026. <https://www.pwc.ch/en/publications/2026/Global-ESRS-Viewpoint-publication-2026-deep-dive-CH.pdf>

supply, and faces the risk that its own operations will be interrupted by drought or by restrictions imposed by authorities.

Example: a beverage company reports the volume of water it withdraws at each bottling plant, identifies the plants located in water-stressed areas, and sets targets for water efficiency and for returning treated water to the local watershed.

### *Biodiversity and Ecosystems*

Biodiversity and ecosystems cover the organisation's impacts on species, habitats and ecosystems, including through land use, land-use change, deforestation, pollution and the introduction of invasive species. The topic also covers the organisation's dependence on ecosystem services, such as pollination, clean water, fertile soil and protection against floods.

The topic matters because the loss of nature is accelerating and because economies depend on it. The World Economic Forum has estimated that more than half of global GDP, about USD 44 trillion of economic value, is moderately or highly dependent on nature.<sup>37</sup> The Taskforce on Nature-related Financial Disclosures (TNFD) has developed recommendations for reporting on nature-related risks, which are explained in chapter 12.

Example: a food company sources soy and palm oil. It maps its supply chain to the regions of origin, assesses the risk of deforestation, and requires suppliers to provide evidence that their products do not come from recently deforested land.

### *Resource Use and Circular Economy*

Resource use and circular economy cover the materials an organisation uses, the products it designs and the waste it generates. The topic includes the use of virgin and recycled materials, the durability, reparability and recyclability of products, packaging, and the volume and treatment of waste, including hazardous waste. In the revised ESRS, it also includes the use of marine resources.

A circular economy keeps products and materials in use for as long as possible through reuse, repair, remanufacturing and recycling, instead of following the linear model of take, make and dispose. The topic matters because the extraction and processing of raw materials is a major source of emissions, pollution and biodiversity loss, and because dependence on scarce materials creates supply and price risks.

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<sup>37</sup> World Economic Forum, *Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy*, 2020. <https://www.weforum.org/publications/nature-risk-rising-why-the-crisis-engulfing-nature-matters-for-business-and-the-economy/>

Example: an electronics manufacturer reports the share of recycled plastics and metals in its products, offers a take-back and refurbishment programme, and reports the total weight of waste generated at its factories, separated into recycled, incinerated and landfilled waste.

### *Environmental Management and Compliance*

Environmental management and compliance cover the systems through which an organisation controls its environmental performance: an environmental policy, an environmental management system such as one certified to ISO 14001, environmental permits, monitoring, and compliance with environmental law. This topic is not a separate ESRS standard, but it underpins all the others and is examined by lenders, insurers and regulators.

### *E at a Glance: Typical Questions and Metrics*

| Topic                             | Typical questions                                                                                                                                                                      | Typical metrics                                                                                                                                   |
|-----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| Climate change                    | What are your Scope 1, 2 and 3 emissions? Do you have reduction targets, and are they science-based? Do you have a transition plan? Which sites are exposed to physical climate risks? | Tonnes of CO2 equivalent (tCO2e) by scope; energy consumption in MWh; share of renewable energy; emission intensity per unit of revenue or output |
| Pollution                         | Which pollutants do you emit, and in what quantities? Do you use substances of concern? Have you had environmental incidents?                                                          | Emissions of pollutants in tonnes; number of incidents and spills; volume of substances of concern                                                |
| Water                             | How much water do you withdraw and consume? Do you operate in water-stressed areas? How do you treat wastewater?                                                                       | Water withdrawal and consumption in cubic metres; share of withdrawal from water-stressed areas; quality parameters of discharges                 |
| Biodiversity and ecosystems       | Do you operate in or near protected or sensitive areas? Is your supply chain linked to deforestation? How do you depend on nature?                                                     | Number and area of sites near sensitive areas; share of commodities verified as deforestation-free                                                |
| Resource use and circular economy | What materials do you use, and how much is recycled? How much waste do you generate, and how is it treated?                                                                            | Tonnes of materials used; share of recycled input; tonnes of waste by type and treatment method                                                   |

| Topic                    | Typical questions                                                                    | Typical metrics                                                                |
|--------------------------|--------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| Environmental management | Do you have an environmental management system? Have you breached environmental law? | Share of sites certified to ISO 14001; number and value of environmental fines |

## S: Social

The social pillar covers how an organisation treats people: those who work for it, those who work in its value chain, the communities affected by its activities, and the people who use its products and services. In the ESRS, these four groups correspond to four separate standards.<sup>38</sup>

The foundation of the social pillar is international human rights law and international labour standards. The UN Guiding Principles on Business and Human Rights set out the responsibility of companies to respect human rights, and the ILO conventions define the minimum standards of decent work.<sup>39</sup> The social pillar therefore asks a question that is simple to state and demanding to answer: does the organisation respect the rights of every person it affects?

### *Own Workforce: Working Conditions*

This topic covers the terms and conditions under which people work for the organisation. It includes employment contracts and job security, wages and whether they are adequate to cover a decent standard of living, working time, rest and leave, work-life balance, freedom of association, collective bargaining and social dialogue between management and workers' representatives.

Working conditions matter because they determine the dignity and wellbeing of employees and because they directly affect productivity, retention and the ability to attract talent. Freedom of association and the right to collective bargaining are fundamental rights recognised by the ILO, and their respect is one of the clearest indicators of how an organisation relates to its workforce.

Example: a retailer reports the share of employees on permanent and temporary contracts, the share covered by collective agreements, and whether all employees earn at least an adequate wage in each country where it operates.

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<sup>38</sup> The four social standards are ESRS S1 Own Workforce, ESRS S2 Workers in the Value Chain, ESRS S3 Affected Communities and ESRS S4 Consumers and End-users. Commission Delegated Regulation (EU) 2026/1563. [https://eur-lex.europa.eu/eli/reg\\_del/2026/1563/oj](https://eur-lex.europa.eu/eli/reg_del/2026/1563/oj)

<sup>39</sup> International Labour Organization, *ILO Declaration on Fundamental Principles and Rights at Work*, as amended in 2022. <https://www.ilo.org/ilo-declaration-fundamental-principles-and-rights-work>

### *Own Workforce: Equal Treatment and Opportunities for All*

This topic covers equality and non-discrimination at work. It includes equal pay for equal work, the gender pay gap, diversity in the workforce and in management, the prevention of discrimination and harassment, the employment and inclusion of persons with disabilities, and access to training and career development.

Equal treatment matters because discrimination violates fundamental rights and because it wastes talent. It is also increasingly regulated. In the European Union, the Pay Transparency Directive requires employers with 100 or more employees to report on their gender pay gap and to correct pay differences between women and men doing work of equal value that cannot be justified by objective, gender-neutral criteria.<sup>40</sup>

Example: a bank reports the gender pay gap across its workforce, the share of women in senior management, the number of reported cases of discrimination and harassment and how they were resolved, and the average hours of training per employee.

### *Health and Safety at Work*

This topic covers the protection of workers from injury and ill health. It includes the occupational health and safety management system, the identification of hazards and assessment of risks, work-related injuries, fatalities and occupational diseases, psychosocial risks such as stress and burnout, and the safety of contractors working on the organisation's sites.

Health and safety is the point at which ESG and EHS meet most directly. The topic matters because the human cost of unsafe work is enormous. The ILO estimates that around 2.93 million workers died from work-related causes in 2019, most of them from occupational diseases, and that more than 395 million workers suffered non-fatal injuries at work.<sup>41</sup> Since 2022, a safe and healthy working environment has been one of the ILO fundamental principles and rights at work. Chapter 5 explains this topic in detail.

Example: a construction company reports the number of fatalities and recordable injuries among its employees and among subcontractor workers, the rate of injuries per hours worked, and the actions it took after each serious incident.

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<sup>40</sup> Directive (EU) 2023/970 on pay transparency. <https://eur-lex.europa.eu/eli/dir/2023/970/oj>

<sup>41</sup> International Labour Organization, ILOSTAT, *The right to occupational safety and health: still unrealized*. <https://ilostat.ilo.org/blog/the-right-to-occupational-safety-and-health-still-unrealized/>

### *Workers in the Value Chain*

This topic covers the working conditions of people who are not employed by the organisation but who work for its suppliers, contractors and other business partners. It includes the risks of forced labour, child labour and human trafficking, the conditions of migrant workers, wages, working time and health and safety in supplier facilities, and the processes the organisation uses to identify and address these risks.

The topic matters because the most severe labour rights abuses often occur in supply chains, far from the company's own sites. According to the latest global estimates, 27.6 million people were in forced labour in 2021,<sup>42</sup> and 138 million children were in child labour in 2024, around 54 million of them in hazardous work.<sup>43</sup> A company that buys from high-risk sectors or regions cannot assume that its suppliers respect labour rights. It must check.

Example: an apparel brand publishes the list of its tier one supplier factories, conducts unannounced audits, operates a grievance mechanism accessible to factory workers, and reports how many cases of non-compliance it found and how they were remediated.

### *Affected Communities*

This topic covers the impacts of the organisation's operations and value chain on the people who live near them or depend on the same land and resources. It includes land rights and resettlement, access to water and other essential resources, community health and safety, security practices, the rights of indigenous peoples, including their right to free, prior and informed consent, and the engagement of communities in decisions that affect them.

The topic matters most in extractive industries, energy, agriculture and infrastructure, where projects can transform the lives of entire communities. Conflicts with communities delay projects, increase costs and, in severe cases, result in violence and lasting damage to the company's reputation and licence to operate.

Example: a mining company reports how it consulted affected communities before opening a new mine, how many households were resettled and on what terms, and how many complaints it received through its community grievance mechanism and how they were resolved.

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<sup>42</sup> ILO, Walk Free and IOM, *Global Estimates of Modern Slavery: Forced Labour and Forced Marriage*, 2022. <https://www.walkfree.org/projects/global-estimates-of-modern-slavery/>

<sup>43</sup> ILO and UNICEF, *Despite progress, child labour still affects 138 million children globally*, June 2025. <https://www.unicef.org/press-releases/despite-progress-child-labour-still-affects-138-million-children-globally-ilo-unicef>

## Consumers and End Users

This topic covers the impacts of the organisation's products and services on the people who use them. It includes product safety and quality, the protection of personal data and privacy, responsible marketing, accurate information about products, access to essential products and services, and the protection of vulnerable groups such as children.

The topic matters because consumers trust companies with their health, their money and their data. Data protection has become one of the most significant issues in this area. In the European Union, the General Data Protection Regulation sets strict rules for the processing of personal data, with fines of up to 4% of worldwide annual turnover.<sup>44</sup>

Example: a technology company reports the number of data breaches affecting users, the number of complaints received by data protection authorities, and the measures it has taken to protect children who use its services.

## Human Rights as the Common Thread

Human rights are not a separate topic in the social pillar. They are the common thread that runs through all of it. The right to just and favourable conditions of work, the right to equality and non-discrimination, the right to health, the right to privacy, the rights of indigenous peoples and the prohibition of forced labour are all human rights recognised in international law.

The UN Guiding Principles define the responsibility of companies to respect these rights through three elements: a policy commitment, a human rights due diligence process to identify, prevent, mitigate and account for adverse impacts, and processes to enable remedy for those harmed. Human rights due diligence is explained in chapter 17.

## At a Glance: Typical Questions and Metrics

| Topic                             | Typical questions                                                                                                                             | Typical metrics                                                                                                                  |
|-----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| Own workforce: working conditions | How many people do you employ, and on what contracts? Do all employees earn an adequate wage? What share is covered by collective agreements? | Headcount by contract type and gender; employee turnover; share covered by collective bargaining; share earning an adequate wage |
| Own workforce: equal treatment    | What is your gender pay gap? How diverse is your management? How                                                                              | Gender pay gap in %; share of women in management; number of incidents                                                           |

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<sup>44</sup> Regulation (EU) 2016/679 (General Data Protection Regulation), Article 83. <https://eur-lex.europa.eu/eli/reg/2016/679/oj>

| Topic                      | Typical questions                                                                                                                              | Typical metrics                                                                                                       |
|----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
|                            | do you handle discrimination and harassment?                                                                                                   | of discrimination; training hours per employee; share of employees with disabilities                                  |
| Health and safety at work  | How many work-related injuries and fatalities occurred? Is your health and safety management system certified? How do you protect contractors? | Number of fatalities; recordable injury rate; number of days lost; share of workers covered by a management system    |
| Workers in the value chain | How do you identify labour risks in your supply chain? How do you address forced and child labour? Can supplier workers raise grievances?      | Share of suppliers assessed; number of audits and findings; cases of forced or child labour identified and remediated |
| Affected communities       | Which communities do your operations affect? How do you consult them? How do you handle their complaints?                                      | Number of community consultations; number of grievances received and resolved; households resettled                   |
| Consumers and end users    | Are your products safe? How do you protect personal data? Is your marketing responsible?                                                       | Number of product recalls; number of data breaches; substantiated privacy complaints                                  |

## G: Governance

The governance pillar covers how an organisation is directed, controlled and held accountable. Governance determines whether environmental and social commitments are real or remain on paper. An organisation with strong governance knows its risks, takes decisions transparently, prevents misconduct and corrects mistakes. An organisation with weak governance is exposed to fraud, corruption and failures of oversight that can destroy its value and its reputation.

In the ESRS, governance appears in two places. The general disclosures in ESRS 2 require every reporting company to describe how its administrative, management and supervisory bodies oversee sustainability matters. The topical standard ESRS G1 Business Conduct covers corporate culture, the protection of whistleblowers, anti-corruption and bribery, political engagement and

payment practices.<sup>45</sup> In the broader ESG field, the governance pillar also includes board structure, shareholder rights and remuneration, which investors and rating agencies assess.

### *Board and Leadership*

This topic covers the composition and functioning of the highest governance body: its size, the independence of its members, the diversity of their backgrounds and gender, their competence, the separation of the roles of chair and chief executive, and the work of committees such as audit, remuneration and sustainability committees. It also covers executive remuneration and whether it is linked to sustainability objectives.

The topic matters because the board sets the direction of the organisation and holds management accountable. A board without independent members or without relevant expertise cannot effectively oversee complex risks such as climate change or human rights.

### *Ownership and Shareholder Rights*

This topic covers the ownership structure of the company, the protection of the rights of minority shareholders, the principle of one share, one vote, and the handling of transactions with related parties. It is particularly relevant for listed companies and for companies with a controlling shareholder or family ownership.

### *Business Ethics and Anti-Corruption*

This topic covers the standards of conduct the organisation expects from its management, employees and business partners. It includes the code of conduct, the prevention of bribery and corruption, conflicts of interest, fair competition and the corporate culture that supports ethical behaviour.

The topic matters because corruption distorts markets, undermines institutions and exposes companies to severe legal penalties. The United Nations Convention against Corruption sets the global standard in this area, and laws such as the United States Foreign Corrupt Practices Act and the United Kingdom Bribery Act 2010 apply to the conduct of companies abroad.<sup>46</sup>

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<sup>45</sup> Commission Delegated Regulation (EU) 2026/1563, ESRS 2 General Disclosures and ESRS G1 Business Conduct. [https://eur-lex.europa.eu/eli/reg\\_del/2026/1563/oj](https://eur-lex.europa.eu/eli/reg_del/2026/1563/oj)

<sup>46</sup> United Nations Convention against Corruption, 2003. <https://www.unodc.org/unodc/en/treaties/CAC/>; UK Bribery Act 2010. <https://www.legislation.gov.uk/ukpga/2010/23>

### *Risk Management and Internal Control*

This topic covers the processes through which the organisation identifies, assesses and manages its risks, including sustainability risks, and the internal controls that ensure the reliability of its financial and sustainability information. It includes enterprise risk management, internal audit and the compliance function.

The topic matters because sustainability risks only become manageable when they are part of the organisation's general risk management. A climate risk that is recorded only in the sustainability report, and not in the risk register reviewed by the board, is a risk that nobody manages.

### *Transparency and Accountability*

This topic covers the quality and honesty of the organisation's communication with stakeholders. It includes the reliability of financial and sustainability reporting, tax transparency, political contributions and lobbying activities, and payment practices towards suppliers, particularly small and medium-sized enterprises, for which late payment can be a serious problem.

### *Whistleblowing*

This topic covers the channels through which employees and other stakeholders can report misconduct, the protection of those who report against retaliation, and the way the organisation investigates and acts on reports. In the European Union, the Whistleblower Protection Directive requires organisations with 50 or more employees to establish internal reporting channels.<sup>47</sup>

Whistleblowing matters because many serious cases of fraud, corruption, safety violations and abuse come to light only because someone inside the organisation speaks up. An effective whistleblowing system is one of the most reliable early warning mechanisms an organisation can have.

### *Data Protection and Cybersecurity*

This topic covers the governance of personal data and information security: the policies, responsibilities and controls that protect the organisation's systems and the data of its customers, employees and partners. It overlaps with the consumers and end users topic in the social pillar, but from a governance perspective it focuses on oversight, accountability and the management of cyber risks at board level.

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<sup>47</sup> Directive (EU) 2019/1937 on the protection of persons who report breaches of Union law. <https://eur-lex.europa.eu/eli/dir/2019/1937/oj>

## *Governance of Sustainability*

This topic covers who is responsible for sustainability in the organisation. It includes the role of the board and its committees in overseeing sustainability matters, the expertise available to them, the responsibilities of management, the way sustainability is integrated into strategy and decision-making, and whether remuneration is linked to sustainability performance. This is one of the first questions every reporting framework asks, because it shows whether sustainability is managed at the level where decisions are made.

### *G at a Glance: Typical Questions and Metrics*

| Topic                                | Typical questions                                                                                                            | Typical metrics                                                                                                         |
|--------------------------------------|------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
| Board and leadership                 | How independent and diverse is your board? Does it have sustainability expertise? Is executive pay linked to sustainability? | Share of independent board members; share of women on the board; share of variable pay linked to sustainability targets |
| Ownership and shareholder rights     | Who controls the company? How are related-party transactions approved?                                                       | Ownership structure; number and value of related-party transactions                                                     |
| Business ethics and anti-corruption  | Do you have an anti-corruption policy? Do you train employees? Have there been cases of corruption?                          | Share of employees trained; number of confirmed incidents; fines and penalties                                          |
| Risk management and internal control | Are sustainability risks part of enterprise risk management? Are controls in place over sustainability data?                 | Description of processes; number of internal audit findings                                                             |
| Transparency and accountability      | Do you disclose political contributions and lobbying? How quickly do you pay suppliers?                                      | Amount of political contributions; average payment period in days; share of invoices paid late                          |
| Whistleblowing                       | Do you have a protected reporting channel? How many reports did you receive and resolve?                                     | Number of reports received, investigated and substantiated                                                              |
| Data protection and cybersecurity    | Who is responsible for cyber risk? Have you suffered breaches?                                                               | Number of material incidents; share of employees trained                                                                |

| Topic                        | Typical questions                                                               | Typical metrics                                                                   |
|------------------------------|---------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| Governance of sustainability | Who oversees sustainability at board level? How is it integrated into strategy? | Frequency of board discussions on sustainability; description of responsibilities |

## Where the Pillars Meet

Many sustainability topics belong to more than one pillar, and the most serious risks often arise where the pillars meet.

Occupational health and safety is a social topic because it concerns the rights and wellbeing of workers. It is managed through the EHS system, which also covers environmental performance, and it is overseen through governance, since boards are accountable for safety culture.

Climate change is an environmental topic, but the decision to adopt a transition plan, to allocate capital to decarbonisation and to link executive remuneration to emission targets is a governance decision. The consequences of the transition for workers and communities, such as the closure of coal mines and power plants, are a social issue, often described as the just transition.

Corruption is a governance topic, but its victims are often communities deprived of public services, workers in sectors where bribes replace safety inspections, and the environment, when permits are bought instead of earned.

The practical lesson is that the pillars are a reading aid, not organisational silos. An organisation that manages them in separate departments without coordination will miss the connections that matter most.

## Same Pillars, Different Companies

The same three pillars produce very different priorities in different organisations. The table below shows which topics are typically of high, medium or low relevance for three types of company. It is illustrative only. The actual priorities of each organisation must be determined through a materiality assessment.

| Topic          | Professional services firm                 | Manufacturing company    | Retailer with global supply chains       |
|----------------|--------------------------------------------|--------------------------|------------------------------------------|
| Climate change | Medium (offices, business travel, Scope 3) | High (energy, processes) | High (Scope 3 in products and transport) |

| Topic                             | Professional services firm                | Manufacturing company                 | Retailer with global supply chains                         |
|-----------------------------------|-------------------------------------------|---------------------------------------|------------------------------------------------------------|
| Pollution                         | Low                                       | High                                  | Medium (in supply chain)                                   |
| Water                             | Low                                       | Medium to high, depending on location | Medium (in agricultural supply chains)                     |
| Biodiversity and ecosystems       | Low                                       | Medium                                | High (raw materials such as cotton, soy, palm oil, timber) |
| Resource use and circular economy | Low                                       | High                                  | High (packaging, products, waste)                          |
| Own workforce                     | High (talent, wellbeing, equality)        | High                                  | High                                                       |
| Health and safety at work         | Medium (psychosocial risks)               | High                                  | Medium (warehouses, stores)                                |
| Workers in the value chain        | Low to medium                             | Medium                                | High                                                       |
| Affected communities              | Low                                       | Medium to high                        | Medium                                                     |
| Consumers and end users           | Medium (data protection, confidentiality) | Medium (product safety)               | High (product safety, marketing, data)                     |
| Business conduct                  | High                                      | High                                  | High                                                       |

## 5. ESG and EHS: How They Relate

ESG and EHS are often mentioned together and sometimes confused. They are closely connected, but they are not the same. This chapter explains what EHS means, what each of its three letters covers, and how the operational work of EHS feeds the strategic and reporting work of ESG.

### What EHS Means

EHS stands for Environment, Health and Safety. It refers to the policies, procedures and management systems an organisation uses to protect the environment and the health and safety of its workers and of other people affected by its operations.

The same discipline appears under several names. HSE (Health, Safety and Environment) is common in the oil and gas industry and in Europe. SHE (Safety, Health and Environment) is used in parts of the chemical and manufacturing sectors. Some organisations add Security (HSSE) or Quality (QHSE). The order of the letters reflects the history and priorities of an industry, not a difference in content. In this guide, EHS is used throughout.

EHS is rooted in law. Most countries have legislation that requires employers to assess and control risks to the health and safety of workers and to obtain permits for activities that affect the environment. In the European Union, the Framework Directive on safety and health at work of 1989 sets out the general obligations of employers, including risk assessment, prevention, information, training and consultation of workers.<sup>48</sup> Internationally, the reference standards are ILO Conventions No. 155 and No. 187, and the management system standards ISO 45001 and ISO 14001. For projects financed by development finance institutions, the World Bank Group Environmental, Health and Safety Guidelines set technical benchmarks for each industry.<sup>49</sup>

### Environment Within EHS

The environmental part of EHS focuses on the site and the operation. It covers environmental permits and compliance with their conditions, the monitoring of emissions to air and discharges to water, waste management, the storage and handling of hazardous substances, the prevention of spills and leaks, noise, and environmental emergency preparedness.

The difference from the environmental pillar of ESG lies in scope and perspective. EHS asks whether this site operates within its permit and how to prevent an incident tomorrow. ESG asks

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<sup>48</sup> Council Directive 89/391/EEC on the introduction of measures to encourage improvements in the safety and health of workers at work. <https://eur-lex.europa.eu/eli/dir/1989/391/oj>

<sup>49</sup> International Finance Corporation, *General Environmental, Health, and Safety Guidelines*. <https://www.ifc.org/en/insights-reports/general-environmental-health-and-safety-guidelines>

what the organisation's total environmental footprint is across its value chain, how it is changing over time and how it affects the organisation's strategy and value. EHS data, such as fuel consumption, emission measurements and waste records, form the basis for the environmental figures in an ESG report.

## Health: What H Covers

The H in EHS refers to occupational health: the protection of workers from illness and harm to their physical and mental health caused by their work. Occupational health differs from occupational safety in that its effects often appear slowly, sometimes years after exposure. This is why it is frequently underestimated, even though, according to the ILO, occupational diseases account for about 89% of all work-related deaths.<sup>50</sup>

Occupational health covers five groups of hazards:

- **Chemical hazards:** exposure to dust, fumes, gases, solvents, asbestos, silica and other hazardous substances.
- **Physical hazards:** noise, vibration, radiation, extreme heat and cold.
- **Biological hazards:** bacteria, viruses and other agents, particularly in healthcare, agriculture, waste management and laboratories.
- **Ergonomic hazards:** heavy lifting, repetitive movements, awkward postures and prolonged sitting, which cause musculoskeletal disorders.
- **Psychosocial hazards:** excessive workload, long working hours, lack of control over work, harassment, violence and job insecurity, which cause stress, burnout, depression and cardiovascular disease.

Psychosocial risks deserve particular attention. They affect workers in every sector, including offices, and they are increasingly recognised in law and in reporting standards. Long working hours, of 55 hours or more per week, are the occupational risk factor responsible for the largest number of work-related deaths.<sup>51</sup>

Occupational health also includes health surveillance, which means the periodic monitoring of workers exposed to specific hazards, industrial hygiene, which means the measurement and control of exposure in the workplace, access to occupational health services, and workplace wellbeing programmes. In a broader sense, it extends to community health, meaning the

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<sup>50</sup> International Labour Organization, ILOSTAT, *The right to occupational safety and health: still unrealized*. <https://ilostat.ilo.org/blog/the-right-to-occupational-safety-and-health-still-unrealized/>

<sup>51</sup> Ibid.

protection of people living near the organisation's operations from exposure to pollution, hazardous materials or disease.

## Safety: What S Covers

The S in EHS refers to safety: the prevention of accidents that cause injury, death or damage. It covers several distinct areas:

- **Occupational safety:** the prevention of accidents at work, such as falls from height, contact with moving machinery, being struck by objects or vehicles, electrical accidents and work in confined spaces.
- **Contractor safety:** the protection of workers employed by contractors and subcontractors on the organisation's sites, who are often exposed to the highest risks and are frequently less well protected than employees.
- **Process safety:** the prevention of major accidents, such as fires, explosions and releases of toxic substances, in facilities that handle hazardous materials. Process safety failures caused the disasters at Seveso, Bhopal and Piper Alpha described in chapter 2. In the European Union, the Seveso III Directive regulates establishments where dangerous substances are present in large quantities.<sup>52</sup>
- **Fire safety and emergency preparedness:** fire prevention, evacuation plans, emergency response teams and drills.
- **Transport and road safety:** the safety of drivers and of others on the road, which is a leading cause of work-related deaths in many sectors.
- **Product safety:** the safety of products during their use, which connects EHS with the consumers and end users topic in the social pillar.

A central principle of safety management is the hierarchy of controls, which ISO 45001 also follows. It ranks measures by their effectiveness: first eliminate the hazard, then substitute it with something less hazardous, then use engineering controls such as guards and ventilation, then administrative controls such as procedures and training, and only as a last resort personal protective equipment.<sup>53</sup> An organisation that relies mainly on helmets and gloves, rather than on removing hazards, has not yet built an effective safety system.

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<sup>52</sup> Directive 2012/18/EU on the control of major-accident hazards involving dangerous substances (Seveso III). <https://eur-lex.europa.eu/eli/dir/2012/18/oj>

<sup>53</sup> ISO 45001:2018 Occupational health and safety management systems, clause 8.1.2. <https://www.iso.org/standard/63787.html>

Safety performance is measured through two types of indicator. Lagging indicators measure outcomes after the fact, such as the number of fatalities, the lost time injury frequency rate and the total recordable incident rate. Leading indicators measure the activities that prevent harm, such as the number of near misses reported, safety inspections carried out, hazards corrected and workers trained. Mature organisations track both, because a low injury rate alone can hide serious risks that have not yet resulted in harm.

## From Site Management to Corporate Disclosure: How EHS Feeds ESG

EHS and ESG operate at different levels, but they depend on each other. EHS is the operational management system at the level of the site and the operation. ESG is the strategic and disclosure framework at the level of the organisation as a whole. EHS produces much of the data that ESG reports, and ESG places EHS performance in the context of strategy, risk and value.

| Aspect          | EHS                                                                         | ESG                                                                                                |
|-----------------|-----------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| Purpose         | Protect workers, communities and the environment from harm in operations    | Manage and disclose material sustainability impacts, risks and opportunities                       |
| Level           | Site and operation                                                          | Organisation and value chain                                                                       |
| Main audience   | Workers, managers, inspectors, regulators                                   | Investors, lenders, regulators, customers, the public                                              |
| Time horizon    | Daily operations and the short term                                         | Short, medium and long term                                                                        |
| Typical owner   | EHS manager, site management, operations                                    | Sustainability lead, chief financial officer, board                                                |
| Key standards   | ISO 14001, ISO 45001, national OSH and environmental law, ILO conventions   | ESRS, GRI, ISSB standards, CSRD                                                                    |
| Typical metrics | Injury rates, near misses, exposure measurements, permit compliance, spills | Total emissions, targets, workforce indicators, governance disclosures, financial effects of risks |

The connection is direct. The number of work-related injuries and the injury rate reported under ESRS S1 come from the incident records kept by the EHS function. The Scope 1 emissions reported under ESRS E1 are calculated from the fuel consumption data recorded at sites. The pollution figures reported under ESRS E2 come from emission monitoring required by environmental permits.

## Why Strong EHS Gives a Head Start

Organisations that already run strong EHS systems have a significant advantage when they begin ESG reporting. They have risk assessment processes, incident records, environmental monitoring data and management systems that are often externally certified and audited. They are used to setting targets, tracking indicators and reporting to authorities.

What they usually need to add is the broader perspective of ESG: the inclusion of the entire value chain, the assessment of financial effects, the integration of sustainability into strategy and governance, and the coverage of topics outside the traditional scope of EHS, such as equal treatment, human rights in the supply chain, business ethics and data protection. Conversely, an organisation that starts with ESG reporting without a functioning EHS system will struggle to produce reliable data on its own operations. ESG reporting does not replace EHS management. It depends on it.

## 6. Why It Matters: The Business and Societal Case

Organisations rarely start working on ESG because of an abstract commitment to sustainability. They start because someone asks: a bank, a customer, an investor, a regulator, an insurer or their own employees. This chapter sets out the six channels through which environmental, social and governance issues reach an organisation, and then examines honestly what the evidence says about the link between ESG and financial performance.

### Capital, Finance and Insurance

**Investors.** Institutional investors use ESG information to assess risks that conventional financial analysis can miss, such as exposure to carbon pricing, supply chain disruption or litigation. In 2023, the International Organization of Securities Commissions (IOSCO), which brings together the world's securities regulators, endorsed the ISSB standards and called on its members to consider using them.<sup>54</sup> This signals that sustainability information is now treated as part of the information investors need, not as a marketing supplement.

The market for funds labelled as sustainable has cooled. In 2025, global sustainable funds recorded net outflows of USD 84 billion, the first year of net redemptions since Morningstar began tracking these flows in 2018. Their assets nevertheless stood at about USD 3.9 trillion at the end of the year, and almost 86% of these assets were held in Europe.<sup>55</sup> The outflows reflect a reaction to political pressure, performance in some sectors and scepticism about labels. They do not mean that mainstream investors have stopped analysing climate, governance and human rights risks in the companies they own.

**Banks.** Banks are under direct regulatory pressure to manage the ESG risks of their borrowers. In the European Union, the European Banking Authority (EBA) Guidelines on the management of ESG risks have applied to large and other institutions since 11 January 2026, and will apply to small and non-complex institutions from 11 January 2027. They require banks to identify, measure, manage and monitor ESG risks over the short, medium and long term, and to prepare plans that address the financial risks arising from the transition to a climate-neutral economy.<sup>56</sup>

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<sup>54</sup> IFRS Foundation, *ISSB Standards endorsed by IOSCO*, 25 July 2023. <https://www.ifrs.org/news-and-events/news/2023/07/issb-standards-endorsed-by-iosco/>

<sup>55</sup> Morningstar, *ESG Funds: 2025 Closes With Continued Outflows Amid Persistent Headwinds*, 2026. <https://global.morningstar.com/en-gb/sustainable-investing/esg-funds-2025-closes-with-continued-outflows-amid-persistent-headwinds>

<sup>56</sup> European Banking Authority, *The EBA publishes its final Guidelines on the management of ESG risks*, 9 January 2025. <https://www.eba.europa.eu/publications-and-media/press-releases/eba-publishes-its-final-guidelines-management-esg-risks>

In practice, this means that banks ask their corporate clients for data on emissions, energy use, transition plans and exposure to physical risks, and that the answers affect credit assessments and loan conditions.

**Insurers.** Insurers price physical climate risk directly. According to Munich Re, natural disasters caused overall losses of USD 224 billion in 2025, of which USD 108 billion were insured. Floods, wildfires and severe storms alone caused USD 98 billion in insured losses, well above the ten-year average of USD 60 billion.<sup>57</sup> The consequence for businesses is higher premiums, higher deductibles and, in the most exposed locations, the withdrawal of cover. An organisation that cannot show how it manages these risks pays more or is not insured at all.

## Regulation and Legal Risk

The second channel is the law. Four types of legal obligation now apply to environmental, social and governance matters.

**Reporting obligations.** In the European Union, the CSRD requires the largest companies to publish sustainability information prepared under the ESRS. More than thirty jurisdictions, including the United Kingdom, Australia, Japan, Brazil and Hong Kong, have adopted or are introducing requirements based on the ISSB standards. In the United States, California requires companies with revenue above about USD 1 billion that do business in the state to report their Scope 1 and Scope 2 emissions, with the first reports due on 10 August 2026.<sup>58</sup> Part 3 explains these requirements in detail.

**Due diligence obligations.** France has required large companies to adopt a vigilance plan since 2017. Germany's Supply Chain Due Diligence Act has applied since 2023, and Norway's Transparency Act since 2022. The EU CSDDD will apply to the largest companies from July 2029.<sup>59</sup>

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<sup>57</sup> Business Insurance, *Insured disaster losses fall to \$108 billion in 2025: Munich Re*, 13 January 2026. <https://www.businessinsurance.com/wildfires-storms-fuel-2025-insured-losses-of-108-billion-munich-re-says/>

<sup>58</sup> S&P Global Sustainable1, *Where does the world stand on ISSB adoption?*, August 2026. <https://www.spglobal.com/sustainable1/en/insights/research-reports/issb-q3-2026>; Maynard Nexsen, *CARB Adopts Initial Regulation as Implementation of Climate Reporting Program Continues*, 2026. <https://www.maynardnexsen.com/publication-time-marches-on-carb-adopts-initial-regulation-as-implementation-of-climate-reporting-program-continues>

<sup>59</sup> Directive (EU) 2026/470, Article 4 (amendments to the CSDDD). <https://eur-lex.europa.eu/eli/dir/2026/470/oj>

These laws require companies to identify and address human rights and environmental risks in their operations and supply chains, not only to report on them.

**Market access rules.** A growing number of rules determine whether products can enter a market at all. The EU Deforestation Regulation will require operators placing products such as cocoa, coffee, soy, palm oil, cattle, wood and rubber on the EU market to prove that they are deforestation-free, from 30 December 2026 for large and medium-sized operators and from 30 June 2027 for micro and small operators.<sup>60</sup> The EU Carbon Border Adjustment Mechanism entered its definitive phase on 1 January 2026, which means that importers of iron and steel, aluminium, cement, fertilisers, electricity and hydrogen must buy CBAM certificates corresponding to the emissions embedded in these goods. The first annual declarations for imports made in 2026 are due by 30 September 2027. Importers of less than 50 tonnes per year of the covered goods, other than electricity and hydrogen, are exempt.<sup>61</sup> The EU Forced Labour Regulation will prohibit products made with forced labour from the EU market from 14 December 2027.<sup>62</sup>

**Rules against misleading claims.** From 27 September 2026, Directive (EU) 2024/825 prohibits generic environmental claims such as “environmentally friendly”, “green” or “eco” when the company cannot demonstrate recognised excellent environmental performance, sustainability labels not based on a certification scheme or established by public authorities, and claims that a product has a neutral, reduced or positive impact on the environment based on the offsetting of emissions.<sup>63</sup> Regulators outside the EU apply similar principles. In 2023, the US Securities and Exchange Commission ordered an asset manager to pay USD 19 million for misstatements about how it integrated ESG factors into its investment decisions.<sup>64</sup>

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<sup>60</sup> Stibbe, *The amended EUDR: what has changed and what has remained?*, 2026. <https://www.stibbe.com/publications-and-insights/the-amended-eudr-what-has-changed-and-what-has-remained>

<sup>61</sup> Herbert Smith Freehills Kramer, *Operationalisation and simplification of the EU CBAM*, 2026. <https://www.hsfkramer.com/notes/energy/2026-posts/operationalisation-and-simplification-of-the-eu-cbam>

<sup>62</sup> Regulation (EU) 2024/3015 on prohibiting products made with forced labour on the Union market. <https://eur-lex.europa.eu/eli/reg/2024/3015/oj>

<sup>63</sup> Directive (EU) 2024/825 as regards empowering consumers for the green transition. <https://eur-lex.europa.eu/eli/dir/2024/825/oj>

<sup>64</sup> US Securities and Exchange Commission, Deutsche Bank Subsidiary DWS to Pay \$25 Million for Anti-Money Laundering Violations and Misstatements Regarding ESG Investments, Press Release 2023-194, 25 September 2023. <https://www.sec.gov/news/press-release/2023-194>

**Litigation.** Courts have become a significant arena. According to the Grantham Research Institute at the London School of Economics, more than 3,600 climate-related cases had been filed worldwide by mid-2026, in 62 countries, and 249 new cases were filed in 2025 alone. Cases alleging climate-washing, meaning misleading claims about climate action, are the most common type of case brought against companies.<sup>65</sup>

## Pressure Through the Value Chain

The third channel affects companies of every size, including those with no legal obligation of their own. Large companies are responsible, under law and in the eyes of investors, for impacts across their value chains. A retailer that reports Scope 3 emissions needs emission data from its suppliers. A manufacturer that must conduct human rights due diligence needs to know how its suppliers treat their workers. A bank that must assess the transition risk of its loan book needs data from its borrowers.

These requirements travel down the value chain through questionnaires, supplier codes of conduct, contractual clauses, audits and supplier ratings. Small and medium-sized enterprises, which represent 99% of businesses in the European Union, receive them as conditions of doing business.<sup>66</sup> A supplier that cannot answer is at risk of losing a contract to a competitor that can.

The EU has recognised the burden this creates. From financial years beginning on 1 January 2027, companies reporting under the CSRD cannot require value chain partners with 1,000 or fewer employees to provide more information than the essential datapoints defined in the EU voluntary sustainability reporting standard, unless another law requires it.<sup>67</sup> This value chain cap limits the volume of requests. It does not remove them. For most small and medium-sized enterprises, the practical question is therefore not whether they will be asked for ESG information, but whether they will be ready to provide it.

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<sup>65</sup> Grantham Research Institute on Climate Change and the Environment, *Global trends in climate change litigation: 2026 snapshot*, June 2026. <https://www.lse.ac.uk/granthaminstitute/publication/global-trends-in-climate-change-litigation-2026-snapshot/>

<sup>66</sup> European Commission, *SME definition and SMEs in the EU*. [https://single-market-economy.ec.europa.eu/smes\\_en](https://single-market-economy.ec.europa.eu/smes_en)

<sup>67</sup> Commission Delegated Regulation (EU) 2026/1560 (voluntary sustainability reporting standard). [https://eur-lex.europa.eu/eli/reg\\_del/2026/1560/oj](https://eur-lex.europa.eu/eli/reg_del/2026/1560/oj); Garrigues, *EU publishes voluntary sustainability standard*, 2026. [https://www.garrigues.com/en\\_GB/new/eu-publishes-voluntary-sustainability-standard-companies-more-1000-employees-and-caps-value](https://www.garrigues.com/en_GB/new/eu-publishes-voluntary-sustainability-standard-companies-more-1000-employees-and-caps-value)

## Risk, Resilience and Licence to Operate

The fourth channel is risk. Environmental, social and governance failures cause direct financial losses, and some of the largest corporate losses in history have resulted from them. The explosion of the Deepwater Horizon drilling rig in the Gulf of Mexico in 2010 killed 11 workers and caused one of the largest marine oil spills in history. By 2018, BP estimated its total costs from the disaster at about USD 65 billion.<sup>68</sup>

Business leaders and experts consistently rank environmental risks among the most severe threats over the coming decade. In the World Economic Forum's Global Risks Report 2026, extreme weather ranked as the most severe global risk over a ten-year horizon, and five of the ten most severe long-term risks were environmental.<sup>69</sup> Physical climate risk affects factories, warehouses, transport routes and the availability of raw materials. Social risks, such as labour unrest, community opposition or human rights abuses in the supply chain, can halt production and delay projects. Governance failures, such as corruption, fraud or weak oversight, can destroy a company's value within days.

The concept of a social licence to operate captures the non-legal dimension of this risk. A mine, a factory or an infrastructure project needs the acceptance of the communities around it as much as it needs a permit. When that acceptance is lost, through pollution, unfair land acquisition or disregard for local concerns, projects face protests, blockades, legal challenges and political intervention.

## People, Customers and Reputation

The fifth channel is people. Organisations compete for skilled workers, and working conditions, safety, fair pay, equal treatment and the organisation's purpose influence whether they can attract and retain them. Employee turnover, absenteeism and occupational ill health are direct costs. Workers are also often the first to know when something goes wrong, which is why an organisation's culture and its whistleblowing system are as important for risk management as for ethics.

The sixth channel is customers. In business-to-business markets, ESG performance is increasingly a formal procurement criterion, assessed through questionnaires, ratings and contractual requirements. In consumer markets, stated preferences are strong. In a 2024 survey of more than

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<sup>68</sup> The Maritime Executive, *BP's Deepwater Horizon Costs Reach \$65 Billion*, January 2018. <https://maritime-executive.com/article/bp-s-deepwater-horizon-costs-reach-65-billion>

<sup>69</sup> World Economic Forum, *Global Risks Report 2026*, January 2026. <https://www.weforum.org/publications/global-risks-report-2026/>

20,000 consumers in 31 countries and territories, 80% said they were willing to pay more for sustainably produced or sourced goods, with an average premium of 9.7%.<sup>70</sup> Actual purchasing behaviour does not always match stated intentions, particularly when household budgets are under pressure. However, consumer trust lost through a safety scandal, a data breach or an exposed case of greenwashing is difficult and expensive to rebuild.

## What the Evidence Says, and What It Does Not

The question of whether good ESG performance leads to better financial results has been studied extensively, and the answer requires precision.

The most comprehensive review to date, conducted by the NYU Stern Center for Sustainable Business and Rockefeller Asset Management, examined more than 1,000 studies published between 2015 and 2020. Of the studies that examined corporate financial performance, 58% found a positive relationship with ESG performance, 13% found no effect, 21% found mixed results and 8% found a negative relationship. The review also found that the positive effect is stronger over longer time horizons, that ESG performance provides downside protection in times of crisis, and that ESG disclosure on its own, without real improvements in performance, does not improve financial results.<sup>71</sup>

Three limits of the evidence must be acknowledged. First, correlation is not causation. Well-managed companies may perform better both financially and on ESG because they are well managed. Second, ESG ratings, which many studies use, diverge significantly. A study of six major rating agencies found that 56% of the divergence between their ratings came from differences in how they measure the same issues, 38% from differences in which issues they cover and 6% from differences in how they weight them.<sup>72</sup> Third, sustainable investment funds do not consistently outperform conventional funds, and their returns depend heavily on sector exposure.

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<sup>70</sup> PwC, *2024 Voice of the Consumer Survey*, 15 May 2024. <https://www.pwc.com/gx/en/news-room/press-releases/2024/pwc-2024-voice-of-consumer-survey.html>

<sup>71</sup> Whelan, T., Atz, U., Clark, C., *ESG and Financial Performance: Uncovering the Relationship by Aggregating Evidence from 1,000 Plus Studies Published between 2015 and 2020*, NYU Stern Center for Sustainable Business and Rockefeller Asset Management, 2021. [https://www.stern.nyu.edu/sites/default/files/assets/documents/NYU-RAM\\_ESG-Paper\\_2021.pdf](https://www.stern.nyu.edu/sites/default/files/assets/documents/NYU-RAM_ESG-Paper_2021.pdf)

<sup>72</sup> Berg, F., Kölbel, J. F., Rigobon, R., “Aggregate Confusion: The Divergence of ESG Ratings”, *Review of Finance*, Vol. 26, No. 6, 2022, pp. 1315 to 1344. <https://academic.oup.com/rof/article/26/6/1315/6590670>

The honest conclusion is that ESG is not a guarantee of higher profits. The strongest business case lies in the management of material risks and in the ability to meet the requirements of investors, lenders, customers and regulators. Beyond the business case, respecting human rights, protecting workers' lives and health, and avoiding environmental harm are obligations that exist regardless of whether they pay.

## 7. Questions to Ask Before You Start

Organisations that begin working on ESG ask the same questions again and again. This chapter answers them directly.

### Is ESG Only a Nice-to-Have?

No. For a growing number of organisations, ESG is a legal obligation, a contractual requirement or a condition of access to finance and markets. Whether it applies to a specific organisation depends on four tests:

1. **Legal obligation.** Is the organisation within the scope of a sustainability reporting law (such as the CSRD, a national law based on ISSB standards or the California climate disclosure laws), a due diligence law (such as the French Duty of Vigilance Law, the German Supply Chain Due Diligence Act or, from 2029, the CSDDD) or a market access rule (such as the EU Deforestation Regulation or the Carbon Border Adjustment Mechanism)?
2. **Contractual requirement.** Do its customers require ESG information, compliance with a supplier code of conduct, a sustainability rating or emission data? Is it bidding for public contracts that include environmental or social award criteria?
3. **Financial requirement.** Do its banks, investors or insurers ask for ESG information, or link the terms of loans or insurance to sustainability performance?
4. **Risk exposure.** Does it face material environmental, social or governance risks that could damage its operations, finances or reputation, whether or not anyone asks about them?

If the answer to any of these questions is yes, ESG is not optional. If the answer to all four is no, the organisation is either very small, or it has not yet looked closely enough at its value chain and its risks.

### Does ESG Apply to Small and Medium-Sized Enterprises?

Yes, although mostly indirectly. Very few small and medium-sized enterprises (SMEs) have a legal obligation to report under the CSRD, since the Omnibus I Directive limited its scope to companies with more than 1,000 employees and a net turnover above EUR 450 million. However, SMEs are suppliers to large companies, borrowers from banks and bidders for public contracts, and all of these increasingly require ESG information.

The proportionate approach for an SME has four elements. First, it identifies the few topics that matter most for its business and its customers, which are usually energy and emissions, health and safety, working conditions and business ethics. Second, it adopts a small number of basic

policies. Third, it starts collecting a limited set of data on these topics. Fourth, it uses the EU voluntary sustainability reporting standard, which is designed for undertakings with up to 1,000 employees. Its basic module covers general information, energy and emissions, pollution, biodiversity, water, resource use and waste, workforce characteristics, health and safety, remuneration and collective bargaining, and anti-corruption.<sup>73</sup> An SME that can provide this information in a structured form can answer most questions from its customers and banks with one set of data.

## Is ESG Only About Climate?

No. Climate change receives most attention because it is the most developed area of regulation, data and investor interest, and because greenhouse gas emissions can be measured in a single unit. But for many organisations, the most material topics are social or governance topics: health and safety in construction and manufacturing, labour rights in apparel and agricultural supply chains, data protection in technology and finance, corruption in sectors that depend on public contracts and permits. The ESRS contain ten topical standards, and only one of them is dedicated to climate. An ESG approach that covers only climate is incomplete.

## Is ESG Dead?

No, but it has changed. Since 2023, ESG has become politically contested, particularly in the United States. A number of US states have adopted laws that restrict the use of ESG criteria by public pension funds or penalise financial institutions that limit lending to fossil fuel companies. The US Securities and Exchange Commission abandoned the defence of its 2024 climate disclosure rule, which never took effect, and in May 2026 sent a proposal to rescind it for review.<sup>74</sup> Several major banks left the Net-Zero Banking Alliance, which voted to cease operations in October 2025.<sup>75</sup> In the European Union, the Omnibus I Directive narrowed the scope of the CSRD and the CSDDD.

At the same time, more than thirty jurisdictions have adopted ISSB-based standards. California's emission reporting requirements have entered into application. The EU adopted revised ESRS, a

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<sup>73</sup> Commission Delegated Regulation (EU) 2026/1560 (voluntary sustainability reporting standard). [https://eur-lex.europa.eu/eli/reg\\_del/2026/1560/oj](https://eur-lex.europa.eu/eli/reg_del/2026/1560/oj)

<sup>74</sup> Ballotpedia News, *SEC moves to rescind 2024 climate disclosure rule*, 19 May 2026. <https://news.ballotpedia.org/2026/05/19/sec-moves-to-rescind-2024-climate-disclosure-rule-2/>

<sup>75</sup> Advisor.ca, *Mark Carney-launched Net-Zero Banking Alliance votes to shut down*, October 2025. <https://www.advisor.ca/industry-news/mark-carney-launched-net-zero-banking-alliance-votes-to-shut-down>

voluntary standard for smaller companies, new rules against greenwashing and new market access rules on deforestation and forced labour. Banks in the EU are now obliged to manage the ESG risks of their borrowers.

The label ESG may become less fashionable. Some companies already avoid it and speak of sustainability, responsible business conduct or simply risk management. The substance does not disappear: emissions, working conditions, human rights in supply chains, corruption and governance failures remain sources of real risk and real harm, and the expectation to manage them is embedded in law, finance and international standards.

## What Does It Cost, and What Does It Cost Not to Do It?

The cost of ESG work consists of five elements: the time of internal staff, external advice, data systems, external assurance of the report where it is required, and the cost of implementing improvements, such as investments in energy efficiency or safety. The cost depends on the size and complexity of the organisation and on whether it builds on existing systems. An organisation with a functioning EHS system, an HR information system and good financial controls already holds much of the necessary data.

The cost of not doing it is less visible but often higher:

- **Lost business:** contracts lost to competitors that can provide the required information or meet the required standards.
- **Higher cost of capital:** less favourable loan conditions or exclusion from certain investors and financing programmes.
- **Penalties:** fines under the GDPR of up to 4% of worldwide annual turnover, penalties for non-compliance with the CSDDD of up to 3% of net worldwide turnover, and penalties for misleading environmental claims under consumer protection law.
- **Losses from incidents:** accidents, environmental damage, supply chain disruption and litigation.
- **Reputational damage:** the loss of trust of customers, employees and communities.

## Who in the Organisation Owns ESG?

ESG requires ownership at three levels. The board, or the highest governance body, is responsible for oversight: it approves the strategy and policies, monitors material risks and holds management accountable. A member of the executive management, such as the chief executive officer, chief financial officer or chief operating officer, is accountable for delivery. A sustainability lead, supported by a cross-functional working group, coordinates the work.

The working group must include the functions that hold the data and manage the topics: finance, operations, EHS, human resources, procurement, legal and compliance, risk management and communications. The most common mistake is to assign ESG to the communications department alone. Communications can present the results, but it cannot manage emissions, safety, supply chains or corruption risks. Chapter 17 describes this structure in detail.

## What Is the Difference Between Reporting and Performing?

Reporting describes what an organisation does. Performing is what it actually does. An organisation can publish a long and attractive sustainability report while its emissions rise, its workers are injured and its suppliers violate labour rights. Equally, an organisation can improve its performance significantly without publishing much.

Reporting matters because it creates accountability and gives stakeholders information they need. But reporting is the result of management, not a substitute for it. The order of work is: understand the material topics, set policies and targets, implement measures, collect data, and then report. Organisations that start with the report and work backwards produce documents that do not survive scrutiny by investors, auditors, journalists or regulators.

## How Do We Avoid Greenwashing and Social Washing?

Greenwashing means presenting an organisation, product or activity as more environmentally friendly than it is. Social washing means the same for social performance, for example claims about fair wages, diversity or respect for human rights that are not supported by facts. Both expose organisations to legal, financial and reputational risk, and from 27 September 2026 many forms of greenwashing are explicitly prohibited in the EU.

Six rules help avoid them:

1. **Be specific.** Replace general claims such as “green” or “sustainable” with precise statements, for example “we reduced the energy consumption of our plant by 18% between 2023 and 2025”.
2. **Support every claim with evidence** that can be produced on request, such as measurements, invoices, certificates or audit reports.
3. **Do not generalise** a benefit that applies to one product, site or activity to the whole organisation.
4. **Do not rely on carbon offsets** to claim that a product or the organisation is “climate neutral” or “carbon neutral”. Report emission reductions and offsets separately.
5. **Make future commitments credible.** A target for 2030 or 2050 must be supported by an implementation plan with interim milestones, resources and responsibilities.

6. **Report the negatives** as well as the positives. A balanced report that acknowledges problems and explains what is being done about them is more credible than a report that contains only successes.

## Where Do We Start If We Have Nothing in Place?

An organisation starting from zero can make substantial progress in the first six months by following eight steps:

1. **Appoint an owner** in senior management and form a small cross-functional working group.
2. **Map the requirements:** which laws apply, what customers, banks and investors are asking for, and what questionnaires have already been received.
3. **Take stock of what exists:** policies, certifications, EHS records, HR data, energy bills and supplier contracts. Most organisations have more than they think.
4. **Carry out a first materiality assessment** to identify the five to ten topics that matter most. Chapter 17 explains how.
5. **Adopt the basic policies** that are missing, starting with a code of conduct, a health and safety policy, an environmental policy and an anti-corruption policy.
6. **Start measuring** a small number of core indicators: energy consumption, Scope 1 and 2 emissions, workforce composition, injuries and training.
7. **Set a few concrete targets** and assign responsibility for them.
8. **Prepare a first, simple report** or a structured data set that can be used to answer questions from customers and banks, and improve it every year.

The most important principle is to start with what is material and to do it well, rather than trying to cover everything at once.

## 8. The 2025 to 2026 Reset: Simplification, Not Abandonment

Between February 2025 and September 2026, the European Union rewrote large parts of its sustainability framework. Outside the EU, the direction diverged: the United States retreated at the federal level, while a growing number of other jurisdictions adopted the ISSB standards. This chapter summarises what changed, what did not change and what it means in practice. Part 3 explains each instrument in detail.

### What Changed in the European Union

In February 2025, the European Commission proposed the first Omnibus simplification package. A first step, the so-called stop-the-clock directive, postponed by two years the reporting obligations of companies that were due to start reporting under the CSRD for financial years 2025 and 2026.<sup>76</sup> The substantive changes followed in Directive (EU) 2026/470, which was published in the Official Journal on 26 February 2026 and entered into force on 18 March 2026.<sup>77</sup>

#### *The Corporate Sustainability Reporting Directive*

| Element                 | Before Omnibus I                                                                                                                                                      | After Omnibus I                                                                                              |
|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| Scope for EU companies  | Large companies meeting two of three criteria: more than 250 employees, more than EUR 50 million net turnover, more than EUR 25 million total assets; and listed SMEs | Companies with more than 1,000 employees on average and a net turnover above EUR 450 million                 |
| Scope for non-EU groups | EU net turnover above EUR 150 million and an EU subsidiary or branch above defined thresholds                                                                         | EU net turnover above EUR 450 million and an EU subsidiary or branch with net turnover above EUR 200 million |
| Listed SMEs             | In scope from financial year 2026, with an opt-out                                                                                                                    | Excluded                                                                                                     |
| Assurance               | Limited assurance, with a possible later move to reasonable assurance                                                                                                 | Limited assurance only; the option of reasonable assurance removed                                           |

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<sup>76</sup> Directive (EU) 2025/794 as regards the dates from which Member States are to apply certain corporate sustainability reporting and due diligence requirements. <https://eur-lex.europa.eu/eli/dir/2025/794/oj>

<sup>77</sup> Directive (EU) 2026/470. <https://eur-lex.europa.eu/eli/dir/2026/470/oj>

| Element                   | Before Omnibus I                | After Omnibus I                                                                                 |
|---------------------------|---------------------------------|-------------------------------------------------------------------------------------------------|
| Sector-specific standards | To be adopted by the Commission | Removed; the Commission may issue non-binding guidelines                                        |
| Value chain requests      | No limit                        | Companies with up to 1,000 employees may decline requests that go beyond the voluntary standard |
| Application               | Phased from financial year 2024 | New scope applies to financial years beginning on or after 1 January 2027                       |

Member States must transpose the CSRD amendments by 19 March 2027. Companies that reported for financial year 2024 but fall outside the new thresholds may be exempted by their Member State from reporting for financial years 2025 and 2026.<sup>78</sup>

### *The Revised European Sustainability Reporting Standards*

The revised ESRS were adopted by the Commission on 3 July 2026 and published in the Official Journal as Commission Delegated Regulation (EU) 2026/1563 on 21 September 2026. They enter into force on 10 November 2026 and apply mandatorily to financial years beginning on or after 1 January 2027, which means that the first reports under the revised standards will be published in 2028.<sup>79</sup>

The main changes are:

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<sup>78</sup> Fieldfisher, *Changes to sustainability reporting (CSRD) and due diligence (CSDDD) approved*, 2026. <https://www.fieldfisher.com/en-be/locations/belgium/insights/changes-to-sustainability-reporting-csrd-and-due-d>; AKD, *Changes to the CSRD: Omnibus Directive enters into force on 18 March 2026*. <https://www.akd.eu/insights/provisional-agreement-on-omnibus-i-changes-to-the-scope-and-reporting-obligations-under-the-csrd>

<sup>79</sup> Commission Delegated Regulation (EU) 2026/1563. [https://eur-lex.europa.eu/eli/reg\\_del/2026/1563/oj](https://eur-lex.europa.eu/eli/reg_del/2026/1563/oj); Linklaters, *EU CSRD: revised ESRS and voluntary reporting standard are published in the Official Journal*, 2026. <https://sustainablefutures.linklaters.com/post/102o1ou/eu-csrd-revised-esrs-and-voluntary-reporting-standard-are-published-in-the-offic>

- **Fewer datapoints.** The number of mandatory datapoints has been reduced by 61% compared with the first set of ESRS adopted in 2023, and all voluntary datapoints have been removed.<sup>80</sup>
- **Double materiality retained.** Companies must still assess both their impacts on people and the environment and the financial effects of sustainability matters on the company.
- **A simpler materiality process.** The revised standards allow a top-down approach to the materiality assessment and no longer require an exhaustive analysis of the value chain.<sup>81</sup>
- **Fair presentation.** The general requirements now refer explicitly to the fair presentation of information, in line with the IFRS sustainability standards.
- **Closer alignment with the ISSB standards,** including in the treatment of anticipated financial effects and in the reporting of greenhouse gas emissions.
- **Structure.** The architecture of two cross-cutting standards and ten topical standards remains, but ESRS E3 is now called Water and the topic of marine resources has moved to ESRS E5 Resource Use and Circular Economy.<sup>82</sup>

For financial year 2026, companies may choose between three options: continue to apply the first set of ESRS, apply the first set with selected reliefs from the revised standards, or apply the revised standards in full. They must state clearly which option they have applied.<sup>83</sup>

#### *The Voluntary Standard and the Value Chain Cap*

Commission Delegated Regulation (EU) 2026/1560 establishes a voluntary sustainability reporting standard for undertakings with an average of up to 1,000 employees that are not subject to the CSRD. It entered into force on 24 September 2026. It is based on the voluntary standard for SMEs (VSME) developed by EFRAG and consists of a basic module and a comprehensive module that builds on it.<sup>84</sup>

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<sup>80</sup> PwC, *Global ESRS Viewpoint: ESRS (2026) deep dive*, 2026. <https://www.pwc.ch/en/publications/2026/Global-ESRS-Viewpoint-publication-2026-deep-dive-CH.pdf>

<sup>81</sup> Anthesis, *Revised European Sustainability Reporting Standards (ESRS)*, 2026. <https://www.anthesisgroup.com/insights/revised-european-sustainability-reporting-standards-esrs/>

<sup>82</sup> Ibid.

<sup>83</sup> Linklaters, op. cit.

<sup>84</sup> Commission Delegated Regulation (EU) 2026/1560. [https://eur-lex.europa.eu/eli/reg\\_del/2026/1560/oj](https://eur-lex.europa.eu/eli/reg_del/2026/1560/oj)

The voluntary standard also defines the value chain cap. For financial years beginning on or after 1 January 2027, companies subject to the CSRD may not require value chain partners with up to 1,000 employees to provide information beyond the essential datapoints listed in the standard, unless the information is required by another law.

#### *The Corporate Sustainability Due Diligence Directive*

| Element                     | Before Omnibus I                                                           | After Omnibus I                                                                                                                                              |
|-----------------------------|----------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Scope for EU companies      | More than 1,000 employees and net worldwide turnover above EUR 450 million | More than 5,000 employees and net worldwide turnover above EUR 1.5 billion                                                                                   |
| Scope for non-EU companies  | EU net turnover above EUR 450 million                                      | EU net turnover above EUR 1.5 billion                                                                                                                        |
| Approach to the value chain | Identification of adverse impacts across the chain of activities           | Risk-based approach: a scoping exercise based on reasonably available information, with in-depth assessment only where risks are most likely and most severe |
| Climate transition plan     | Obligation to adopt and put into effect a transition plan                  | Obligation removed                                                                                                                                           |
| Civil liability             | EU-wide civil liability regime                                             | EU-wide regime removed; liability governed by national law                                                                                                   |
| Penalties                   | Maximum of at least 5% of net worldwide turnover                           | Maximum of 3% of net worldwide turnover                                                                                                                      |
| Timing                      | Phased application from 2027                                               | Transposition by 26 July 2028; application from 26 July 2029                                                                                                 |

The Commission must adopt the first guidelines on due diligence by 26 July 2027.<sup>85</sup>

#### *The EU Taxonomy*

A delegated act applicable from 1 January 2026 simplified reporting under the EU Taxonomy. Companies no longer need to assess the alignment of activities that represent less than 10% of their turnover, capital expenditure or operating expenditure. The number of datapoints for non-

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<sup>85</sup> Directive (EU) 2026/470, Article 4. <https://eur-lex.europa.eu/eli/dir/2026/470/oj>

financial companies was reduced by 64%, and the assessment of chemicals under the do no significant harm criteria now focuses on substances of very high concern.<sup>86</sup>

## What Changed Elsewhere

**United States.** The Securities and Exchange Commission adopted a climate disclosure rule in March 2024, but it never took effect because of litigation. In March 2025, the SEC voted to end its defence of the rule, and in May 2026 it submitted a proposal to rescind it for regulatory review.<sup>87</sup> Climate disclosure in the United States now depends on state law. California's SB 253 requires companies with revenue above about USD 1 billion doing business in the state to report Scope 1 and Scope 2 emissions, with first reports due on 10 August 2026 and Scope 3 reporting to follow. Enforcement of SB 261, which requires reporting on climate-related financial risks, was suspended by the US Court of Appeals for the Ninth Circuit in November 2025 pending appeal.<sup>88</sup>

**Voluntary alliances.** Several climate alliances of financial institutions lost members under political pressure. The Net-Zero Banking Alliance voted on 3 October 2025 to cease operations, although its guidance remains available as a reference.

**Global adoption of ISSB standards.** As of July 2026, 35 jurisdictions had adopted the ISSB standards on a voluntary or mandatory basis, and others were preparing to do so.<sup>89</sup> In February 2026, the United Kingdom published its own Sustainability Reporting Standards, UK SRS S1 and UK SRS S2, based on IFRS S1 and IFRS S2.<sup>90</sup>

## What Did Not Change

The simplification reduced the number of companies with formal obligations and the volume of required data. It did not change the following:

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<sup>86</sup> Grant Thornton, *The European Commission adopts a new Delegated Act to simplify EU Taxonomy reporting requirements*. <https://www.grantthornton.global/en/insights/articles/new-delegated-act-released-to-simplify-eu-taxonomy-reporting/>

<sup>87</sup> Ballotpedia News, *SEC moves to rescind 2024 climate disclosure rule*, 19 May 2026. <https://news.ballotpedia.org/2026/05/19/sec-moves-to-rescind-2024-climate-disclosure-rule-2/>

<sup>88</sup> Maynard Nexsen, op. cit.

<sup>89</sup> S&P Global Sustainable1, *Where does the world stand on ISSB adoption?*, August 2026. <https://www.spglobal.com/sustainable1/en/insights/research-reports/issb-q3-2026>

<sup>90</sup> S&P Global Sustainable1, *Where does the world stand on ISSB adoption?*, May 2026. <https://www.spglobal.com/sustainable1/en/insights/research-reports/issb-q2-2026>

- **The international normative framework.** The UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises and the ILO fundamental conventions continue to define what responsible business conduct means, for companies of every size and in every country.
- **Double materiality** in the EU. Companies that report under the ESRS must still report on their impacts on people and the environment, not only on financial risks.
- **National due diligence laws** in force in France, Germany, Norway and other countries.
- **The expectations of banks and investors**, which are shaped by prudential regulation, such as the EBA Guidelines on ESG risks, and by their own risk management.
- **Market access rules** on deforestation, forced labour and carbon-intensive imports.
- **Rules against greenwashing**, which became stricter, not weaker, with the application of Directive (EU) 2024/825 from 27 September 2026.
- **The physical reality** of climate change, the dependence of economies on nature, and the human cost of unsafe work and labour exploitation.

## What It Means in Practice

| Type of organisation                         | What the reset means                                                                                                                                                                                                         |
|----------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Large EU company within the new CSRD scope   | Must report under the revised ESRS from financial year 2027, with optional early application for 2026. Fewer datapoints, but the same principles and limited assurance.                                                      |
| EU company that fell out of the CSRD scope   | No legal reporting obligation, but customers, banks and investors will continue to ask for information. The voluntary standard offers a structured way to provide it. Existing systems should be maintained, not dismantled. |
| Small and medium-sized enterprise            | Protected by the value chain cap from 2027, but still expected to provide essential ESG data to customers and banks. Preparing data in line with the voluntary standard is the most efficient approach.                      |
| Non-EU company with significant EU business  | In scope of the CSRD if its EU turnover exceeds EUR 450 million and it has an EU subsidiary or branch above EUR 200 million. Also affected by market access rules and by the requirements of EU customers.                   |
| Very large company                           | Within the scope of the CSDDD from July 2029. Should build its due diligence system now, on the basis of the UNGPs and the OECD Guidelines, since these define what the directive requires.                                  |
| Company outside the EU and the United States | Increasingly subject to national requirements based on ISSB standards and to the requirements of customers and lenders in the EU.                                                                                            |

The direction of travel is clear. Formal obligations are concentrated on the largest companies, data requirements are reduced and aligned internationally, and the protection of smaller companies is strengthened. The expectation that organisations understand and manage their material impacts and risks remains.

## Part 2. Key Concepts

Part 2 defines the fifty terms that a practitioner needs to understand and use correctly. The definitions are written in plain language, follow the meaning given in the relevant international standards and laws, and refer to the chapters in which each term is discussed in more detail. Standards, laws and institutions, such as GRI, the ISSB, the ESRS, the CSRD and ISO 45001, are not defined here. They are explained in Part 3 and listed in the list of abbreviations.

## 9. Fifty Essential Terms, A to Z

### *Anti-Bribery and Corruption*

Corruption is the abuse of entrusted power for private gain. Bribery, its most common form, is the offering, giving, requesting or accepting of an undue advantage to influence the behaviour of a person in a position of trust. Anti-bribery and corruption measures are the policies, controls and training through which an organisation prevents, detects and responds to such conduct, including in its dealings with public officials, business partners and intermediaries. The main international instruments are the United Nations Convention against Corruption and the OECD Anti-Bribery Convention, and the main management system standard is ISO 37001. *See chapters 4 and 18.*

### *Biodiversity and Ecosystems*

Biodiversity is the variety of life on Earth, including the diversity within species, between species and of ecosystems. Ecosystems are communities of living organisms interacting with their physical environment, such as forests, wetlands, grasslands and coral reefs. They provide services on which economies depend, including pollination, water purification, soil fertility and flood protection. The Kunming-Montreal Global Biodiversity Framework, adopted in December 2022, sets 23 global targets for 2030, including the protection of 30% of land and sea areas and a target that encourages large companies and financial institutions to assess and disclose their risks, dependencies and impacts on biodiversity.<sup>91</sup> *See chapter 4.*

### *Business and Human Rights*

Business and human rights is the field that addresses the impacts of companies on human rights and the responsibilities of companies and states in relation to them. Its authoritative framework is the UN Guiding Principles on Business and Human Rights of 2011, which rest on three pillars: the state duty to protect human rights, the corporate responsibility to respect human rights, and access to remedy for those whose rights have been harmed. The responsibility to respect applies to all companies, regardless of size, sector or location, and covers all internationally recognised human rights. *See chapters 2, 4 and 11.*

### *Carbon Neutrality and Net Zero*

Carbon neutrality is a claim that the greenhouse gas emissions of an organisation, product or activity are balanced by an equivalent amount of emission reductions or removals, often

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<sup>91</sup> Convention on Biological Diversity, *Kunming-Montreal Global Biodiversity Framework*, 2022. <https://www.cbd.int/gbf>

achieved through the purchase of carbon credits. Net zero is a more demanding concept. Under the Science Based Targets initiative, a company reaches net zero when it has reduced its emissions across all scopes by the depth required by science, generally 90% or more for most sectors, and neutralises only the residual emissions through permanent carbon removals. In the EU, claims that a product is climate neutral on the basis of offsetting are prohibited from 27 September 2026. *See chapters 6, 7 and 12.*

### *Carbon Offsets and Carbon Removals*

A carbon offset, or carbon credit, is a tradable certificate representing one tonne of carbon dioxide equivalent that has been avoided, reduced or removed from the atmosphere by a project outside the buyer's value chain, such as forest protection or renewable energy. A carbon removal is a specific type of activity that takes carbon dioxide out of the atmosphere and stores it, through natural means such as reforestation or technological means such as direct air capture. The quality of credits varies widely. The Integrity Council for the Voluntary Carbon Market has set ten Core Carbon Principles to identify high-quality credits, covering governance, additionality, permanence, robust quantification and the avoidance of double counting.<sup>92</sup> *See chapters 7 and 19.*

### *Circular Economy*

A circular economy is an economic model that keeps products and materials in use for as long as possible and at their highest value, in contrast to the linear model in which resources are extracted, used and discarded. According to the Ellen MacArthur Foundation, it rests on three principles: eliminating waste and pollution, circulating products and materials at their highest value, and regenerating nature.<sup>93</sup> In practice, it includes design for durability and repair, reuse, refurbishment, remanufacturing, recycling and new business models such as leasing and product-as-a-service. *See chapter 4.*

### *Climate Transition Plan*

A climate transition plan is a time-bound plan that sets out how an organisation will align its strategy, business model, operations and investments with the transition to a low-carbon economy, in particular with limiting global warming to 1.5°C in line with the Paris Agreement. A credible plan contains emission reduction targets with interim milestones, the specific actions and investments that will deliver them, the role of carbon removals, the governance and

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<sup>92</sup> Integrity Council for the Voluntary Carbon Market, *The Core Carbon Principles*. <https://icvcm.org/core-carbon-principles/>

<sup>93</sup> Ellen MacArthur Foundation, *What is a circular economy?* <https://www.ellenmacarthurfoundation.org/topics/circular-economy-introduction/overview>

accountability arrangements, and the assumptions on which it depends. Under the ESRS and IFRS S2, a company that has a transition plan must disclose it. *See chapters 8 and 18.*

### *Climate-Related Physical Risk*

Physical risk is the risk of financial loss resulting from the physical effects of climate change. It is divided into acute risks, which arise from extreme weather events such as floods, storms, heatwaves and wildfires, and chronic risks, which arise from long-term shifts such as rising average temperatures, sea level rise, changes in precipitation and water scarcity. Physical risks damage assets, disrupt operations and supply chains, increase insurance costs and affect the health and productivity of workers. *See chapters 4 and 6.*

### *Climate-Related Transition Risk*

Transition risk is the risk of financial loss resulting from the shift to a low-carbon economy. It is commonly divided into four categories: policy and legal risk, such as carbon pricing and emission regulations; technology risk, such as the replacement of existing products by lower-emission alternatives; market risk, such as changes in customer demand and in the prices of raw materials; and reputational risk, such as the loss of trust of customers and investors. Transition risks are highest for companies in carbon-intensive sectors and for those that finance them. *See chapters 4 and 6.*

### *Code of Conduct*

A code of conduct is a document adopted by the highest governance body that sets out the principles and standards of behaviour expected from everyone who works for or on behalf of an organisation. It typically covers integrity, conflicts of interest, anti-bribery and corruption, fair competition, respect for human rights, equal treatment, health and safety, environmental responsibility, data protection and the use of company assets, and explains how to raise concerns. A supplier code of conduct sets equivalent expectations for business partners and is usually made part of contracts. *See chapter 17.*

### *Corporate Governance*

Corporate governance is the system of rules, practices and processes by which a company is directed and controlled. It defines the relationships between the shareholders, the board of directors, management and other stakeholders, and determines how objectives are set, how risks are managed and how performance is monitored. The international reference is the G20/OECD

Principles of Corporate Governance, revised in 2023, which for the first time include a chapter on sustainability and resilience.<sup>94</sup> *See chapter 4.*

### *Diversity, Equity and Inclusion (DEI)*

Diversity refers to the presence of differences within a workforce, such as gender, age, ethnic origin, disability, sexual orientation and social background. Equity means fair treatment and equal access to opportunities, which can require removing barriers that affect particular groups. Inclusion means a working environment in which all people are respected and able to participate fully. DEI programmes have become politically contested in some countries, but the underlying legal obligations of equal treatment and non-discrimination remain in force in the EU, in international law and in the national law of most countries. *See chapters 4 and 18.*

### *Double Materiality*

Double materiality is the principle that a sustainability matter must be reported if it is material from the perspective of impacts, from the perspective of financial effects, or from both. It combines impact materiality and financial materiality. Double materiality is the foundation of the ESRS and was retained in the revised standards published in 2026. It means that a company cannot limit its reporting to issues that affect its own finances; it must also report on its significant impacts on people and the environment. *See chapters 3 and 17.*

### *Due Diligence (Human Rights and Environmental)*

Due diligence is the ongoing process through which a company identifies, prevents, mitigates and accounts for the actual and potential adverse impacts of its operations, its products and its business relationships on people and the environment. The OECD Due Diligence Guidance for Responsible Business Conduct describes six steps: embedding responsible business conduct in policies and management systems; identifying and assessing adverse impacts; ceasing, preventing and mitigating them; tracking implementation and results; communicating how impacts are addressed; and providing for or cooperating in remediation.<sup>95</sup> Due diligence is risk-based: its depth is proportionate to the severity and likelihood of the impacts. *See chapters 11 and 17.*

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<sup>94</sup> OECD, *G20/OECD Principles of Corporate Governance* 2023. [https://www.oecd.org/en/publications/g20-oecd-principles-of-corporate-governance-2023\\_ed750b30-en](https://www.oecd.org/en/publications/g20-oecd-principles-of-corporate-governance-2023_ed750b30-en)

<sup>95</sup> OECD, *OECD Due Diligence Guidance for Responsible Business Conduct*, 2018. <https://mneguidelines.oecd.org/due-diligence-guidance-for-responsible-business-conduct.htm>

### *Emission Factor*

An emission factor is a coefficient that converts a measure of activity into the quantity of greenhouse gas emissions that the activity produces. For example, an emission factor expressed in kilograms of carbon dioxide equivalent per litre of diesel converts the volume of fuel a company burns into its emissions. Emission factors are published by governments, international organisations and specialised databases, and differ by country, fuel, technology and year. The choice of emission factors has a significant effect on reported emissions, which is why companies must disclose their sources. *See chapter 18.*

### *Environment, Health and Safety (EHS)*

EHS is the management discipline concerned with protecting the environment and the health and safety of workers and other people affected by an organisation's operations. It is also known as HSE, SHE, HSSE or QHSE. EHS operates mainly at the level of the site and the operation, through risk assessment, permits, monitoring, incident investigation, training and management systems such as ISO 14001 and ISO 45001. It produces much of the data used in ESG reporting. *See chapter 5.*

### *ESG (Environmental, Social and Governance)*

ESG is a framework for identifying, managing and disclosing how an organisation affects the environment and people, and how environmental, social and governance factors affect the organisation's performance, risks and long-term value. The term was introduced in 2004 in the report *Who Cares Wins*. ESG is systematic, measurable and integrated into strategy, risk management and governance, which distinguishes it from traditional corporate social responsibility. *See chapters 2 and 3.*

### *ESG Rating*

An ESG rating is an opinion or score, produced by a specialised provider, that assesses the ESG profile, risks or impacts of a company, a financial instrument or a fund. Well-known providers include MSCI, Morningstar Sustainalytics, ISS ESG, S&P Global and, for supply chains, EcoVadis. Ratings from different providers often diverge because they measure different things in different ways. In the EU, the ESG Rating Activities Regulation has applied since 2 July 2026; it requires providers to be authorised and supervised by the European Securities and Markets Authority and to disclose their methodologies.<sup>96</sup> *See chapters 6 and 15.*

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<sup>96</sup> Regulation (EU) 2024/3005 on the transparency and integrity of ESG rating activities.  
<https://eur-lex.europa.eu/eli/reg/2024/3005/oj>

### *Financial Materiality*

A sustainability matter is financially material if it triggers or could reasonably be expected to trigger effects on the company's cash flows, financial position, financial performance, access to finance or cost of capital over the short, medium or long term. Financial materiality looks from the outside in: it asks how the world affects the company. It is the basis of the ISSB standards and one of the two components of double materiality under the ESRS. *See chapter 3.*

### *Forced Labour and Child Labour*

Forced labour is all work or service that a person is made to perform under the threat of a penalty and that the person has not offered to do voluntarily, as defined by ILO Convention No. 29. Its indicators include the retention of identity documents, debt bondage, withholding of wages, threats, physical confinement and deception about working conditions. Child labour is work that deprives children of their childhood, their potential and their dignity, or that is harmful to their physical or mental development. ILO Convention No. 138 sets the general minimum age for employment at 15 years, or 14 in some developing countries, and 18 years for hazardous work. ILO Convention No. 182 on the worst forms of child labour was the first ILO convention to achieve universal ratification. *See chapters 4 and 18.*

### *Gender Pay Gap*

The unadjusted gender pay gap is the difference between the average gross hourly earnings of men and women, expressed as a percentage of the average gross hourly earnings of men. It reflects not only unequal pay for equal work, but also differences in occupations, sectors, working time and positions held by men and women. In the European Union, the gap stood at about 11% in 2024.<sup>97</sup> The EU Pay Transparency Directive requires employers with 100 or more employees to report on their gender pay gap. *See chapters 4 and 18.*

### *Greenhouse Gases (GHG)*

Greenhouse gases are gases in the atmosphere that trap heat and cause global warming. The GHG Protocol and most reporting standards cover seven gases: carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF<sub>6</sub>) and nitrogen trifluoride (NF<sub>3</sub>). Because the gases differ in their warming effect, emissions are converted into tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e) using global warming potentials. Under the values of the IPCC Sixth Assessment Report, one tonne of methane has the

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<sup>97</sup> Destatis, *Gender pay gap in Europe*, based on Eurostat data, February 2026. [https://www.destatis.de/Europa/EN/Topic/Population-Labour-Social-Issues/Labour-market/gender\\_pay\\_gap.htm](https://www.destatis.de/Europa/EN/Topic/Population-Labour-Social-Issues/Labour-market/gender_pay_gap.htm)

warming effect of 27 to 29.8 tonnes of carbon dioxide over 100 years, and one tonne of nitrous oxide that of 273 tonnes.<sup>98</sup> *See chapters 4 and 18.*

### *Greenwashing*

Greenwashing is the practice of presenting an organisation, product or activity as more environmentally beneficial than it is. Common forms include vague claims such as “green” or “eco-friendly” without evidence, claims about an entire product or company based on a single minor feature, unsupported claims of climate neutrality based on offsets, self-created labels, and long-term targets without an implementation plan. The equivalent practice in social matters is called social washing. In the EU, many forms of greenwashing are explicitly prohibited from 27 September 2026 under Directive (EU) 2024/825. *See chapters 6, 7 and 19.*

### *Impact Materiality*

A sustainability matter is material from the impact perspective if it concerns the organisation’s actual or potential, positive or negative impacts on people or the environment over the short, medium or long term. Impacts include those caused by the organisation’s own operations and those connected to its products, services and business relationships in the value chain. The materiality of negative impacts is assessed by their severity, which depends on their scale, scope and irremediable character, and, for potential impacts, by their likelihood. *See chapters 3 and 17.*

### *Impacts, Risks and Opportunities (IROs)*

Impacts, risks and opportunities is the term used in the ESRS for the three types of sustainability matters a company must identify and assess. Impacts are the effects of the company on people and the environment. Risks are sustainability-related matters that could have negative financial effects on the company. Opportunities are sustainability-related matters that could have positive financial effects. The materiality assessment produces a list of material IROs, which determines what the company must report. *See chapter 17.*

### *Just Transition*

A just transition is a transition to a low-carbon and environmentally sustainable economy that is fair and inclusive for workers, communities and countries affected by it. It means creating decent work opportunities, protecting the rights of workers in declining industries, providing retraining and social protection, and involving workers, employers and communities in decisions. The

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<sup>98</sup> GHG Protocol, *Global Warming Potential Values*, August 2024.  
<https://ghgprotocol.org/sites/default/files/2024-08/Global-Warming-Potential-Values%20%28August%202024%29.pdf>

concept appears in the preamble to the Paris Agreement and is developed in the ILO Guidelines for a just transition of 2015. *See chapter 4.*

### *Key Performance Indicator (KPI)*

A key performance indicator is a quantitative or qualitative measure used to track progress towards an objective. In sustainability reporting, KPIs include absolute measures, such as tonnes of CO<sub>2</sub>e emitted or the number of work-related injuries, intensity measures, such as emissions per unit of revenue, and rates, such as the injury rate per million hours worked. A useful KPI is clearly defined, measured consistently over time, linked to a target and comparable with peers. *See chapters 17 and 18.*

### *Living Wage*

A living wage is the wage level needed to afford a decent standard of living for workers and their families, taking into account the circumstances of the country and calculated for work performed during normal working hours. This definition was agreed by an ILO meeting of experts in February 2024 and endorsed by the ILO Governing Body in March 2024, which also stated that living wages should be achieved through wage-setting processes in line with ILO principles, including social dialogue and collective bargaining.<sup>99</sup> A living wage is usually higher than the statutory minimum wage. The ESRS use the related concept of an adequate wage. *See chapters 4 and 18.*

### *Lost Time Injury Frequency Rate (LTIFR)*

The lost time injury frequency rate is the number of work-related injuries that result in time away from work, beyond the day of the injury, per million hours worked. It is calculated as the number of lost time injuries multiplied by 1,000,000 and divided by the total number of hours worked. Some organisations use a base of 200,000 hours instead. For example, a company with 6 lost time injuries and 2,400,000 hours worked has an LTIFR of 2.5. *See chapters 5 and 18.*

### *Materiality Assessment*

A materiality assessment is the process through which an organisation identifies and prioritises the sustainability matters that are most significant for it and its stakeholders, and therefore must be managed and reported. Under double materiality, it assesses both impacts on people and the environment and financial risks and opportunities. A sound assessment is based on an understanding of the business model and value chain, evidence on actual and potential impacts,

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<sup>99</sup> International Labour Organization, *ILO reaches agreement on the issue of living wages*, 2024. <https://www.ilo.org/resource/news/ilo-reaches-agreement-issue-living-wages>

input from affected stakeholders and experts, defined thresholds, and documentation that allows the results to be verified. *See chapter 17.*

### *Near Miss*

A near miss is an unplanned event that did not result in injury, ill health or damage, but had the potential to do so. Examples are a load that falls from a crane without hitting anyone, or a vehicle that narrowly avoids a pedestrian in a warehouse. Near misses are an important leading indicator of safety performance. Organisations that encourage workers to report them and investigate the causes can correct hazards before they cause harm. *See chapter 5.*

### *Occupational Health and Safety (OHS)*

Occupational health and safety is the discipline concerned with preventing work-related injury and ill health and providing safe and healthy workplaces. It covers occupational safety, which prevents accidents, and occupational health, which prevents illness caused by exposure to chemical, physical, biological, ergonomic and psychosocial hazards. Since 2022, a safe and healthy working environment has been one of the ILO fundamental principles and rights at work. The international management system standard is ISO 45001. *See chapter 5.*

### *Process Safety*

Process safety is the discipline concerned with preventing major accidents, such as fires, explosions and releases of toxic substances, in facilities that handle, store or process hazardous materials. It differs from occupational safety, which focuses on individual injuries such as slips and falls. A company can have a low rate of personal injuries and still face a high risk of a catastrophic process safety event. In the EU, major accident hazards are regulated by the Seveso III Directive. *See chapter 5.*

### *Remedy and Grievance Mechanism*

Remedy is the process of restoring individuals or groups who have been harmed to the situation they would have been in had the harm not occurred, and the outcomes that counteract or make good the harm, such as apologies, restitution, compensation and guarantees of non-repetition. A grievance mechanism is a formal channel through which people can raise concerns and seek remedy. Under Principle 31 of the UN Guiding Principles, an effective non-judicial grievance mechanism must be legitimate, accessible, predictable, equitable, transparent, rights-compatible and a source of continuous learning, and an operational-level mechanism must also be based on engagement and dialogue. *See chapters 11 and 17.*

### *Science-Based Target*

A science-based target is a greenhouse gas emission reduction target that is consistent with what climate science says is necessary to meet the goals of the Paris Agreement, in particular limiting warming to 1.5°C. The Science Based Targets initiative (SBTi) sets the criteria and validates company targets. Its Corporate Net-Zero Standard version 2.0, published in June 2026, becomes effective on 1 February 2027 and mandatory for all new and renewed targets from 1 February 2028.<sup>100</sup> *See chapters 12 and 17.*

### *Scope 1 Emissions*

Scope 1 emissions are direct greenhouse gas emissions from sources owned or controlled by the organisation. They include emissions from the combustion of fuels in boilers, furnaces and vehicles, emissions from industrial processes such as cement or chemical production, and fugitive emissions such as leaks of refrigerants from air-conditioning and cooling equipment. *See chapters 4 and 18.*

### *Scope 2 Emissions*

Scope 2 emissions are indirect greenhouse gas emissions from the generation of electricity, steam, heat and cooling that the organisation purchases and consumes. The GHG Protocol requires companies to report them in two ways. The location-based method uses the average emission factor of the electricity grid where the consumption takes place. The market-based method reflects the electricity the company has chosen to buy, for example through renewable energy certificates or power purchase agreements. The GHG Protocol is revising its Scope 2 Guidance.<sup>101</sup> *See chapters 4 and 18.*

### *Scope 3 Emissions*

Scope 3 emissions are all other indirect greenhouse gas emissions that occur in the value chain of the organisation, outside its own operations and purchased energy. The GHG Protocol divides them into 15 categories: eight upstream, such as purchased goods and services, capital goods, transport and business travel, and seven downstream, such as the use and end-of-life treatment

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<sup>100</sup> Tanso, *SBTi publishes final Corporate Net-Zero Standard V2.0*, June 2026. <https://www.tanso.de/news/sbti-veroeffentlicht-finalen-corporate-net-zero-standard-v2-0>

<sup>101</sup> The proposals, which were under public consultation until January 2026, include matching renewable energy purchases with consumption on an hourly basis. Normative, *What the GHG Protocol Scope 2 review means for corporate renewable energy strategy*, 2026. <https://normative.io/insight/what-the-ghg-protocol-scope-2-review-means-for-corporate-renewable-energy-strategy/>

of sold products and investments. For many companies, Scope 3 accounts for the large majority of total emissions, and it is the most difficult scope to measure. *See chapters 4 and 18.*

### *Social Licence to Operate*

The social licence to operate is the ongoing acceptance of an organisation and its activities by the communities and stakeholders affected by them. Unlike a legal permit, it is not granted by an authority and cannot be obtained once and for all. It is earned and maintained through respect for rights, fair sharing of benefits, transparency and meaningful engagement, and it can be lost through pollution, unsafe practices, unfair treatment or broken promises. *See chapter 6.*

### *Stakeholder Engagement*

Stakeholder engagement is the ongoing process of interaction and dialogue between an organisation and the people and groups who affect or are affected by its activities. It includes affected stakeholders, such as workers, communities and consumers, and users of sustainability information, such as investors and lenders. Meaningful engagement is two-way, conducted in good faith, timely, accessible to the people concerned, and capable of influencing the organisation's decisions. It is an essential input to the materiality assessment and to due diligence. *See chapter 17.*

### *Stewardship and Active Ownership*

Stewardship is the responsible allocation, management and oversight of capital by investors to create long-term value for clients and beneficiaries. Active ownership is the use of the rights and position of ownership to influence the companies in which investors hold shares. Its main tools are dialogue with company management and boards, voting at general meetings, filing shareholder resolutions and, as a last resort, divestment. *See chapter 15.*

### *Supply Chain and Value Chain*

The supply chain is the network of suppliers and subcontractors that provide the products and services an organisation needs to produce its own products and services. The value chain is broader. It includes the full range of activities, resources and relationships related to the organisation's business model, both upstream, such as the extraction of raw materials and the production of components, and downstream, such as distribution, the use of products by customers and their disposal. The ESRS and due diligence laws require companies to consider impacts across the value chain, not only in their own operations. *See chapters 4 and 17.*

### *Sustainability Assurance (Limited and Reasonable)*

Sustainability assurance is an independent examination of sustainability information by a qualified assurance provider, who expresses a conclusion on whether the information is prepared in accordance with the applicable criteria. Limited assurance is a lower level of assurance, expressed in negative form: the provider states that nothing has come to its attention that indicates a material misstatement. Reasonable assurance is a higher level, comparable to a financial statement audit, expressed in positive form. Under the CSRD, as amended in 2026, only limited assurance is required. The international standard ISSA 5000 applies to assurance engagements on sustainability information for periods beginning on or after 15 December 2026.<sup>102</sup> *See chapters 8 and 19.*

### *Sustainability Report*

A sustainability report is a document in which an organisation discloses information about its material sustainability impacts, risks and opportunities, and about its policies, actions, targets and performance in relation to them. It can be a standalone document, a section of the annual or management report, or part of an integrated report. Under the CSRD, the sustainability statement must be included in a dedicated section of the management report and prepared in accordance with the ESRS. *See chapters 18 and 19.*

### *Sustainable Development Goals (SDGs)*

The Sustainable Development Goals are 17 global goals with 169 targets, adopted by all UN member states in 2015 as part of the 2030 Agenda for Sustainable Development. They cover poverty, hunger, health, education, gender equality, water, energy, decent work, industry and infrastructure, inequality, cities, consumption and production, climate, oceans, land, peace and justice, and partnerships. Companies often map their activities to the SDGs. Such mapping is useful only when it is based on measurable contributions and does not ignore negative impacts. *See chapter 11.*

### *Sustainable Finance*

Sustainable finance is the practice of taking environmental, social and governance considerations into account in investment and lending decisions, with the aim of directing capital towards sustainable economic activities and long-term value. It includes ESG integration in investment analysis, green, social and sustainability-linked bonds and loans, impact investing and the

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<sup>102</sup> RSM, IAASB and IESBA issue new standards for sustainability assurance. <https://rsmus.com/insights/financial-reporting/iaasb-and-iesb-issue-new-standards-for-sustainability-assurance.html>

management of ESG risks by banks and insurers. In the EU, the main instruments are the Taxonomy Regulation and the Sustainable Finance Disclosure Regulation. *See chapters 6 and 13.*

### *Taxonomy Alignment*

Under the EU Taxonomy Regulation, an economic activity is taxonomy-eligible if it is described in the delegated acts that implement the Taxonomy, and taxonomy-aligned if it also meets three conditions: it makes a substantial contribution to at least one of six environmental objectives, it does no significant harm to the other objectives, and it is carried out in compliance with minimum social safeguards based on the OECD Guidelines and the UN Guiding Principles. The six objectives are climate change mitigation, climate change adaptation, water and marine resources, the circular economy, pollution prevention and control, and biodiversity and ecosystems. Companies report the share of their turnover, capital expenditure and operating expenditure that is taxonomy-aligned. *See chapters 8 and 13.*

### *Total Recordable Incident Rate (TRIR)*

The total recordable incident rate is the number of recordable work-related injuries and illnesses per 200,000 hours worked, which corresponds to 100 full-time employees working for one year. A recordable incident is one that results in death, days away from work, restricted work or transfer to another job, medical treatment beyond first aid, or loss of consciousness, or a significant injury or illness diagnosed by a health professional. It is calculated as the number of recordable incidents multiplied by 200,000 and divided by the total number of hours worked. For example, 12 recordable incidents in 1,500,000 hours give a TRIR of 1.6. The GRI Standards allow a base of either 200,000 or 1,000,000 hours, provided the organisation states which it uses. *See chapters 5 and 18.*

### *Water Stress*

Water stress describes the competition for water resources in a given area. The World Resources Institute measures it as the ratio of total water withdrawals to available renewable water supply: an area where withdrawals reach 40% of the available supply has high water stress, and an area where they reach 80% or more has extremely high water stress. According to WRI, 25 countries, home to a quarter of the world's population, face extremely high water stress every year.<sup>103</sup> *See chapter 4.*

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<sup>103</sup> World Resources Institute, *25 Countries, Housing One-quarter of the Population, Face Extremely High Water Stress*, 16 August 2023. <https://www.wri.org/insights/highest-water-stressed-countries>

## *Whistleblowing*

Whistleblowing is the reporting, by an employee or another person connected to an organisation, of information about wrongdoing, such as fraud, corruption, safety violations, environmental offences or human rights abuses, through internal channels, to the authorities or, in some circumstances, to the public. Effective whistleblowing systems guarantee confidentiality, protect whistleblowers from retaliation, ensure that reports are investigated by impartial persons and inform the whistleblower of the outcome. In the EU, the Whistleblower Protection Directive requires organisations with 50 or more workers to establish internal reporting channels, and ISO 37002 provides guidance on whistleblowing management systems. *See chapters 4 and 17.*

## **Part 3. Sources: Norms, Standards and Reporting Requirements**

Part 3 maps the sources that shape ESG and EHS: the international norms that define responsible conduct, the standards that define how to manage and report, the laws that make obligations binding, and the ratings that translate disclosures into scores. For each source, it explains who issues it, whether it is binding or voluntary, who it applies to, what it requires and how it connects to the others. The official documents are listed in Part 5.

## 10. Navigating the Landscape: Four Layers and How They Connect

Newcomers to sustainability often describe the field as an alphabet soup. The confusion disappears once it is clear that the many acronyms belong to four distinct layers, each with a different function.

### The Four Layers

| Layer                         | Function                                              | Legal status                                                | Main examples                                                                                                                                                  |
|-------------------------------|-------------------------------------------------------|-------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. International norms        | Define what responsible conduct means                 | Binding on states; authoritative expectations for companies | UN human rights treaties, ILO conventions, UN Guiding Principles on Business and Human Rights, OECD Guidelines, Paris Agreement, Council of Europe conventions |
| 2. Standards and frameworks   | Define how to measure, manage and report              | Voluntary, unless made mandatory by law                     | Reporting: GRI, ISSB, ESRS, GHG Protocol, TNFD, CDP. Management: ISO 14001, ISO 45001, SA8000, IFC Performance Standards                                       |
| 3. Laws and regulations       | Make obligations binding and enforceable              | Binding                                                     | CSRD, CSDDD, EU Taxonomy, national due diligence laws, ISSB-based national rules, market access and consumer protection rules                                  |
| 4. Ratings and data providers | Assess and score performance for investors and buyers | Private assessments; regulated in the EU since 2026         | MSCI, Sustainalytics, ISS ESG, S&P Global, CDP scores, EcoVadis                                                                                                |

### How the Layers Connect

The layers build on each other. International norms provide the substance. The GRI Standards are built on the UN Guiding Principles and the OECD Guidelines, and the social standards of the ESRS refer directly to the UN Guiding Principles, the OECD Guidelines and the ILO conventions. The minimum safeguards of the EU Taxonomy require compliance with the same instruments, and the CSDDD turns the due diligence process described in them into a legal obligation for the largest companies.

Laws then make standards mandatory. The CSRD requires companies to report in accordance with the ESRS. Australia, Brazil, Japan, Hong Kong and other jurisdictions have made standards based on IFRS S1 and IFRS S2 mandatory for listed or large companies. Finally, ratings and data providers use the information that companies disclose under these standards, supplemented by their own research, to score companies for investors and buyers.

## Interoperability: Fewer Systems Than It Seems

Over the past five years, the main standard-setters have worked to reduce duplication:

- **ISSB and ESRS.** In May 2024, the IFRS Foundation and EFRAG published guidance showing how a company can report under both the ISSB standards and the ESRS, with a high degree of alignment on climate disclosures.<sup>104</sup> The revised ESRS of 2026 moved closer to IFRS S1 in the treatment of financial materiality.
- **GRI and ESRS.** In September 2023, EFRAG and GRI confirmed a high degree of interoperability between their standards on impact reporting, and GRI published an index showing how GRI disclosures correspond to ESRS requirements.<sup>105</sup>
- **TCFD and ISSB.** The recommendations of the Task Force on Climate-related Financial Disclosures were fully incorporated into IFRS S2, and the IFRS Foundation took over the monitoring of companies' climate disclosures from the TCFD in 2024.<sup>106</sup>
- **SASB and ISSB.** The SASB Standards, which set industry-specific disclosure topics and metrics, are now maintained by the ISSB, and companies applying IFRS S1 must refer to them when identifying sustainability-related risks and opportunities.
- **GHG Protocol.** All major standards, including the ESRS, the ISSB standards, GRI and CDP, use the GHG Protocol as the basis for measuring greenhouse gas emissions.

## Which Standard Should an Organisation Use?

The choice depends on the organisation's legal obligations and on the information needs of its main stakeholders.

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<sup>104</sup> EFRAG, *IFRS Foundation and EFRAG publish interoperability guidance*, 2 May 2024. <https://www.efrag.org/en/news-and-calendar/news/ifrs-foundation-and-efrag-publish-interoperability-guidance>

<sup>105</sup> GRI, *EFRAG-GRI Joint Statement of Interoperability*, 4 September 2023. <https://globalreporting.org/news/news-center/efrag-gri-joint-statement-of-interoperability/>

<sup>106</sup> IAS Plus, *IFRS Foundation to assume TCFD monitoring duties*, July 2023. <https://www.iasplus.com/en/news/2023/07/ifrsf-tcfd-duties>

| Situation                                                                                      | Recommended basis                                         |
|------------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| Company within the scope of the CSRD                                                           | ESRS, as required by law                                  |
| Listed company in a jurisdiction that has adopted ISSB-based standards                         | The national standard based on IFRS S1 and IFRS S2        |
| Company with international investors and no legal obligation                                   | IFRS S1 and IFRS S2, with SASB industry metrics           |
| Company that wants to report on its impacts on people and the environment for a broad audience | GRI Standards                                             |
| Small or medium-sized enterprise in an EU value chain                                          | EU voluntary sustainability reporting standard            |
| Any organisation reporting greenhouse gas emissions                                            | GHG Protocol                                              |
| Company in a sector with significant nature-related dependencies                               | TNFD recommendations, pending ISSB requirements on nature |

Many large companies combine several standards, for example the ESRS or the ISSB standards for their mandatory report and GRI for a broader impact report. The interoperability work described above makes this possible without duplicating the work of collecting data.

## 11. International Standards

International norms define what responsible conduct means. Most of them are addressed to states, which must implement them through national law. However, the UN Guiding Principles and the OECD Guidelines set out expectations that apply directly to companies, and through due diligence laws, reporting standards and contracts, these norms increasingly bind companies in practice.

### UN Human Rights Instruments and the ILO Conventions

The foundation of the social pillar is the International Bill of Human Rights, which consists of the Universal Declaration of Human Rights of 1948, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights, both of 1966. They are complemented by the other core UN human rights treaties: the conventions on the elimination of racial discrimination (1965), on the elimination of discrimination against women (1979), against torture (1984), on the rights of the child (1989), on the rights of migrant workers (1990), on enforced disappearance (2006) and on the rights of persons with disabilities (2006). The UN Declaration on the Rights of Indigenous Peoples of 2007 and ILO Convention No. 169 on indigenous and tribal peoples are essential for companies whose operations affect indigenous communities.

The International Labour Organization defines the minimum standards of decent work. The ILO Declaration on Fundamental Principles and Rights at Work, as amended in 2022, commits all ILO member states to respect five fundamental principles, whether or not they have ratified the corresponding conventions.<sup>107</sup>

| Fundamental principle                                                                      | Fundamental conventions                                 |
|--------------------------------------------------------------------------------------------|---------------------------------------------------------|
| Freedom of association and the effective recognition of the right to collective bargaining | No. 87 (1948) and No. 98 (1949)                         |
| Elimination of all forms of forced or compulsory labour                                    | No. 29 (1930), its Protocol of 2014, and No. 105 (1957) |
| Effective abolition of child labour                                                        | No. 138 (1973) and No. 182 (1999)                       |
| Elimination of discrimination in respect of employment and occupation                      | No. 100 (1951) and No. 111 (1958)                       |

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<sup>107</sup> International Labour Organization, *ILO Declaration on Fundamental Principles and Rights at Work*, as amended in 2022. <https://www.ilo.org/ilo-declaration-fundamental-principles-and-rights-work>

| Fundamental principle                  | Fundamental conventions           |
|----------------------------------------|-----------------------------------|
| A safe and healthy working environment | No. 155 (1981) and No. 187 (2006) |

These principles are the reference point for the labour provisions of the ESRS, the GRI Standards, the OECD Guidelines, the minimum safeguards of the EU Taxonomy, SA8000 and most supplier codes of conduct.

## UN Guiding Principles on Business and Human Rights

The UN Guiding Principles on Business and Human Rights (UNGPs), unanimously endorsed by the UN Human Rights Council in June 2011, are the authoritative global standard on the responsibility of companies for human rights.<sup>108</sup> They consist of 31 principles organised in three pillars:

1. **The state duty to protect** human rights against abuse by third parties, including companies, through policies, legislation, regulation and adjudication.
2. **The corporate responsibility to respect** human rights, which means avoiding infringing on the human rights of others and addressing adverse impacts with which the company is involved.
3. **Access to remedy** for victims of business-related human rights abuses, through judicial and non-judicial mechanisms.

Under the second pillar, every company, regardless of size, sector, location, ownership or structure, should have a policy commitment to respect human rights approved at the most senior level, a human rights due diligence process, and processes to enable the remediation of adverse impacts it causes or to which it contributes. The UNGPs distinguish three ways in which a company can be involved in an adverse impact: it can cause it, contribute to it, or be directly linked to it through its operations, products or services by a business relationship. The appropriate response differs in each case.

The UNGPs are not a treaty, but they have become the basis for almost all subsequent instruments in this field, including the OECD Guidelines, the CSDDD, the ESRS and national due diligence laws. Since 2014, states have also been negotiating a legally binding instrument on business and human rights within the UN Human Rights Council.

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<sup>108</sup> United Nations, *Guiding Principles on Business and Human Rights*, 2011. [https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr\\_en.pdf](https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr_en.pdf)

## OECD Guidelines for Multinational Enterprises on Responsible Business Conduct

The OECD Guidelines for Multinational Enterprises are recommendations from governments to companies operating in or from their territory. They were first adopted in 1976 and last updated in June 2023, when they were renamed the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct. They are adhered to by 51 governments.<sup>109</sup> They cover disclosure, human rights, employment and industrial relations, environment, combating bribery, consumer interests, science and technology, competition and taxation.

The 2023 update strengthened the expectations on climate change and biodiversity, required due diligence on the development and use of technology and on the use of data, extended the protection of vulnerable groups and people who raise concerns, and addressed lobbying and all forms of corruption. The OECD Due Diligence Guidance for Responsible Business Conduct of 2018 explains the six-step due diligence process in detail, and sector-specific guidance exists for minerals, garments and footwear, agriculture, extractives and finance.

The Guidelines have a unique enforcement mechanism. Every adhering government must establish a National Contact Point (NCP), which promotes the Guidelines and handles complaints, known as specific instances, about companies' alleged failure to observe them. Trade unions, NGOs and communities regularly use this mechanism, and NCP statements can carry significant reputational consequences.

## UN Global Compact, the Paris Agreement and the Sustainable Development Goals

The **UN Global Compact**, launched in 2000, is a voluntary initiative in which companies commit to ten principles derived from the Universal Declaration of Human Rights, the ILO Declaration, the Rio Declaration on Environment and Development and the UN Convention against Corruption: two on human rights, four on labour, three on the environment and one on anti-corruption.<sup>110</sup> Participants must report annually on their progress through a Communication on Progress.

The **Paris Agreement** of 2015 commits its parties to holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit it to 1.5°C.

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<sup>109</sup> Know ESG, *OECD Updates Responsible Business Conduct Guidelines*, June 2023. <https://knowesg.com/reporting-standards/oecd-updates-responsible-business-conduct-12062023>; OECD, *Due Diligence Guidance for Responsible Business Conduct*. <https://mneguidelines.oecd.org/due-diligence-guidance-for-responsible-business-conduct.htm>

<sup>110</sup> UN Global Compact, *The Ten Principles of the UN Global Compact*. <https://unglobalcompact.org/what-is-gc/mission/principles>

It provides the reference point for corporate emission targets, transition plans and science-based targets.

The **2030 Agenda for Sustainable Development**, with its 17 Sustainable Development Goals and 169 targets, provides a common framework in which companies can describe their contribution to sustainable development.

The **Kunming-Montreal Global Biodiversity Framework** of 2022 sets 23 targets for 2030. Its Target 15 calls on governments to encourage and enable large companies and financial institutions to monitor, assess and disclose their risks, dependencies and impacts on biodiversity.

## Anti-Corruption Instruments

The **United Nations Convention against Corruption** (2003) is the only legally binding universal anti-corruption instrument. It requires states to criminalise bribery, embezzlement, trading in influence and other forms of corruption, and to establish liability of legal persons. The **OECD Anti-Bribery Convention** (1997) requires its parties to criminalise the bribery of foreign public officials in international business transactions. National laws with extraterritorial reach, such as the US Foreign Corrupt Practices Act and the UK Bribery Act 2010, give these obligations practical force for multinational companies.

## Council of Europe Instruments Relevant to Business

The Council of Europe, the continent's leading human rights organisation with 46 member states, has developed several instruments that shape the obligations and the operating environment of companies in Europe.

- **The European Convention on Human Rights** (1950) and the case law of the European Court of Human Rights define obligations of states that directly affect business, including in the fields of property, privacy, freedom of expression, non-discrimination and the environment. In *Verein KlimaSeniorinnen Schweiz and Others v. Switzerland* (2024), the Court held for the first time that a state's failure to take adequate measures against climate change violated the Convention.
- **The European Social Charter** (1961, revised 1996) guarantees social and economic rights, including just conditions of work, safe and healthy working conditions, fair remuneration, the right to organise and to bargain collectively, and protection against discrimination.
- **Recommendation CM/Rec(2016)3 on human rights and business**, adopted by the Committee of Ministers in March 2016, calls on member states to implement the UN

Guiding Principles, and includes specific measures on access to judicial remedy, the protection of human rights defenders and the needs of particularly vulnerable groups.<sup>111</sup>

- **The Criminal Law Convention on Corruption and the Civil Law Convention on Corruption** (both 1999), monitored by the Group of States against Corruption (GRECO), require states to criminalise corruption in the public and private sectors and to establish the liability of legal persons.
- **Convention 108** for the protection of individuals with regard to automatic processing of personal data (1981), modernised by an amending protocol of 2018 (Convention 108+), is the only legally binding international treaty on data protection, and it is open to states worldwide.
- **The Convention on Cybercrime** (Budapest Convention, 2001) is the main international treaty on cybercrime and electronic evidence.
- **The Framework Convention on Artificial Intelligence and Human Rights, Democracy and the Rule of Law** (CETS No. 225), opened for signature in September 2024, is the first legally binding international treaty on artificial intelligence. The European Union ratified it in May 2026.<sup>112</sup>
- **The Convention on the Protection of the Environment through Criminal Law** (CETS No. 228), opened for signature on 3 December 2025, requires states to criminalise serious environmental offences, including conduct that causes environmental disasters, and to establish the liability of legal persons for them.<sup>113</sup>

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<sup>111</sup> Council of Europe, *Human Rights and Business: Recommendation CM/Rec(2016)3 of the Committee of Ministers to member States*. <https://www.coe.int/web/ingo/human-rights-and-business>

<sup>112</sup> Council of Europe, *European Union ratifies the Council of Europe Framework Convention on Artificial Intelligence*, May 2026. <https://www.coe.int/en/web/artificial-intelligence/-/european-union-ratifies-the-council-of-europe-framework-convention-on-artificial-intelligence>

<sup>113</sup> EUCRIM, *CoE Opens New Convention on Environmental Crime for Signature*, December 2025. <https://eucrim.eu/news/coe-opens-new-convention-on-environmental-crime-for-signature/>

## 12. Voluntary Reporting Standards and Frameworks

Reporting standards define what information an organisation must disclose and how. They are voluntary unless a law makes them mandatory, but the major ones have become de facto requirements for companies that want to be credible to investors, customers and regulators.

### GRI Standards

The Global Reporting Initiative (GRI) is an independent, non-profit organisation founded in 1997. Its standards are the most widely used framework for reporting on an organisation's impacts on the economy, the environment and people, including impacts on human rights. They are designed for a broad range of stakeholders, not only investors, and are based on impact materiality.

The GRI Standards consist of three series:

- **Universal Standards** (GRI 1, GRI 2 and GRI 3, revised in 2021): the requirements and principles for reporting, general disclosures about the organisation, and the process for determining material topics.
- **Sector Standards**: the topics likely to be material for specific sectors. Standards have been published for oil and gas, coal, agriculture, aquaculture and fishing, and mining, and others are under development.
- **Topic Standards**: specific disclosures on individual topics such as emissions, water, occupational health and safety, diversity, child labour and anti-corruption.

GRI is updating its environmental standards. GRI 101: Biodiversity 2024 has applied since 1 January 2026, replacing GRI 304. GRI 102: Climate Change and GRI 103: Energy, published in 2025, will apply from 1 January 2027, replacing GRI 305 disclosures 305-1 to 305-5, disclosure 201-2 of GRI 201 and GRI 302.<sup>114</sup> An organisation can report “in accordance with” the GRI Standards if it meets all their requirements, or “with reference to” them if it uses only selected standards.

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<sup>114</sup> BDO Switzerland, *GRI updates on Biodiversity, Climate Change and Energy*, 2025. <https://www.bdo.ch/en-gb/insights/gri-updates-2025-2027-transparency-and-impact-in-sustainability>

## IFRS Sustainability Disclosure Standards (ISSB)

The International Sustainability Standards Board (ISSB) was established by the IFRS Foundation, which also sets the International Financial Reporting Standards used in more than 140 jurisdictions. The ISSB issued its first two standards in June 2023:

- **IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information** requires a company to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect its cash flows, access to finance or cost of capital over the short, medium or long term.
- **IFRS S2 Climate-related Disclosures** sets specific requirements for climate-related risks and opportunities, including Scope 1, 2 and 3 greenhouse gas emissions, climate resilience and scenario analysis, and transition plans.

Both standards are structured around four pillars inherited from the TCFD: governance, strategy, risk management, and metrics and targets. They are based on financial materiality and are designed for investors. They are intended to be published together with the financial statements, as part of general purpose financial reports.

In December 2025, the ISSB issued targeted amendments to IFRS S2, which apply from 1 January 2027 and provide relief on the measurement of financed emissions by financial institutions, on the use of jurisdictional methods for measuring emissions and on the global warming potential values to be used.<sup>115</sup> In November 2025, the ISSB announced that it would develop requirements on nature-related risks and opportunities drawing on the TNFD framework.<sup>116</sup>

The **SASB Standards**, now maintained by the ISSB, set out industry-specific disclosure topics and metrics for 77 industries. Companies applying IFRS S1 must consider them when identifying sustainability-related risks and opportunities, and IFRS S2 includes industry-based guidance derived from them.

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<sup>115</sup> IFRS Foundation, *Amendments to IFRS S2: at a glance*, December 2025. <https://www.ifrs.org/content/dam/ifrs/supporting-implementation/ifrs-s2/s2-targeted-amendments-at-a-glance.pdf>

<sup>116</sup> The ISSB planned to publish an exposure draft on nature-related disclosures in October 2026, to coincide with the 17th Conference of the Parties to the Convention on Biological Diversity. IFRS Foundation, *ISSB welcomes TNFD support for nature-related disclosure*, November 2025. <https://www.ifrs.org/content/ifrs/home/news-and-events/news/2025/11/issb-welcomes-tnfd-support-nature-related-disclosure.html>

## GHG Protocol

The Greenhouse Gas Protocol, developed by the World Resources Institute and the World Business Council for Sustainable Development, is the global standard for measuring and reporting greenhouse gas emissions. Its main standards are:

- **The Corporate Accounting and Reporting Standard**, which sets out how to define organisational and operational boundaries, how to account for Scope 1 and Scope 2 emissions and how to set a base year.
- **The Scope 2 Guidance** (2015), which requires companies to report Scope 2 emissions using both the location-based and the market-based method. It is under revision.<sup>117</sup>
- **The Corporate Value Chain (Scope 3) Standard** (2011), which defines 15 categories of Scope 3 emissions and how to calculate them.

The GHG Protocol also publishes standards for product life cycle emissions and for cities, as well as sector guidance and calculation tools.

## TCFD, TNFD, CDP and SBTi

**The Task Force on Climate-related Financial Disclosures (TCFD)**, established by the Financial Stability Board in 2015, published recommendations in 2017 on how companies should disclose climate-related risks and opportunities under four pillars: governance, strategy, risk management, and metrics and targets. The TCFD completed its work in 2023, and its recommendations are now fully incorporated into IFRS S2.

**The Taskforce on Nature-related Financial Disclosures (TNFD)** published its final recommendations in September 2023. They contain 14 recommended disclosures under the same four pillars as the TCFD, and propose the LEAP approach (Locate, Evaluate, Assess, Prepare) for identifying and assessing nature-related issues. The TNFD announced in November 2025 that it would complete its technical work by the third quarter of 2026, while the ISSB develops nature-related standards based on its framework.

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<sup>117</sup> The public consultation on the proposed changes, which include hourly matching of renewable electricity purchases with consumption and requirements on the deliverability of the electricity, closed on 31 January 2026. The current guidance remains in force until the revised version is published. Normative, *What the GHG Protocol Scope 2 review means for corporate renewable energy strategy*, 2026. <https://normative.io/insight/what-the-ghg-protocol-scope-2-review-means-for-corporate-renewable-energy-strategy/>

**CDP**, formerly the Carbon Disclosure Project, runs a global disclosure system through which companies, cities and regions report on climate change, forests and water. Investors and large buyers ask companies to respond to CDP and use the results in their decisions. In 2025, more than 22,100 companies, representing nearly two-thirds of global market capitalisation, disclosed through CDP, at the request of 640 investors and more than 270 major buyers.<sup>118</sup> CDP scores companies from A to D-, and its climate questionnaire is aligned with IFRS S2.

**The Science Based Targets initiative (SBTi)** sets the criteria for greenhouse gas reduction targets consistent with the Paris Agreement and validates companies' targets. Its Corporate Net-Zero Standard version 2.0 was published in June 2026, becomes effective on 1 February 2027 and is mandatory for all new and renewed targets from 1 February 2028.

## Integrated Reporting

The Integrated Reporting Framework, first published by the International Integrated Reporting Council in 2013 and revised in 2021, sets out principles for a concise report that explains how an organisation creates value over time through six capitals: financial, manufactured, intellectual, human, social and relationship, and natural. The Framework is now maintained by the IFRS Foundation. It is less a disclosure standard than a way of connecting financial and sustainability information in one coherent narrative.

## GRI, ISSB and ESRS Compared

| Aspect           | GRI Standards               | ISSB Standards                                                            | ESRS                                                                |
|------------------|-----------------------------|---------------------------------------------------------------------------|---------------------------------------------------------------------|
| Issuer           | Global Reporting Initiative | IFRS Foundation                                                           | EFRAG, adopted by the European Commission                           |
| Primary audience | All stakeholders            | Investors and lenders                                                     | Investors and other stakeholders                                    |
| Materiality      | Impact materiality          | Financial materiality                                                     | Double materiality                                                  |
| Topics covered   | All sustainability topics   | All sustainability risks and opportunities; specific standard for climate | Five environmental, four social and one governance topical standard |
| Legal status     | Voluntary                   | Voluntary; mandatory where adopted by jurisdictions                       | Mandatory for companies within the scope of the CSRD                |

<sup>118</sup> CDP, *Keeping Pace: Disclosure Data Factsheet 2025*. <https://cdp.net/en/insights/keeping-pace-disclosure-data-factsheet-2025>

| Aspect                 | GRI Standards                   | ISSB Standards                    | ESRS              |
|------------------------|---------------------------------|-----------------------------------|-------------------|
| Location of disclosure | Standalone or integrated report | General purpose financial reports | Management report |

## 13. Mandatory Reporting and Due Diligence Requirements

This chapter describes the main binding requirements. Chapter 8 summarised how the EU framework changed in 2025 and 2026; this chapter explains what the requirements now contain.

### European Union

#### *Corporate Sustainability Reporting Directive and the ESRS*

The CSRD requires companies within its scope to include a sustainability statement in their management report, prepared in accordance with the ESRS, and to have it assured by a statutory auditor or an independent assurance services provider. After the Omnibus I Directive, the scope covers EU companies with more than 1,000 employees and a net turnover above EUR 450 million, and non-EU groups with EU net turnover above EUR 450 million and an EU subsidiary or branch with net turnover above EUR 200 million, for financial years beginning on or after 1 January 2027. Only limited assurance is required.

The revised ESRS, published as Commission Delegated Regulation (EU) 2026/1563, consist of two cross-cutting and ten topical standards:

| Standard                                  | Content                                                                                                                                                                                                   |
|-------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ESRS 1 General Requirements               | Principles for preparing the sustainability statement, including double materiality, fair presentation, value chain and time horizons                                                                     |
| ESRS 2 General Disclosures                | Basis of preparation, governance, strategy and business model, the process for identifying material impacts, risks and opportunities, and general requirements for policies, actions, targets and metrics |
| ESRS E1 Climate Change                    | Transition plan, physical and transition risks, energy, Scope 1, 2 and 3 emissions, targets, removals and carbon credits                                                                                  |
| ESRS E2 Pollution                         | Pollution of air, water and soil, substances of concern                                                                                                                                                   |
| ESRS E3 Water                             | Water consumption, withdrawals, discharges, water stress                                                                                                                                                  |
| ESRS E4 Biodiversity and Ecosystems       | Impacts on and dependencies on biodiversity and ecosystems, sites in or near sensitive areas                                                                                                              |
| ESRS E5 Resource Use and Circular Economy | Resource inflows and outflows, waste, marine resources                                                                                                                                                    |
| ESRS S1 Own Workforce                     | Working conditions, equal treatment, health and safety, adequate wages, collective bargaining, other work-related rights                                                                                  |
| ESRS S2 Workers in the Value Chain        | Working conditions and rights of workers in the upstream and downstream value chain                                                                                                                       |

| Standard                        | Content                                                                                                      |
|---------------------------------|--------------------------------------------------------------------------------------------------------------|
| ESRS S3 Affected Communities    | Impacts on communities, including indigenous peoples                                                         |
| ESRS S4 Consumers and End-users | Information, personal safety, privacy, social inclusion of consumers and end-users                           |
| ESRS G1 Business Conduct        | Corporate culture, whistleblower protection, corruption and bribery, political engagement, payment practices |

A company reports on the topics that are material according to its double materiality assessment. For each material topic, it discloses its policies, actions, targets and metrics. The general disclosures of ESRS 2 apply to every reporting company.

#### *Voluntary Sustainability Reporting Standard and the Value Chain Cap*

Commission Delegated Regulation (EU) 2026/1560 establishes a voluntary standard for undertakings with an average of up to 1,000 employees that are not subject to the CSRD. It consists of a basic module, covering general information, policies and practices, energy and greenhouse gas emissions, pollution, biodiversity, water, resource use and waste, workforce characteristics, health and safety, remuneration and collective bargaining, and corruption and bribery, and a comprehensive module that adds information on strategy, climate targets and risks, human rights policies and incidents, and governance. From financial years beginning on 1 January 2027, companies subject to the CSRD may not require value chain partners with up to 1,000 employees to provide information beyond the essential datapoints of the standard, unless required by another law.

#### *Corporate Sustainability Due Diligence Directive*

The CSDDD requires companies within its scope, after Omnibus I those with more than 5,000 employees and net worldwide turnover above EUR 1.5 billion, or EU net turnover above EUR 1.5 billion for non-EU companies, to:

1. integrate due diligence into their policies and risk management systems;
2. identify and assess actual and potential adverse impacts on human rights and the environment in their own operations, those of their subsidiaries and those of their business partners in the chain of activities, using a risk-based approach that starts with a scoping exercise and focuses in-depth assessment on the areas where impacts are most likely and most severe;
3. prevent and mitigate potential adverse impacts, and bring actual adverse impacts to an end or minimise them;

4. provide remediation for actual adverse impacts they have caused or jointly caused;
5. engage meaningfully with stakeholders at the relevant stages of the process;
6. establish a notification mechanism and a complaints procedure;
7. monitor the effectiveness of their measures; and
8. communicate publicly on their due diligence.

The rights and obligations covered are listed in an annex to the directive, which refers to international human rights and environmental instruments. Member States must transpose the directive by 26 July 2028, and it applies from 26 July 2029. Penalties can reach up to 3% of net worldwide turnover.

### *EU Taxonomy and Sustainable Finance Disclosure Regulation*

The **EU Taxonomy Regulation** of 2020 establishes a classification system of environmentally sustainable economic activities. Companies subject to the CSRD must report the share of their turnover, capital expenditure and operating expenditure associated with taxonomy-aligned activities, and financial institutions report equivalent ratios for their portfolios. The simplifications applicable from 1 January 2026 introduced a 10% materiality threshold and reduced the number of datapoints.

The **Sustainable Finance Disclosure Regulation (SFDR)** has required financial market participants since 2021 to disclose how they integrate sustainability risks and consider adverse sustainability impacts, and to provide specific information for products that promote environmental or social characteristics (Article 8) or have sustainable investment as their objective (Article 9). In November 2025, the Commission proposed a revised regulation that would replace this system with three voluntary product categories, Sustainable, Transition and ESG Basics, each requiring at least 70% of the portfolio to support the relevant strategy.<sup>119</sup>

### *Product, Market Access and Supply Chain Rules*

| Instrument                                 | What it requires                                                                                                                                                    | Application                                                         |
|--------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|
| EU Deforestation Regulation (EU) 2023/1115 | Operators and traders placing cattle, cocoa, coffee, oil palm, rubber, soya, wood and derived products on the EU market must ensure they are deforestation-free and | 30 December 2026 for large and medium-sized operators; 30 June 2027 |

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<sup>119</sup> The Council agreed its negotiating position on 24 June 2026; the European Parliament had not adopted its position by the time of writing, and trilogue negotiations could not begin before it did. Proskauer, *SFDR 2.0: Where the Reform Stands*, August 2026. <https://www.proskauer.com/blog/sfdr-20-where-the-reform-stands>

| Instrument                                       | What it requires                                                                                                                     | Application                                                                     |
|--------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
|                                                  | legally produced, and submit a due diligence statement                                                                               | for micro and small operators                                                   |
| Forced Labour Regulation (EU) 2024/3015          | Prohibits placing on the EU market, or exporting, products made with forced labour; authorities investigate and can order withdrawal | 14 December 2027                                                                |
| Batteries Regulation (EU) 2023/1542              | Includes due diligence obligations on the supply chains of cobalt, natural graphite, lithium and nickel for battery producers        | Due diligence obligations postponed to 18 August 2027 <sup>120</sup>            |
| Carbon Border Adjustment Mechanism (EU) 2023/956 | Importers of iron and steel, aluminium, cement, fertilisers, electricity and hydrogen must buy certificates for embedded emissions   | Definitive phase since 1 January 2026; first declarations due 30 September 2027 |

### *Consumer, Workforce and Governance Rules*

- **Directive (EU) 2024/825 on empowering consumers for the green transition** prohibits generic environmental claims without proof of recognised excellent environmental performance, sustainability labels not based on a certification scheme or established by public authorities, and claims of neutral, reduced or positive environmental impact based on offsetting, from 27 September 2026.
- **The Pay Transparency Directive (EU) 2023/970** requires pay transparency in recruitment, gives workers the right to information on pay levels, and requires employers with 100 or more employees to report on their gender pay gap. Its transposition deadline was 7 June 2026, but many Member States did not meet it.<sup>121</sup> Under the directive, employers with 150 or more employees report for the first time by 7 June 2027, and those with 100 to 149 employees by 7 June 2031.
- **The Whistleblower Protection Directive (EU) 2019/1937** requires legal entities with 50 or more workers to establish internal reporting channels and protects reporting persons against retaliation.

<sup>120</sup> ESS News, *EU delays battery due diligence requirement*, July 2025. <https://www.ess-news.com/2025/07/22/eu-delays-battery-due-diligence-requirement>

<sup>121</sup> Littler, *In the Eleventh Hour: Implementation Status of the EU Pay Transparency Directive*, May 2026. <https://www.littler.com/news-analysis/asap/eleventh-hour-implementation-status-eu-pay-transparency-directive>

- **The General Data Protection Regulation (EU) 2016/679** sets the rules for the processing of personal data, with fines of up to 4% of worldwide annual turnover.

## United Kingdom

Listed companies since 2021, under the rules of the Financial Conduct Authority (FCA), and large companies since 2022, under the Companies Act 2006, have been required to publish climate-related financial disclosures based on the TCFD recommendations. In February 2026, the UK government published UK Sustainability Reporting Standards (UK SRS S1 and UK SRS S2), based on IFRS S1 and IFRS S2. The FCA consulted in early 2026 on requiring listed companies to report under these standards for accounting periods beginning on or after 1 January 2027, with mandatory climate disclosures, a two-year comply-or-explain period for other sustainability disclosures, and Scope 3 emissions on a comply-or-explain basis from 2028.<sup>122</sup>

The Modern Slavery Act 2015 requires commercial organisations carrying on business in the UK with a turnover of at least GBP 36 million to publish an annual statement on the steps they have taken to ensure that slavery and human trafficking are not taking place in their business or supply chains.

## United States

There is no federal requirement for sustainability reporting in the United States. The SEC's climate disclosure rule of 2024 never took effect, and in May 2026 the SEC submitted a proposal to rescind it. The main requirements are at state level and in trade law:

- **California SB 253** requires companies with annual revenue above USD 1 billion that do business in California to report their Scope 1 and Scope 2 emissions, with first reports due on 10 August 2026, and Scope 3 emissions at a later stage.
- **California SB 261** requires companies with annual revenue above USD 500 million to report on climate-related financial risks every two years; its enforcement was suspended by the Ninth Circuit Court of Appeals in November 2025 pending appeal.
- **The Uyghur Forced Labor Prevention Act**, in force since June 2022, establishes a rebuttable presumption that goods produced wholly or in part in the Xinjiang Uyghur Autonomous Region of China, or by listed entities, are made with forced labour and are prohibited from import.

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<sup>122</sup> The FCA planned to publish its final rules in the autumn of 2026. Baker McKenzie, *FCA launches consultation on sustainability disclosures*, February 2026. <https://www.bakermckenzie.com/en/insight/publications/2026/02/fca-launches-consultation-on-sustainability-disclosures>

- **Section 1502 of the Dodd-Frank Act** requires listed companies to report on their use of conflict minerals (tin, tantalum, tungsten and gold) from the Democratic Republic of the Congo and adjoining countries.

## Asia-Pacific

| Jurisdiction | Requirement                                                                                                        | Application                                                                                                                                                                                                                        |
|--------------|--------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Australia    | AASB S2 Climate-related Disclosures, based on IFRS S2, mandatory under the Corporations Act; AASB S1 voluntary     | Group 1 from financial years beginning 1 January 2025; Group 2 from 1 July 2026; Group 3 from 1 July 2027 <sup>123</sup>                                                                                                           |
| Japan        | Sustainability Standards Board of Japan (SSBJ) standards, based on IFRS S1 and IFRS S2, for Prime Market companies | Market capitalisation of JPY 3 trillion or more from the financial year ending March 2027; JPY 1 to 3 trillion from March 2028; JPY 500 billion to 1 trillion from March 2029; assurance one year after application <sup>124</sup> |
| Hong Kong    | HKEX climate requirements based on IFRS S2                                                                         | From financial years beginning 1 January 2025: Scope 1 and 2 mandatory for LargeCap issuers, other requirements on a comply-or-explain basis, fully mandatory for LargeCap issuers from 2026 <sup>125</sup>                        |
| Singapore    | ISSB-based climate disclosures under SGX rules                                                                     | Scope 1 and 2 for all listed issuers from FY2025; full ISSB-based disclosures for Straits Times Index constituents from FY2025 and Scope 3 from FY2026; other                                                                      |

<sup>123</sup> BDO Australia, *AASB approves final Australian sustainability reporting standards*. <https://www.bdo.com.au/en-au/insights/esg-sustainability/aasb-approves-final-sustainability-reporting-standards>

<sup>124</sup> Financial Services Agency of Japan, *Roadmap for sustainability disclosure and assurance*, April 2026. <https://www.fsa.go.jp/en/news/2026/20260409/02.pdf>

<sup>125</sup> Linklaters, *ESG quick guide: Hong Kong SAR climate disclosure rules under Hong Kong listing rules*. <https://sustainablefutures.linklaters.com/post/1021784/esg-quick-guide-hong-kong-sar-climate-disclosure-rules-under-hong-kong-listing>

| Jurisdiction | Requirement                                                                                                                                                             | Application                                                                                                                                |
|--------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
|              |                                                                                                                                                                         | large listed companies from FY2028; smaller listed companies from FY2030 <sup>126</sup>                                                    |
| China        | Sustainability reporting guidelines of the Shanghai and Shenzhen stock exchanges, based on double materiality; Ministry of Finance Basic Standard aligned with the ISSB | Mandatory for constituents of major indices and dual-listed companies, with the first reports for 2025 due by 30 April 2026 <sup>127</sup> |

## Latin America and Other Jurisdictions

Brazil was the first country to adopt the ISSB standards, through Resolution 193 of its Securities and Exchange Commission (CVM) of 2023; reporting under the standards is mandatory for listed companies for financial years beginning on or after 1 January 2026. Türkiye made its Turkish Sustainability Reporting Standards, based on the ISSB standards, mandatory for large companies from 2024. Switzerland requires large public-interest companies to report on environmental, social, employee, human rights and anti-corruption matters, including climate disclosures based on the TCFD recommendations, and imposes due diligence and reporting obligations on conflict minerals and child labour.

## National Due Diligence Laws

| Country | Law                                   | Scope                                                                 | Main obligation                                                                                                                             |
|---------|---------------------------------------|-----------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|
| France  | Duty of Vigilance Law (2017)          | Companies with at least 5,000 employees in France or 10,000 worldwide | Establish, publish and implement a vigilance plan covering human rights, health and safety and the environment; civil liability for failure |
| Germany | Supply Chain Due Diligence Act (2023) | Companies with at least 1,000 employees in Germany                    | Risk management, risk analysis, prevention and remedial measures, complaints procedure; in September 2025 the government adopted a draft    |

<sup>126</sup> GRC Report, *Singapore Gives Companies More Time on Climate Reporting*. <https://www.grcreport.com/post/singapore-gives-companies-more-time-on-climate-reporting>

<sup>127</sup> Linklaters, *ESG quick guide: PRC sustainability reporting guidelines for listed companies*. <https://sustainablefutures.linklaters.com/post/102178b/esg-quick-guide-prc-sustainability-reporting-guidelines-for-listed-companies>

| Country     | Law                                               | Scope                                                                                                              | Main obligation                                                                                                              |
|-------------|---------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|
|             |                                                   |                                                                                                                    | amendment abolishing the reporting obligation and limiting fines, while keeping the due diligence obligations <sup>128</sup> |
| Norway      | Transparency Act (2022)                           | Large enterprises                                                                                                  | Human rights and decent work due diligence, annual account, duty to respond to information requests from the public          |
| Switzerland | Code of Obligations, Articles 964j to 964l (2022) | Companies importing or processing conflict minerals above thresholds, or with reasonable suspicion of child labour | Due diligence and reporting on conflict minerals and child labour                                                            |

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<sup>128</sup> Taylor Wessing, *The Supply Chain Due Diligence Act (LkSG) is undergoing radical change*, January 2026. <https://www.taylorwessing.com/en/insights-and-events/insights/2026/01/lksg>

## 14. Management System Standards for EHS and ESG

Reporting standards define what to disclose. Management system standards define how to organise the work so that performance is managed systematically and improves over time. Most of them follow the same high-level structure developed by ISO, which makes it possible to integrate several systems, and most are based on the Plan-Do-Check-Act cycle.

### ISO Standards

| Standard    | Subject                                                                        | Certifiable        | Current status                                                                                                   |
|-------------|--------------------------------------------------------------------------------|--------------------|------------------------------------------------------------------------------------------------------------------|
| ISO 14001   | Environmental management systems                                               | Yes                | ISO 14001:2026, published on 15 April 2026; certified organisations must transition by April 2029 <sup>129</sup> |
| ISO 45001   | Occupational health and safety management systems                              | Yes                | ISO 45001:2018, amended in 2024 to address climate change <sup>130</sup>                                         |
| ISO 50001   | Energy management systems                                                      | Yes                | ISO 50001:2018                                                                                                   |
| ISO 14064-1 | Quantification and reporting of greenhouse gas emissions at organisation level | Verifiable         | ISO 14064-1:2018                                                                                                 |
| ISO 14067   | Carbon footprint of products                                                   | Verifiable         | ISO 14067:2018                                                                                                   |
| ISO 14068-1 | Carbon neutrality                                                              | Verifiable         | ISO 14068-1:2023                                                                                                 |
| ISO 26000   | Guidance on social responsibility                                              | No (guidance only) | ISO 26000:2010                                                                                                   |
| ISO 37001   | Anti-bribery management systems                                                | Yes                | ISO 37001:2025                                                                                                   |
| ISO 37301   | Compliance management systems                                                  | Yes                | ISO 37301:2021                                                                                                   |

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<sup>129</sup> TÜV SÜD, *ISO 14001:2026 revision: current status*. <https://www.tuvsud.com/en/knowledge-hub/articles/iso-14001-2026-revision-current-status>

<sup>130</sup> A revision of ISO 45001 reached the Draft International Standard stage in 2026 and is expected to be published in 2027, with a three-year transition period and more emphasis on work-related well-being, psychosocial hazards and occupational health. SGS, *ISO 45001:2027: key updates and transition guidance*. <https://www.sgs.com/en-gb/showcases/iso-45001-2027-key-updates-and-transition-guidance>

| Standard      | Subject                                            | Certifiable        | Current status     |
|---------------|----------------------------------------------------|--------------------|--------------------|
| ISO 37002     | Whistleblowing management systems                  | No (guidance only) | ISO 37002:2021     |
| ISO 30415     | Human resource management: diversity and inclusion | No (guidance only) | ISO 30415:2021     |
| ISO/IEC 27001 | Information security management systems            | Yes                | ISO/IEC 27001:2022 |

The 2026 revision of ISO 14001 requires organisations to consider climate change, to address the upstream and downstream environmental aspects of their products and supply chains, including biodiversity and resource availability, and to plan changes to the management system in a controlled way. These changes bring environmental management systems closer to the scope of ESG reporting.

## SA8000

SA8000, issued by Social Accountability International, is a certifiable standard for decent work, based on the Universal Declaration of Human Rights and ILO conventions. Its current version, SA8000:2026, sets requirements on seven decent work principles: protection of children and young workers; freedom of association and collective bargaining; free and fair recruitment, employment and termination; decent hours, wages and benefits; freedom from discrimination; health and safety; and privacy. It also contains ten management system criteria, including worker involvement, stakeholder involvement, and monitoring and grievance mechanisms.<sup>131</sup>

## IFC Performance Standards, World Bank Group EHS Guidelines and the Equator Principles

**The IFC Performance Standards on Environmental and Social Sustainability** (2012) are the global benchmark for managing environmental and social risks in projects financed by development finance institutions and many commercial banks. They consist of eight standards:

1. Assessment and Management of Environmental and Social Risks and Impacts
2. Labor and Working Conditions

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<sup>131</sup> Social Accountability International, *SA8000 Standard*. <https://sa-intl.org/resources/sa8000-standard/>

3. Resource Efficiency and Pollution Prevention
4. Community Health, Safety, and Security
5. Land Acquisition and Involuntary Resettlement
6. Biodiversity Conservation and Sustainable Management of Living Natural Resources
7. Indigenous Peoples
8. Cultural Heritage

**The World Bank Group Environmental, Health, and Safety Guidelines** are technical reference documents with general and industry-specific examples of good international industry practice, including emission limits and occupational health and safety measures.

**The Equator Principles** are a risk management framework adopted by financial institutions for determining, assessing and managing environmental and social risk in project finance. The current version, EP4, has applied since October 2020. For projects in countries that are not designated as having robust environmental and social governance, it requires compliance with the IFC Performance Standards and the World Bank Group EHS Guidelines.

For companies seeking finance from the IFC, the EBRD, the EIB or banks that apply the Equator Principles, these standards are not voluntary in practice. They become conditions in loan agreements, monitored through environmental and social action plans.

## 15. ESG Ratings, Scores and Investor Expectations

ESG ratings and scores translate an organisation's disclosures and other available information into an assessment that investors, lenders and buyers can use. They influence index inclusion, investment decisions, the terms of sustainability-linked loans and supplier selection. Understanding how they work is therefore part of managing ESG.

### Types of Ratings

ESG ratings measure different things. **Risk ratings** assess how exposed a company is to financially material ESG risks and how well it manages them. **Impact ratings** assess the company's effects on people and the environment. **Controversy assessments** track incidents and allegations reported in the media and by NGOs. **Supplier ratings** assess the sustainability management systems of suppliers for their business customers.

### Main Providers

| Provider                   | Product                                                                | Scale                                                              | Focus                                                                                                       |
|----------------------------|------------------------------------------------------------------------|--------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| MSCI                       | MSCI ESG Ratings                                                       | AAA to CCC                                                         | Exposure to and management of industry-specific, financially material ESG risks, relative to industry peers |
| Morningstar Sustainalytics | ESG Risk Rating                                                        | Numerical score in five categories, from negligible to severe risk | Unmanaged ESG risk; a lower score is better                                                                 |
| ISS ESG                    | ESG Corporate Rating                                                   | A+ to D-                                                           | Sustainability performance, including impacts                                                               |
| S&P Global                 | S&P Global ESG Score, based on the Corporate Sustainability Assessment | 0 to 100                                                           | Used for the Dow Jones Sustainability Indices                                                               |
| CDP                        | Climate, forests and water scores                                      | A to D-                                                            | Disclosure, awareness, management and leadership on environmental issues                                    |

| Provider | Product               | Scale                 | Focus                                                                                               |
|----------|-----------------------|-----------------------|-----------------------------------------------------------------------------------------------------|
| EcoVadis | Sustainability rating | 0 to 100, with medals | Environment, labour and human rights, ethics, sustainable procurement; widely used in supply chains |

## Why Ratings Diverge

Ratings from different providers often reach very different conclusions about the same company. Research on six major providers found that 56% of the divergence between their ratings came from differences in how they measure the same attributes, 38% from differences in which attributes they include and 6% from differences in how they weight them.<sup>132</sup> A company can therefore be a leader in one rating and an average performer in another, without any inconsistency in its own data.

## Regulation of ESG Ratings in the EU

The EU ESG Rating Activities Regulation (EU) 2024/3005 has applied since 2 July 2026. Providers that offer ESG ratings in the EU must be authorised and supervised by the European Securities and Markets Authority (ESMA), must disclose their methodologies, models and key assumptions, and must prevent and manage conflicts of interest, including by separating rating activities from certain other business activities.<sup>133</sup>

## How to Engage with Ratings

1. **Prioritise.** Identify the ratings that matter to the organisation’s investors, lenders and customers. It is not necessary, and rarely possible, to perform well in all of them.
2. **Publish the information.** Most ratings rely on publicly available information. A company that does not disclose is usually scored as if it did not perform.
3. **Check the data.** Review the information providers hold about the organisation and correct errors through the available procedures.
4. **Respond to questionnaires** that matter, such as CDP or EcoVadis, accurately and with evidence.

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<sup>132</sup> Berg, F., Kölbel, J. F., Rigobon, R., “Aggregate Confusion: The Divergence of ESG Ratings”, *Review of Finance*, Vol. 26, No. 6, 2022. <https://papers.ssrn.com/abstract=3438533>

<sup>133</sup> Regulation (EU) 2024/3005. <https://eur-lex.europa.eu/eli/reg/2024/3005/oj>; Stibbe, *ESG ratings and new EU supervision as of 2 July 2026*. <https://www.stibbe.com/publications-and-insights/esg-ratings-and-new-eu-supervision-as-of-2-july-2026>

5. **Manage performance, not the score.** Ratings change when performance and disclosure improve. Efforts aimed only at the score rarely last and can lead to greenwashing.

## Investor Expectations and Stewardship

Institutional investors expect companies to identify and manage financially material ESG risks, to disclose reliable information in line with recognised standards, and to have boards capable of overseeing these issues. Many investors are signatories to the UN Principles for Responsible Investment, under which they commit to incorporate ESG issues into investment analysis and to be active owners. Stewardship codes, such as the UK Stewardship Code 2026, which applies from 2026, set expectations for how investors engage with the companies in which they invest.<sup>134</sup>

Investors exercise this influence through dialogue with management and boards, voting at general meetings, including against the re-election of directors, filing shareholder resolutions and, as a last resort, divestment. Organisations that understand what their investors expect, and engage with them before problems arise, are better placed to manage these relationships.

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<sup>134</sup> Linklaters, *FRC issues new streamlined Stewardship Code 2026*, June 2025. <https://www.linklaters.com/knowledge/articles/alerts-newsletters-and-guides/2025/june/05/frc-issues-new-streamlined-stewardship-code-2026>

## 16. Regional Lens: ESG and EHS in the Western Balkans

The Western Balkans illustrate how ESG and EHS requirements reach economies that are not directly subject to EU law. Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia are candidates or potential candidates for EU membership, are closely integrated into EU supply chains, and depend heavily on European and international finance. Requirements arrive through four channels.

**EU accession.** Candidate countries must align their legislation with the EU acquis, including the chapters on environment and climate change, social policy and employment, consumer and health protection, and judiciary and fundamental rights. Alignment with the CSRD, the CSDDD and the related legislation is part of this process.

**Trade and carbon pricing.** Since 1 January 2026, imports of electricity, steel, aluminium, cement and fertilisers into the EU have been subject to the Carbon Border Adjustment Mechanism in its definitive phase. The regulation allows exemptions for electricity from countries whose markets are coupled with the EU market and that apply carbon pricing, but no Western Balkan country had met these conditions by the start of the definitive phase.<sup>135</sup> For economies that export electricity generated largely from coal, this creates a direct financial incentive to decarbonise. Under the Energy Community Treaty, the Western Balkan countries have also adopted 2030 targets for emissions, renewable energy and energy efficiency, and in the 2020 Sofia Declaration on the Green Agenda for the Western Balkans they committed to the goal of climate neutrality by 2050.

**Supply chains.** Many companies in the region are suppliers to EU manufacturers in the automotive, textile, food and metal industries. They receive the questionnaires, codes of conduct and audits described in chapter 6, and from 2027 the value chain cap and the voluntary standard will shape what can be requested from them.

**Finance.** The EBRD, the EIB, the IFC and the World Bank are among the largest financiers in the region and apply their environmental and social standards as loan conditions. The EU Growth Plan for the Western Balkans, adopted in November 2023, provides EUR 6 billion for 2024 to 2027, of which EUR 2 billion in grants and EUR 4 billion in concessional loans, conditional on reforms, including in the green transition and the rule of law.<sup>136</sup>

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<sup>135</sup> Balkan Green Energy News, *Energy Community: no contracting party on track for CBAM electricity exemption*. <https://balkangreenenergynews.com/?p=77178>

<sup>136</sup> European Commission, *Growth Plan for the Western Balkans*. [https://enlargement.ec.europa.eu/enlargement-policy/growth-plan-western-balkans\\_en](https://enlargement.ec.europa.eu/enlargement-policy/growth-plan-western-balkans_en)

The regional experience shows that ESG requirements travel through markets, value chains and finance as effectively as through legislation. Companies in such economies that wait for national law to impose obligations will find that their customers, lenders and the EU border have imposed them first.

## **Part 4. Practice: Building the System and Reporting**

Part 4 turns the knowledge of the previous parts into practice. Chapter 17 explains what an organisation needs to have in place before it can report credibly: governance, a materiality assessment, policies, targets, data systems and due diligence. Chapter 18 provides a detailed checklist of the questions a sustainability report must answer, with guidance on what each answer must contain. Chapter 19 explains how to write a report that withstands scrutiny. Chapter 20 presents practices of global companies that illustrate each element, and chapter 21 adapts the approach to non-profit organisations.

## 17. Building the Foundations

A sustainability report is only as good as the management system behind it. An organisation that publishes a report without governance, without a materiality assessment, without policies and without reliable data produces a document that auditors cannot assure, investors do not trust and journalists can easily dismantle. This chapter describes the seven foundations that must be in place. The order of the sections follows the order in which most organisations build them, although in practice several are developed in parallel.

### Governance and Ownership

Every reporting framework begins with governance, because governance shows whether sustainability is managed where decisions are made. The ESRS, the ISSB standards and the GRI Standards all require an organisation to disclose who oversees sustainability matters, how often they are informed, what expertise they have, and how sustainability is reflected in strategy, risk management and remuneration.<sup>137</sup>

#### *Three Levels of Responsibility*

Effective governance of sustainability requires clear responsibilities at three levels.

| Level     | Who                                                                                                          | Responsibilities                                                                                                                                                                                         | What must be documented                                                                                                                                                     |
|-----------|--------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Oversight | The board or the supervisory body, directly or through a committee (audit, risk or sustainability committee) | Approves the sustainability strategy, key policies, material topics and targets; monitors material impacts, risks and opportunities; holds management accountable; approves the sustainability statement | Committee terms of reference that name sustainability explicitly; annual agenda with sustainability items; minutes recording discussions and decisions; board skills matrix |

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<sup>137</sup> Commission Delegated Regulation (EU) 2026/1563, ESRS 2 General Disclosures. [https://eur-lex.europa.eu/eli/reg\\_del/2026/1563/oj](https://eur-lex.europa.eu/eli/reg_del/2026/1563/oj); IFRS Foundation, *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information*. <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements/>; Global Reporting Initiative, *GRI 2: General Disclosures 2021*. <https://www.globalreporting.org/standards/>

| Level          | Who                                                                                                                               | Responsibilities                                                                                                                                                       | What must be documented                                                                     |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| Accountability | A member of executive management, usually the chief executive officer, the chief financial officer or the chief operating officer | Owens delivery of the strategy and targets; allocates resources; integrates sustainability into business planning, investment decisions and enterprise risk management | Job description or delegation of authority; management targets; reporting line to the board |
| Coordination   | A sustainability lead supported by a cross-functional working group                                                               | Coordinates the materiality assessment, data collection, policies and reporting; monitors regulatory developments; supports the functions that own the topics          | Mandate of the working group; list of members and data owners; meeting schedule; work plan  |

The working group must include, at a minimum, finance, operations, EHS, human resources, procurement, legal and compliance, risk management and communications. In companies with significant customer impacts, product development, IT security and data protection must also be represented. Each topic in the materiality assessment needs a named owner in the line organisation, not in the sustainability team. The sustainability lead coordinates; the owners manage.

### *Competence of the Board*

A board cannot oversee what it does not understand. Reporting standards ask how the board ensures that it has the skills and expertise to oversee sustainability matters. Three measures address this: a skills matrix that identifies gaps in sustainability, human rights, climate and EHS expertise; induction and annual training for board members on material topics; and access to independent expert advice when needed. Appointing one board member as the sole sustainability expert is not sufficient, because oversight is a collective responsibility.

### *Information Flow*

Oversight requires regular, structured information. Good practice is a quarterly report from management to the responsible committee, covering progress against targets, significant incidents (fatalities, serious injuries, environmental incidents, substantiated grievances, whistleblowing reports), changes in regulation and emerging risks, and an annual discussion of

the materiality assessment and the sustainability statement by the full board. Serious incidents, such as a fatality or a major environmental release, must be reported to the board immediately, not at the next scheduled meeting.

### *Linking Remuneration to Sustainability*

Reporting standards ask whether the remuneration of board members and executives is linked to sustainability performance and, if so, how. The link is credible when the metrics are material, measurable and verified, when they carry a meaningful weight, and when they are disclosed together with actual performance.

Example: Schneider Electric measures its sustainability performance through the Schneider Sustainability Impact, a set of quantified commitments that the company reports on every quarter. In its results for 2023, the company stated that this performance determined 20% of the collective part of the short-term incentives of the group's executives and of about 64,000 eligible employees.<sup>138</sup> The example shows how sustainability targets can be integrated into the remuneration of the whole organisation, not only of the top management.

**Warning.** Linking remuneration to metrics that are easy to achieve, not material, or assessed only by the people whose pay depends on them, is a governance failure that investors and proxy advisers recognise. A metric such as “publish the sustainability report” rewards activity, not performance.

## Double Materiality Assessment, Step by Step

The materiality assessment determines what the organisation must manage and report. It is the most important analytical step in the whole process. Under the ESRS it is mandatory, and its quality determines the quality of everything that follows. The revised ESRS allow a simpler, top-down approach and no longer require an exhaustive analysis of the entire value chain, but the assessment must still be documented, based on evidence and reviewed regularly.<sup>139</sup>

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<sup>138</sup> Schneider Electric, *Schneider Sustainability Impact: FY 2023 results*, 2024. <https://www.3blmedia.com/sites/default/files/other/schneider-sustainability-impact-fy-2023-results.pdf>

<sup>139</sup> Anthesis, *Revised European Sustainability Reporting Standards (ESRS)*, 2026. <https://www.anthesisgroup.com/insights/revised-european-sustainability-reporting-standards-esrs/>

The process below follows the logic of the ESRS and of the implementation guidance on materiality assessment published by EFRAG.<sup>140</sup> It can be applied by any organisation, including those that report under the GRI Standards or the voluntary standard.

### *Step 1: Understand the Context*

Before assessing any topic, the organisation must understand what it does and where its impacts arise. This step produces four outputs:

1. **A description of the business model:** products and services, markets, customers, key assets, revenue streams and the main inputs on which the business depends.
2. **A map of the value chain:** the main upstream activities (raw materials, components, services, logistics) and downstream activities (distribution, use of products, end of life), with the countries and sectors involved.
3. **A map of stakeholders:** the groups that affect or are affected by the organisation, divided into affected stakeholders (own workers, workers in the value chain, communities, consumers and end users, nature as a silent stakeholder) and users of sustainability information (investors, lenders, insurers, business partners, regulators).
4. **An inventory of existing information:** previous materiality assessments, risk registers, due diligence findings, EHS incident records, grievances and whistleblowing reports, audit findings, questionnaires received from customers and investors, media coverage and litigation.

### *Step 2: Identify Impacts, Risks and Opportunities*

The organisation then draws up a long list of potential impacts, risks and opportunities (IROs). The long list should be broad, because a topic that is never considered can never be assessed. Five sources help to build it:

- **The list of sustainability matters in the ESRS**, which covers all topics of the ten topical standards and their sub-topics.
- **The SASB Standards** for the organisation's industry, which identify the topics most likely to be financially material.

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<sup>140</sup> EFRAG, *EFRAG IG 1: Materiality Assessment Implementation Guidance*, May 2024. The guidance was prepared for the first set of ESRS; its methodological explanations on assessing impacts and financial effects remain useful under the revised standards. Rödl & Partner, *Sustainability reporting: EFRAG publishes first implementation guidance*, 2024. <https://roedl.com/insights/esg-news/2024-2/sustainability-reporting-efrag-publishes-implementation-guidance-->

- **The GRI Sector Standards**, where one exists for the organisation's sector, which identify the impacts most likely to be significant.
- **The outputs of Step 1**, in particular incidents, grievances and audit findings, which show where impacts have already occurred.
- **Peer and sector analysis**: the material topics disclosed by comparable companies and the topics raised by investors, ratings and NGOs in the sector.

Each item on the list must be formulated precisely. "Climate change" is a topic, not an IRO. "Scope 1 emissions from the natural gas boilers in our three production plants" is an impact. "Rising cost of EU emission allowances for our cement plant" is a risk. "Growing demand for low-carbon building materials" is an opportunity. Precise formulation makes assessment possible and allows a reader to understand the result.

### *Step 3: Assess Impact Materiality*

For each impact, the organisation assesses its severity and, for potential impacts, its likelihood. Severity has three dimensions, taken from the UN Guiding Principles:<sup>141</sup>

- **Scale**: how grave the impact is. A fatality is graver than a minor injury; contamination of drinking water is graver than temporary noise.
- **Scope**: how widespread the impact is: how many people are affected, or how large an area of the environment.
- **Irremediable character**: how difficult or impossible it is to restore the situation that existed before the impact. Loss of life, extinction of a species and permanent health damage cannot be reversed.

A simple scoring scale makes the assessment consistent and traceable.

| Score | Scale                                                   | Scope                                      | Irremediable character      | Likelihood (potential impacts) |
|-------|---------------------------------------------------------|--------------------------------------------|-----------------------------|--------------------------------|
| 1     | Minimal: no lasting effect on people or the environment | Very limited: individuals or a single site | Easily and fully remediable | Very unlikely                  |

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<sup>141</sup> United Nations, *Guiding Principles on Business and Human Rights*, 2011, Principles 14 and 24 and their commentaries. [https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr\\_en.pdf](https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr_en.pdf)

| Score | Scale                                                                | Scope                                                               | Irremediable character                          | Likelihood (potential impacts) |
|-------|----------------------------------------------------------------------|---------------------------------------------------------------------|-------------------------------------------------|--------------------------------|
| 2     | Moderate: temporary effect on health, livelihoods or the environment | Limited: a group of people or a local area                          | Remediable with moderate effort                 | Unlikely                       |
| 3     | Significant: serious effect on rights, health or ecosystems          | Medium: a significant share of a workforce, a community or a region | Remediable with significant effort and time     | Possible                       |
| 4     | Severe: grave harm to life, health, fundamental rights or ecosystems | Wide: large numbers of people or extensive areas                    | Remediable only partially or over a long period | Likely                         |
| 5     | Critical: loss of life, irreversible harm to health or ecosystems    | Very wide: national, cross-border or global                         | Irremediable                                    | Very likely or occurring       |

**Warning.** For negative impacts on human rights, severity takes precedence over likelihood. A potential impact that is unlikely but catastrophic, such as a fatality in the supply chain or forced labour in a sourcing region, cannot be ranked as immaterial simply because its probability is low. The UN Guiding Principles require organisations to prioritise the most severe impacts first, and the ESRS follow the same principle.

Positive impacts are assessed by their scale, scope and, for potential impacts, likelihood. They must be real and attributable to the organisation's activities, not to the existence of its products in general.

#### *Step 4: Assess Financial Materiality*

For each risk and opportunity, the organisation assesses the likelihood that it will occur and the potential magnitude of its financial effects on revenue, costs, assets, liabilities, access to finance or cost of capital. The assessment covers three time horizons. The ESRS use as default the reporting period for the short term, up to five years for the medium term and more than five years for the long term.

Many risks and opportunities arise from impacts. Contamination of a river by a plant is an impact; the fine, the cost of clean-up, the suspension of the permit and the loss of customers that may

follow are risks. The organisation should therefore assess each impact also from the financial perspective, and not treat the two lenses as separate exercises.

The financial assessment must be connected to the enterprise risk management system. The thresholds used to define financially material risks should be consistent with those used for other business risks, so that a sustainability risk of a given size is treated in the same way as an operational or market risk of the same size.

#### *Step 5: Set Thresholds and Determine Material Matters*

The organisation sets thresholds above which an impact, risk or opportunity is material. The thresholds are a matter of judgement, but they must be defined in advance, applied consistently and explained. A common method is to multiply or combine the scores from Steps 3 and 4 and draw the line at a defined level, with an override that treats every impact scoring 4 or 5 on scale or irremediable character as material regardless of likelihood.

A sustainability matter is material if at least one IRO linked to it is material from either perspective. The result is a list of material matters, each linked to its material IROs, which determines the topical standards and disclosures the organisation must report under.

#### *Step 6: Validate*

The preliminary results must be tested before they are approved. Three forms of validation are needed:

- **Internal validation** by the owners of the topics, who check that the assessment matches their knowledge of the business.
- **External validation** with affected stakeholders or their representatives, such as trade unions, workers' representatives, community organisations and NGOs, and with experts, who check that nothing significant has been missed or underestimated.
- **Approval** by executive management and the board or the responsible committee, which take ownership of the result.

#### *Step 7: Document and Review*

The assessment must be documented so that an assurance provider can follow every step: the sources used, the long list, the scores and the reasoning behind them, the thresholds, the stakeholders consulted and the approvals. The register of impacts, risks and opportunities in Annex A2 provides a template. The assessment must be reviewed every year and updated in full when the business changes significantly, for example after an acquisition, entry into a new market or country, the launch of a new product line, or a serious incident.

### Common Mistakes

| Mistake                                            | Why it is a problem                                                                                                 | What to do instead                                                                        |
|----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| Relying on a stakeholder survey as the main method | Surveys measure perceptions, not impacts. Respondents rate the topics they know, not the ones that are most severe. | Use surveys as one input; base the assessment on evidence of actual and potential impacts |
| Assessing topics instead of specific IROs          | “Human rights” or “climate” cannot be scored meaningfully                                                           | Formulate each IRO precisely, as in Step 2                                                |
| Excluding the value chain                          | The most severe impacts of many companies occur in their supply chains                                              | Include the value chain at least for high-risk sectors, countries and commodities         |
| Averaging severity and likelihood for human rights | Severe but unlikely impacts disappear from the list                                                                 | Apply the severity override described in Step 3                                           |
| Producing a list of 30 or more material topics     | Everything is a priority, so nothing is                                                                             | Set and justify thresholds; consolidate related IROs                                      |
| No link to risk management                         | Sustainability risks remain outside the system that manages business risks                                          | Use consistent thresholds and feed material risks into the enterprise risk register       |
| No documentation                                   | The assessment cannot be assured or repeated                                                                        | Keep a full audit trail of sources, scores and decisions                                  |

Example: In 2015, Unilever became the first company to report comprehensively under the UN Guiding Principles Reporting Framework. To identify its salient human rights issues, meaning those at risk of the most severe negative impact, it held a cross-functional internal workshop, assessed potential impacts by severity, prevalence and difficulty of remediation, and drew on dialogue with external organisations. The process produced eight salient issues: discrimination, fair wages, forced labour, freedom of association, harassment, health and safety, land rights and working hours.<sup>142</sup> The example shows how an assessment of impacts on people can be focused on severity rather than on importance to the business, which is the logic of impact materiality.

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<sup>142</sup> Unilever, *Human Rights Report 2015*. <https://respect.international/wp-content/uploads/2017/10/Unilever-Human-Rights-Report-2015.pdf>; UNGP Reporting Framework, *Unilever releases human rights report using UNGP Reporting Framework*, 30 June 2015. <https://www.ungpreporting.org/news-views/unilever-human-rights-report/>

## Policies: The Minimum Set

A policy states what the organisation commits to and how it will meet the commitment. Reporting standards do not require any specific policy, but they require an organisation to disclose the policies it has adopted for each material topic. An organisation without a policy on a material topic must say so, and investors, customers and auditors read the absence as a gap in management.

### *What a Credible Policy Contains*

A policy is credible when it contains the following elements, which correspond to what reporting standards ask about each policy:

1. **Commitment:** what the organisation commits to, with reference to the international standards it follows, such as the UN Guiding Principles, the ILO fundamental conventions, the OECD Guidelines or ISO standards.
2. **Scope:** which activities, sites, subsidiaries and parts of the value chain the policy covers, and any exclusions.
3. **Accountability:** the most senior person responsible for implementation, and the body that approved the policy.
4. **Implementation:** the procedures, resources and controls through which the commitment is carried out.
5. **Stakeholders:** how the interests of affected stakeholders were taken into account in developing the policy.
6. **Communication:** how the policy is made available to workers, business partners and other stakeholders who need to know it, including in the languages they understand.
7. **Monitoring and review:** how compliance is checked, how often the policy is reviewed, and what happens in case of a breach.

### *Recommended Policies*

The table below lists the policies that most organisations need. An organisation must adopt the policies that correspond to its material topics. It does not need a separate document for each line; several commitments can be combined, for example in a code of conduct or an integrated EHS policy, as long as each commitment is clear.

| Policy          | What it must cover                                                                                                                | Key references                                |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|
| Code of conduct | Standards of behaviour for all employees and managers: integrity, conflicts of interest, gifts and hospitality, fair competition, | OECD Guidelines; UN Global Compact principles |

| Policy                                     | What it must cover                                                                                                                                                                                           | Key references                                                                                      |
|--------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|
|                                            | respect for people, health and safety, environment, data protection, use of company assets, how to raise concerns                                                                                            |                                                                                                     |
| Human rights policy                        | Commitment to respect all internationally recognised human rights; salient issues; due diligence process; remedy; stakeholder engagement; expectations of business partners                                  | UN Guiding Principles (Principle 16); OECD Guidelines; ILO Declaration                              |
| Labour and employment policy               | Working conditions, adequate wages, working time, freedom of association and collective bargaining, prohibition of forced and child labour                                                                   | ILO fundamental conventions                                                                         |
| Equal treatment and anti-harassment policy | Non-discrimination on all protected grounds, equal pay for work of equal value, prevention of and response to harassment and violence, reasonable accommodation for persons with disabilities                | ILO Conventions No. 100, No. 111 and No. 190; EU equality directives; EU Pay Transparency Directive |
| Occupational health and safety policy      | Commitment to prevent work-related injury and ill health, to eliminate hazards and reduce risks, to consult workers, to comply with legal requirements and to improve continually; coverage of contractors   | ILO Conventions No. 155 and No. 187; ISO 45001                                                      |
| Environmental policy                       | Commitment to protect the environment, prevent pollution, comply with legal requirements and improve continually; coverage of material environmental topics such as water, waste, biodiversity and chemicals | ISO 14001                                                                                           |
| Climate commitment                         | Emission reduction targets, the approach to renewable energy and carbon credits, the transition plan where one exists                                                                                        | Paris Agreement; SBTi criteria; GHG Protocol                                                        |
| Supplier code of conduct                   | Minimum requirements for suppliers on labour, human rights, health and safety, environment and ethics; right to audit; consequences of non-compliance;                                                       | OECD Due Diligence Guidance                                                                         |

| Policy                                          | What it must cover                                                                                                                                                      | Key references                                   |
|-------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
|                                                 | obligation to cascade requirements to their own suppliers                                                                                                               |                                                  |
| Anti-bribery and corruption policy              | Prohibition of bribery and facilitation payments; gifts, hospitality, donations and sponsorships; due diligence on third parties and intermediaries; controls; training | UN Convention against Corruption; ISO 37001      |
| Whistleblowing (speak-up) policy                | Reporting channels, including anonymous reporting; confidentiality; protection against retaliation; investigation procedure; timelines for feedback                     | EU Whistleblower Protection Directive; ISO 37002 |
| Data protection and information security policy | Lawful processing of personal data, rights of data subjects, security controls, incident response, responsibility for cyber risk                                        | GDPR; ISO/IEC 27001                              |

For a small or medium-sized enterprise, a proportionate minimum set consists of five documents: a code of conduct that includes commitments on human rights and equal treatment, a health and safety policy, an environmental policy that includes energy and emissions, a supplier code of conduct and an anti-corruption policy with a speak-up channel.

**Warning.** A policy that is adopted but not implemented is worse than no policy, because it creates a public commitment that the organisation does not meet. Copying a policy from another company without adapting it to the organisation's own risks, structure and capacities is a common source of social washing and greenwashing claims. Every commitment in a policy must be backed by a procedure, a responsible person and a way of checking that it is met.

## Strategy, Targets and Action Plans

Policies state commitments. Targets and action plans turn them into results that can be measured. For each material topic, reporting standards ask whether the organisation has set targets, what they are, how they were set and how progress is tracked. An organisation that has no target on a material topic must say so and explain whether it plans to set one.

### *What Makes a Target Credible*

A credible target meets eight criteria:

1. **It is linked to a material IRO** identified in the materiality assessment.
2. **It is specific and measurable**, expressed as a defined metric with a unit.
3. It has a base year and a baseline value, against which progress is measured.

4. **It has a target year and interim milestones.** A target for 2050 without milestones for 2030 cannot be monitored.
5. **It distinguishes absolute and intensity values.** An intensity target, such as emissions per unit of revenue, can be met while absolute emissions grow. Where the impact is driven by absolute volumes, as it is for greenhouse gas emissions, an absolute target is needed.
6. **It is based on evidence,** such as climate science for emission targets, legal requirements, sector benchmarks or the needs of affected stakeholders.
7. **It has a scope that is stated,** including which sites, subsidiaries and parts of the value chain it covers.
8. It is supported by an action plan and resources.

The difference between a weak and a strong target is easy to see in practice.

| Weak target                            | Strong target                                                                                                                                                                                                                     |
|----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| "We will reduce our carbon footprint." | "We will reduce absolute Scope 1 and 2 emissions by 42% by 2030 against a 2023 baseline of 48,500 tCO <sub>2</sub> e, with an interim target of 25% by 2027."                                                                     |
| "We aim for zero harm."                | "We will achieve zero fatalities every year, and reduce the total recordable incident rate of employees and contractors from 2.4 in 2025 to 1.5 by 2028."                                                                         |
| "We promote diversity."                | "We will increase the share of women in senior management from 22% in 2025 to 35% by 2030, and close any unexplained gender pay gap above 5% within two years of identifying it."                                                 |
| "We source responsibly."               | "By 2028, 100% of our tier one suppliers in high-risk countries will have been assessed against our supplier code of conduct, including through worker interviews, and all critical findings will have a corrective action plan." |

### Action Plans

Each target needs an action plan that sets out the specific measures, the responsible persons, the timeline, the financial and human resources allocated, and the expected contribution of each measure to the target. Reporting standards increasingly ask about the capital expenditure and operating expenditure linked to action plans, so that readers can judge whether the plan is funded. For climate, the action plan is part of a transition plan, which explains how the organisation's strategy and business model will be made compatible with the transition to a low-carbon economy.

| Element         | Content                                                                                                                                 |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------|
| Target          | The metric, baseline, target value and target year                                                                                      |
| Measures        | The specific actions, such as replacing gas boilers with heat pumps at two sites, or introducing worker interviews into supplier audits |
| Responsibility  | The manager accountable for each measure                                                                                                |
| Timeline        | Start and completion dates, with milestones                                                                                             |
| Resources       | Budget (capital and operating expenditure), staff time, external support                                                                |
| Expected effect | The contribution of each measure to the target, such as the tonnes of CO <sub>2</sub> e it will reduce                                  |
| Monitoring      | The indicator, the frequency of measurement and the body that reviews progress                                                          |

### *Science-Based Climate Targets*

For greenhouse gas emissions, the reference for a credible target is the Science Based Targets initiative. Companies that commit to the SBTi submit their targets for validation against criteria consistent with limiting warming to 1.5°C. The SBTi Corporate Net-Zero Standard version 2.0, described in chapter 12, sets the criteria for near-term and long-term targets. An organisation that does not seek validation can still use the SBTi criteria as a benchmark and explain how its targets compare with them.

## **Data Collection and Management**

Reliable data is the condition for credible reporting and for limited assurance. Most organisations find that data collection takes more time than any other part of the reporting process, because sustainability data is scattered across many systems, sites and functions, and has rarely been subject to the controls that apply to financial data.

### *The Data Inventory*

The first step is a data inventory: a table that lists every datapoint the organisation must report and, for each one, records the information needed to collect it reliably.

| Field     | Content                                                                        |
|-----------|--------------------------------------------------------------------------------|
| Datapoint | The metric and its definition, with reference to the standard that requires it |
| Owner     | The person responsible for the data                                            |
| Source    | The system or document from which the data comes                               |
| Scope     | The sites, subsidiaries and activities covered                                 |

| Field     | Content                                                                                            |
|-----------|----------------------------------------------------------------------------------------------------|
| Frequency | How often the data is collected (monthly, quarterly, annually)                                     |
| Method    | How the value is calculated, including emission factors, conversion factors and estimation methods |
| Control   | Who checks the data and how                                                                        |
| Evidence  | Where supporting documents are stored                                                              |

### *Typical Data Sources*

| Topic                              | Typical sources                                                                                                                                                     |
|------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Energy and Scope 1 and 2 emissions | Energy invoices, meter readings, fuel cards, fuel purchase records, refrigerant maintenance logs, contracts and certificates for renewable electricity              |
| Scope 3 emissions                  | Procurement and spend data from the ERP system, supplier-specific emission data, logistics and travel booking data, product sales volumes and use-phase assumptions |
| Pollution, water and waste         | Monitoring reports required by environmental permits, water meters and invoices, waste transfer notes and reports from waste contractors                            |
| Own workforce                      | HR information system, payroll, training records, collective agreements, employee surveys                                                                           |
| Health and safety                  | EHS incident management system, hours worked from payroll or time records, contractor hours from contractors' reports, occupational health records                  |
| Value chain                        | Supplier assessment and audit records, supplier questionnaires, grievance records                                                                                   |
| Business conduct                   | Whistleblowing system, records of investigations, training records, legal records of fines and proceedings, accounts payable data for payment practices             |

### *Five Principles for Reliable Data*

1. **Use the same reporting boundary as the financial statements.** The ESRS require the sustainability statement to cover the same undertakings as the consolidated financial statements. For greenhouse gas emissions, the GHG Protocol allows an organisation to

consolidate on the basis of equity share, financial control or operational control. The approach must be chosen, explained and applied consistently.<sup>143</sup>

2. **Measure where possible, estimate where necessary, and disclose which is which.** Estimates are acceptable, especially for value chain data, but the method and the share of estimated data must be disclosed.
3. **Document every methodology.** Each metric needs a written definition and calculation method, so that the same result can be reproduced by another person and by the assurance provider.
4. **Apply internal controls.** The same controls that apply to financial data should apply to sustainability data: segregation of duties between those who enter and those who approve data, reconciliation with source documents, plausibility checks against previous periods and between sites, and an audit trail of changes.
5. **Have a recalculation policy.** When the organisation's structure changes significantly, for example through an acquisition or a divestment, or when an error or a change in methodology is discovered, the base year and comparative figures may need to be recalculated. The GHG Protocol requires a recalculation policy with a significance threshold, which the organisation sets itself; many organisations use 5%.

### *Spreadsheets or Software*

Smaller organisations and those reporting for the first time can manage their data in well-structured spreadsheets, provided that they are protected against unauthorised changes, versioned and backed up. As the number of datapoints, sites and contributors grows, dedicated sustainability software reduces the risk of error and makes assurance easier, because it records who entered and approved each value. Software does not replace the data inventory and the controls described above. It only automates them.

**Warning.** The most common reason for qualified assurance conclusions on sustainability information is weak data, not weak narrative. Organisations should involve their future assurance provider, or an independent adviser, in a readiness review of the data and controls before the first assured report, not after it.

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<sup>143</sup> World Resources Institute and World Business Council for Sustainable Development, *GHG Protocol Corporate Accounting and Reporting Standard*, chapters 3 and 5. <https://ghgprotocol.org/corporate-standard>

## Due Diligence and Stakeholder Engagement

Due diligence is the process through which an organisation identifies, prevents, mitigates and accounts for its adverse impacts on people and the environment. It is the core of the UN Guiding Principles and the OECD Guidelines, it is required by the CSDDD and by national laws in France, Germany, Norway and other countries, and it provides the evidence base for the materiality assessment and for many disclosures under the social standards of the ESRS. Stakeholder engagement runs through every step of it.

### *The Six Steps in Practice*

The OECD Due Diligence Guidance for Responsible Business Conduct describes six steps.<sup>144</sup> The table below shows what each step requires in practice.

| Step                                                                     | What it requires in practice                                                                                                                                  | Typical outputs                                                                                        |
|--------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| 1. Embed responsible business conduct in policies and management systems | Adopt the policies described above; assign responsibility; integrate expectations into contracts with suppliers and business partners                         | Human rights policy, supplier code of conduct, contractual clauses, allocated responsibilities         |
| 2. Identify and assess adverse impacts                                   | Carry out a broad scoping of risks across operations and the value chain; prioritise the areas of highest risk; carry out in-depth assessments in those areas | Risk map by sector, country, product and supplier; in-depth assessments of priority areas              |
| 3. Cease, prevent and mitigate adverse impacts                           | Stop activities that cause harm; adopt prevention and mitigation measures; use leverage with business partners; agree corrective action plans                 | Corrective action plans; training and capacity building for suppliers; changes in purchasing practices |
| 4. Track implementation and results                                      | Monitor whether measures are carried out and whether they work, using qualitative and quantitative indicators and feedback from affected stakeholders         | Follow-up audits; indicators; feedback from workers and communities                                    |

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<sup>144</sup> OECD, *OECD Due Diligence Guidance for Responsible Business Conduct*, 2018. <https://mneguidelines.oecd.org/due-diligence-guidance-for-responsible-business-conduct.htm>

| Step                                       | What it requires in practice                                                                                                      | Typical outputs                                                                        |
|--------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|
| 5. Communicate how impacts are addressed   | Report publicly on the process, the main risks identified and the measures taken; communicate directly with affected stakeholders | Sustainability report; human rights or modern slavery statements; direct communication |
| 6. Provide for or cooperate in remediation | Provide remedy where the organisation has caused or contributed to harm; establish or participate in grievance mechanisms         | Remediation cases; grievance mechanism with records of cases and outcomes              |

### *Prioritising Risks in the Value Chain*

No organisation can assess every supplier in depth. The OECD Guidance asks organisations to prioritise on the basis of four groups of risk factors:

- **Sector risks:** risks inherent in the characteristics of a sector, such as the use of migrant labour in construction or agriculture, or exposure to hazardous chemicals in textile dyeing.
- **Geographic risks:** conditions in a country or region that increase risk, such as weak enforcement of labour law, conflict, corruption or restrictions on freedom of association.
- **Product risks:** risks linked to specific inputs or production processes, such as minerals from conflict-affected areas or commodities linked to deforestation.
- **Enterprise risks:** risks linked to a specific business partner, such as a poor compliance record, a history of incidents or weak governance.

A practical approach is to segment suppliers into risk categories on the basis of these factors and the organisation's spend, and to apply a different level of due diligence to each: a signed supplier code of conduct for all suppliers, a self-assessment questionnaire for medium-risk suppliers, and on-site assessments with worker interviews for high-risk suppliers.

**Warning.** Social audits alone do not detect the most serious labour rights abuses. Announced audits can be prepared for, records can be falsified and workers interviewed on site may be afraid to speak. Due diligence is credible only when audits are combined with channels through which workers can raise concerns safely, engagement with trade unions and local organisations, and attention to the organisation's own purchasing practices. Unrealistic prices and delivery times set by buyers are a recognised cause of excessive overtime and wage violations in supplier factories.

### *Meaningful Stakeholder Engagement*

Engagement is meaningful when it is two-way, conducted in good faith, timely, accessible to the people concerned and capable of influencing decisions. It is not the same as communication or consultation after a decision has been made. An effective engagement process has five elements:

1. **Mapping and prioritisation.** Identify the stakeholders affected by each material impact, with particular attention to groups that are at heightened risk of vulnerability or marginalisation, such as migrant workers, women, persons with disabilities, indigenous peoples, children and minorities.
2. **Choosing the right channels.** Engage affected stakeholders directly where possible, and through legitimate representatives, such as trade unions, workers' representatives and community organisations, where direct engagement is not possible. Where neither is possible, consult credible experts and civil society organisations who know the context.
3. **Removing barriers.** Use the languages that stakeholders speak, hold meetings at times and places they can reach, provide information in advance, and ensure that people can participate without fear of retaliation.
4. **Documenting and responding.** Record what was said, how it was taken into account and what the organisation decided, and report back to the stakeholders concerned.
5. **Continuity.** Engagement is an ongoing relationship, not a single event before the publication of a report.

In the own workforce, the most important channels are social dialogue with trade unions and workers' representatives, and the participation of workers in health and safety management. ISO 45001 requires organisations to establish processes for the consultation and participation of workers at all applicable levels and functions, including non-managerial workers.<sup>145</sup>

### *Grievance Mechanisms*

A grievance mechanism allows people who are affected by the organisation's activities to raise concerns and seek remedy. It is required by the UN Guiding Principles, the CSDDD and many national laws, and its existence and effectiveness are disclosed under the social standards of the ESRS. An organisation needs mechanisms that are accessible to its own workers, to workers in its value chain and to affected communities. These can be separate channels or one channel with several entry points. The whistleblowing channel required by the EU Whistleblower Protection

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<sup>145</sup> ISO 45001:2018 Occupational health and safety management systems, clause 5.4. <https://www.iso.org/standard/63787.html>

Directive can be part of the system, but a channel designed only for employees to report breaches of law does not by itself meet the needs of supplier workers or communities.

Principle 31 of the UN Guiding Principles sets out the criteria an effective mechanism must meet.

| Criterion                        | What it means in practice                                                                                                                               |
|----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| Legitimate                       | Users trust the mechanism; it is governed so that no party can interfere with the fair handling of a complaint                                          |
| Accessible                       | Known to all intended users; available in their languages; free of charge; anonymous reporting possible; assistance provided to those who face barriers |
| Predictable                      | A clear procedure with timelines for each stage; users know what outcomes are possible                                                                  |
| Equitable                        | Users have reasonable access to information, advice and expertise to engage on fair terms                                                               |
| Transparent                      | Users are informed of the progress of their case; the organisation publishes information on the number and types of complaints and their outcomes       |
| Rights-compatible                | Outcomes and remedies accord with internationally recognised human rights                                                                               |
| A source of continuous learning  | Cases are analysed to identify patterns and prevent future harm                                                                                         |
| Based on engagement and dialogue | For operational-level mechanisms, the users are consulted on the design and performance of the mechanism                                                |

The number of complaints received is not in itself an indicator of performance. A mechanism that receives no complaints in a large organisation with a complex supply chain is more likely to be unknown or distrusted than to reflect the absence of problems.

## Implementation Roadmap: From Zero to First Report

Chapter 7 described eight first steps for an organisation that starts with nothing in place. The roadmap below shows how these steps develop into a first report and a functioning system over 18 months. The timeline is indicative and suits a medium-sized or large organisation reporting for the first time. A small organisation using the voluntary standard can complete it in less time, and a large group with many sites and complex value chains will need more.

| Phase    | Timing          | Key activities                                                                                                                                                                                                                            | Outputs                                                                              |
|----------|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| Mobilise | Months 1 to 3   | Appoint the accountable executive and the sustainability lead; set up the working group; brief the board; map legal, customer and investor requirements; take stock of existing policies, data and systems; choose the reporting standard | Governance structure; requirements map; gap analysis; project plan and budget        |
| Assess   | Months 3 to 6   | Carry out the double materiality assessment; consult stakeholders; begin the scoping of value chain risks; approve material topics                                                                                                        | Approved list of material topics and IROs; IRO register; stakeholder map             |
| Build    | Months 6 to 12  | Adopt or update policies for material topics; build the data inventory; define methodologies and controls; collect a first year of data; set targets and action plans; set up or strengthen grievance mechanisms                          | Policies; data inventory and methodologies; baseline data; targets and action plans  |
| Report   | Months 12 to 18 | Draft the report using the checklist in chapter 18; review internally; carry out a readiness review of data and controls; obtain assurance where required or chosen; approve by the board; publish                                        | Sustainability report or statement; assurance report where applicable                |
| Improve  | Year 2 onwards  | Analyse feedback from readers, assurance providers, ratings and stakeholders; close data gaps; extend coverage of the value chain; review materiality; implement action plans                                                             | Improved data and coverage; updated materiality assessment; progress against targets |

Three conditions determine whether the roadmap succeeds. First, the visible support of the chief executive and the board, without which functions treat sustainability as an extra task for the sustainability team. Second, adequate resources: staff time in the functions that own the data, a budget for external support and systems, and time for training. Third, the discipline to start with what is material and do it well, and to extend coverage year by year, rather than attempting to cover every topic and every datapoint in the first report.

## 18. The Reporting Checklist: Questions You Must Answer

This chapter is the practical core of the guide. It translates the requirements of the main reporting standards into concrete questions, and explains for each question what a complete answer must contain. It can be used to prepare a sustainability report, to answer questionnaires from customers, banks and investors, to review a draft report before publication, or to assess the reports of other organisations.

### How to Use the Checklist

The checklist is organised in twelve blocks. The first two apply to every organisation. The remaining ten correspond to the topics of the three pillars described in chapter 4 and to the topical standards of the ESRS, followed by a block on the EU Taxonomy.

| Block                            | Applies to                                                                                                        |
|----------------------------------|-------------------------------------------------------------------------------------------------------------------|
| General information and strategy | Every organisation                                                                                                |
| Governance of sustainability     | Every organisation                                                                                                |
| Climate change                   | Every organisation that uses energy, which in practice means every organisation; the depth depends on materiality |
| Pollution, water and resources   | Organisations for which these topics are material                                                                 |
| Biodiversity and land            | Organisations for which these topics are material                                                                 |
| Own workforce                    | Every organisation with employees                                                                                 |
| Occupational health and safety   | Every organisation with workers                                                                                   |
| Workers in the value chain       | Organisations for which the topic is material                                                                     |
| Affected communities             | Organisations for which the topic is material                                                                     |
| Consumers and end users          | Organisations for which the topic is material                                                                     |
| Business conduct                 | Every organisation                                                                                                |
| EU Taxonomy                      | Companies subject to the CSRD                                                                                     |

Each block contains a table with four columns:

- **Code:** a short reference that allows the organisation to track its answers and to refer to them internally.
- **Question:** what the reader of the report wants to know.
- **What your answer must contain:** the elements of a complete answer. An answer that omits one of them is incomplete.
- **Level and references:** **Core** questions apply to every organisation that reports on the topic, including small and medium-sized enterprises using the EU voluntary standard. **Full** questions apply additionally to organisations reporting under the ESRS or the ISSB standards, and to any organisation that wants to report at the level of good practice. The references indicate the standards in which the requirement appears: the ESRS topical standard, the corresponding GRI disclosures, the ISSB standards and, for core questions, the disclosure of the EU voluntary standard (VS). In the voluntary standard, disclosures marked B belong to the basic module and disclosures marked C to the comprehensive module.

Four rules apply to the whole checklist.

1. **The checklist does not replace the standards.** It identifies what must be answered and how, but the organisation must apply the exact requirements, definitions and calculation methods of the standard it reports under. Where a standard requires a specific metric, the metric must be calculated as the standard prescribes.
2. **Answer only for material topics, but explain the absence of the others.** Under the ESRS and the GRI Standards, an organisation reports on the topics that are material according to its materiality assessment. It should, however, explain briefly why topics that readers would expect, such as climate change, were assessed as not material.
3. **If the answer is “no”, say so.** An organisation that has no policy, target or process on a material topic must state this, and should explain whether and when it plans to adopt one. Silence is read as concealment.
4. **Keep the evidence.** Every answer must be supported by documents that can be produced on request. Each block ends with a list of the evidence an organisation should have on file. The assurance provider will ask for it, and so will a journalist or an NGO that questions a claim.

**Warning.** Reference codes of the revised ESRS, the GRI Standards and the voluntary standard change when the standards are revised. The references in this chapter identify the standard and, where stable, the disclosure. Before using a reference in a published report, verify it against the current version of the standard listed in Part 5.

### *The Topic Template: Four Questions for Every Material Topic*

Every reporting framework asks the same four questions about each material topic: what the organisation's policy is, what it does, what it aims for and how it measures progress. In the ESRS, these are the minimum disclosure requirements on policies, actions, targets and metrics. In the GRI Standards, they are covered by the disclosure on the management of material topics. They are listed here once and apply to every topical block that follows.

| Code | Question                                 | What your answer must contain                                                                                                                                                                                                                                                                                                                                                                          | Level and references                                                       |
|------|------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| TP-1 | What policy do you have on this topic?   | The key content of the policy; its scope, including value chain coverage and exclusions; the most senior person accountable for implementation; the international standards or initiatives it follows; how the interests of stakeholders were considered; how it is made available to those who need to apply it. If there is no policy, a statement to that effect and the timeline for adopting one. | Core. ESRS 2 (policies); GRI 2-23, 2-24, 3-3; VS B2                        |
| TP-2 | What actions have you taken and planned? | The key actions in the reporting period and those planned; their scope (operations, upstream, downstream); the timeline; the expected results and how they contribute to the targets; the actions taken to provide or enable remedy where actual harm occurred; significant capital and operating expenditure allocated.                                                                               | Core. ESRS 2 (actions); GRI 3-3; VS B2                                     |
| TP-3 | What targets have you set?               | Each target with its metric and unit, base year and baseline value, target value and target year, interim milestones, scope, the method used to set it (including whether it is science-based), whether stakeholders were involved, and progress in the reporting period. If there is no target, a statement to that effect and how the organisation tracks effectiveness without one.                 | Core for climate (VS C3), Full for other topics. ESRS 2 (targets); GRI 3-3 |

| Code | Question                        | What your answer must contain                                                                                                                                                                                                          | Level and references            |
|------|---------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|
| TP-4 | How do you measure performance? | The metrics used, with their definitions and calculation methods; the significant assumptions and sources of data; the share of data estimated; whether the metric is validated by an external body other than the assurance provider. | Full. ESRS 2 (metrics); GRI 3-3 |

## General Information and Strategy

The general information tells the reader what the report covers, how it was prepared and how sustainability relates to the organisation's business model and strategy. Without it, no other part of the report can be interpreted correctly.

| Code | Question                                    | What your answer must contain                                                                                                                                                                                                                                                                                                                                                                                                                                       | Level and references                                  |
|------|---------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| GI-1 | On what basis have you prepared the report? | The standard or framework applied and, where relevant, the version or option chosen (for financial year 2026, which of the three ESRS options); whether the report is consolidated or individual; the entities included and whether this matches the financial statements; the reporting period; the extent to which the value chain is covered; any information omitted and why, for example because it is classified or because a transitional provision applies. | Core. ESRS 1 and ESRS 2; GRI 2-2, 2-3; IFRS S1; VS B1 |
| GI-2 | Who are you and what do you do?             | Legal form, ownership, headquarters, countries of operation, number of employees, net turnover and total assets (or balance sheet total); the main products, services and markets; the main sectors in which the organisation operates.                                                                                                                                                                                                                             | Core. ESRS 2; GRI 2-1, 2-6, 2-7; VS B1                |
| GI-3 | What does your value chain look like?       | The main upstream actors and activities (raw materials, components, services, logistics) and downstream actors and activities (distribution, customers, use and end of life), with the countries and sectors where they are                                                                                                                                                                                                                                         | Core. ESRS 2; GRI 2-6                                 |

| Code | Question                                                                | What your answer must contain                                                                                                                                                                                                                                                                                                           | Level and references                                                            |
|------|-------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
|      |                                                                         | concentrated; the organisation's position in the value chain.                                                                                                                                                                                                                                                                           |                                                                                 |
| GI-4 | Have you changed the way you prepare or present information?            | Changes in the reporting boundary, in methods or in definitions; restatements of previous figures, with the reason and the effect; the correction of material errors in prior periods.                                                                                                                                                  | Core. ESRS 1 and ESRS 2; GRI 2-4                                                |
| GI-5 | Has the information been externally assured?                            | Whether the report or parts of it have been assured; by whom; to what level (limited or reasonable); against which assurance standard; where the assurance report can be found.                                                                                                                                                         | Core. ESRS 2; GRI 2-5                                                           |
| GI-6 | How is sustainability integrated into your strategy and business model? | The elements of the strategy that relate to sustainability matters; the sustainability-related goals for products, markets and customers; the role of sustainability in investment decisions; how the material impacts, risks and opportunities affect the strategy and business model, and what the organisation is doing in response. | Full (VS C1). ESRS 2; GRI 2-22; IFRS S1                                         |
| GI-7 | Do you operate in sectors that readers must know about?                 | Revenue from activities in sectors that investors and lenders commonly screen, such as fossil fuels, controversial weapons, tobacco and chemicals, with the amounts, or a statement that the organisation has no such activities.                                                                                                       | Full (VS C8). ESRS 2                                                            |
| GI-8 | Whom did you engage, and how did their views influence you?             | The main stakeholder groups; the purpose and methods of engagement with each; the key concerns they raised; how their views influenced the strategy, the materiality assessment and the decisions of the organisation; how affected stakeholders who could not be engaged directly were represented.                                    | Core for affected stakeholders, Full for the complete account. ESRS 2; GRI 2-29 |

| Code  | Question                                                 | What your answer must contain                                                                                                                                                                                                                                                                                                                                                      | Level and references                      |
|-------|----------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|
| GI-9  | How did you determine your material topics?              | The methodology, including the sources used to identify impacts, risks and opportunities; how severity, likelihood and financial magnitude were assessed; the thresholds applied; how stakeholders and experts were involved; how value chain impacts were covered; how the process is linked to risk management; when the assessment was last reviewed and approved, and by whom. | Core. ESRS 2 and ESRS 1; GRI 3-1; IFRS S1 |
| GI-10 | What are your material impacts, risks and opportunities? | The list of material topics, each with its material IROs; for each impact, whether it is actual or potential, positive or negative, where in the value chain it arises, and over which time horizon; for each risk and opportunity, its current and anticipated financial effects; changes compared with the previous period.                                                      | Core. ESRS 2; GRI 3-2; IFRS S1            |
| GI-11 | How resilient is your strategy to your material risks?   | The assessment of the resilience of the strategy and business model to the material risks, the time horizons and scenarios considered, the main assumptions and uncertainties, and the conclusions drawn.                                                                                                                                                                          | Full. ESRS 2; IFRS S1                     |
| GI-12 | Where can the reader find each required disclosure?      | An index of all disclosures required by the standard applied, with the page or section where each one is reported, or the reason it is omitted.                                                                                                                                                                                                                                    | Core. ESRS 2; GRI 1 (content index)       |

**Evidence to have on file:** the decision on the reporting standard and option; the list of entities consolidated and its reconciliation with the financial statements; the value chain map; the full documentation of the materiality assessment (long list, scores, thresholds, consultations, approvals); records of stakeholder engagement; calculations of restated figures.

**Warning.** The two most common weaknesses in this block are a materiality assessment described only in general terms, without the thresholds and evidence that support the result, and a description of strategy that does not explain how the material impacts, risks and opportunities actually affect business decisions. Both are easy for readers and assurance providers to detect.

## Governance of Sustainability

This block asks who is responsible for sustainability and how the governing bodies oversee it. Questions on business ethics, anti-corruption and whistleblowing are in the block on business conduct.

| Code | Question                                                      | What your answer must contain                                                                                                                                                                                                                                                                                                                                                                                        | Level and references                                                              |
|------|---------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| GV-1 | How are your governing bodies composed?                       | For the administrative, management and supervisory bodies: the number of executive and non-executive members; the share of independent members; the representation of employees and other workers; the gender composition and other aspects of diversity; the relevant experience of members in the organisation's sectors, products and geographies.                                                                | Core for gender diversity (VS C9), Full for the rest. ESRS 2; GRI 2-9, 2-10, 2-11 |
| GV-2 | Who oversees sustainability, and how?                         | The body or committee responsible for oversight of impacts, risks and opportunities, and its terms of reference; the management positions responsible, and how responsibility is delegated; the reporting lines to the governing bodies; the controls and procedures used to manage impacts, risks and opportunities.                                                                                                | Core. ESRS 2; GRI 2-12, 2-13; IFRS S1 and IFRS S2                                 |
| GV-3 | How often are your governing bodies informed, and about what? | How and how often the governing bodies are informed about material impacts, risks and opportunities, about the results of due diligence and about the effectiveness of policies, actions and targets; the material topics they addressed in the reporting period; how they take these into account when overseeing strategy, major transactions and risk management; how critical concerns are communicated to them. | Full. ESRS 2; GRI 2-12, 2-16; IFRS S1                                             |
| GV-4 | Do your governing bodies have the                             | The sustainability-related skills and expertise of members, or the expertise they can access,                                                                                                                                                                                                                                                                                                                        | Full. ESRS 2; GRI 2-17; IFRS S1 and IFRS S2                                       |

| Code | Question                                                                          | What your answer must contain                                                                                                                                                                                                                                                                                              | Level and references                                  |
|------|-----------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
|      | necessary expertise?                                                              | and how these relate to the material topics; training provided in the reporting period.                                                                                                                                                                                                                                    |                                                       |
| GV-5 | Who approves the sustainability report?                                           | The body that reviews and approves the reported information, including the material topics, and the process it follows.                                                                                                                                                                                                    | Core. ESRS 2; GRI 2-14                                |
| GV-6 | Is remuneration linked to sustainability?                                         | Whether the remuneration of members of the governing bodies and of executives is linked to sustainability performance; the metrics used; the share of variable remuneration that depends on them; how performance is assessed; the level at which the terms are approved. If there is no link, a statement to that effect. | Full. ESRS 2; GRI 2-19; IFRS S2 (remuneration metric) |
| GV-7 | Where do you report on due diligence?                                             | A mapping of the information in the report that shows how the organisation applies the core elements of due diligence: embedding it in governance, strategy and the business model; engaging with affected stakeholders; identifying and assessing adverse impacts; taking action; tracking effectiveness.                 | Full. ESRS 2                                          |
| GV-8 | How do you manage risks and control the quality of your sustainability reporting? | The scope and main features of the risk management and internal control system for sustainability reporting; the main risks identified, such as incomplete value chain data, and how they are mitigated; how the results are integrated into the internal control functions and reported to the governing bodies.          | Full. ESRS 2; IFRS S1                                 |
| GV-9 | Are sustainability risks part of your enterprise risk management?                 | The processes used to identify, assess, prioritise and monitor sustainability-related risks and opportunities; whether and how these processes are integrated into overall risk management.                                                                                                                                | Full. ESRS 2; IFRS S1 and IFRS S2                     |

**Evidence to have on file:** terms of reference of the board and its committees; minutes showing discussion of sustainability matters; the board skills matrix and training records; the remuneration policy and the assessment of sustainability metrics; the documentation of the internal control system for sustainability data.

**Warning.** A statement that “the board oversees sustainability” without evidence of how often it discusses which topics, and with what result, is the most frequently criticised governance disclosure. Readers look for concrete facts: the committee, the number of meetings in which sustainability was on the agenda, the topics discussed and the decisions taken.

## Climate Change

Climate change is the most detailed block in every reporting framework and the one with the most quantitative requirements. It applies, at least in its core form, to almost every organisation, because almost every organisation uses energy. Even an organisation that assesses climate change as not material under the ESRS must explain the reasons in detail, because readers expect the topic to be covered.

### *Strategy, Transition Plan and Risks*

| Code | Question                                                            | What your answer must contain                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Level and references                                       |
|------|---------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|
| CL-1 | Do you have a transition plan for climate change mitigation?        | If yes: the emission reduction targets and how they are compatible with limiting warming to 1.5°C; the decarbonisation levers and key actions (energy efficiency, electrification, renewable energy, changes in products and processes); the investments and funding; locked-in emissions from key assets and products; the role of carbon removals and carbon credits; how the plan is embedded in the strategy and financial planning; whether it is approved by the governing bodies; progress in implementing it. If no: a statement to that effect and whether and when the organisation will adopt one. | Core (VS C3), Full for the complete plan. ESRS E1; IFRS S2 |
| CL-2 | Which climate-related risks and opportunities are material for you? | The physical risks (acute and chronic) and transition risks (policy and legal, technology, market, reputation) and opportunities identified; the assets, operations and parts of                                                                                                                                                                                                                                                                                                                                                                                                                              | Core (VS C4), Full for the analysis. ESRS E1; IFRS S2; GRI |

| Code | Question                                                                                   | What your answer must contain                                                                                                                                                                                                                                                                                                                                 | Level and references                                       |
|------|--------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|
|      |                                                                                            | the value chain exposed; the time horizons over which they may materialise; the climate scenarios used to identify them.                                                                                                                                                                                                                                      | 201-2 (GRI 102 from 2027)                                  |
| CL-3 | How resilient is your strategy to climate change?                                          | The scope of the resilience analysis; the climate scenarios used (good practice is to use a scenario consistent with limiting warming to 1.5°C for transition risks and a high-emissions scenario for physical risks); the key assumptions; the time horizons; the results and their implications for strategy and investment.                                | Full. ESRS E1; IFRS S2 (climate-related scenario analysis) |
| CL-4 | What are the current and anticipated financial effects of climate risks and opportunities? | The amount and share of assets and revenue exposed to material physical and transition risks; the capital deployed towards climate opportunities; the effects on the financial position, financial performance and cash flows reported in the period and anticipated, quantified where possible and with an explanation where quantification is not possible. | Full. ESRS E1; IFRS S2 (cross-industry metrics)            |
| CL-5 | Do you use an internal carbon price?                                                       | Whether an internal carbon price is applied; the price per tonne of CO <sub>2</sub> e; how it is used in decisions (investment appraisal, scenario analysis, internal fees); the share of emissions to which it applies.                                                                                                                                      | Full. ESRS E1; IFRS S2                                     |

### Energy

| Code | Question                                                | What your answer must contain                                                                                                                                                                                                                                           | Level and references                                 |
|------|---------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|
| CL-6 | How much energy do you consume, and from which sources? | Total energy consumption in MWh; the split by source: fossil fuels (by type), nuclear, and renewable sources (purchased renewable electricity, self-generated renewable energy, renewable fuels); the share of renewable energy; energy produced and sold, if relevant. | Core (VS B3). ESRS E1; GRI 302-1 (GRI 103 from 2027) |

| Code | Question                                  | What your answer must contain                                                                                                                                                                    | Level and references                         |
|------|-------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|
| CL-7 | How energy-intensive are your activities? | Energy consumption per unit of net revenue, and, where meaningful for the sector, per unit of physical output; for companies in high climate impact sectors, the intensity for those activities. | Full. ESRS E1; GRI 302-3 (GRI 103 from 2027) |

### *Greenhouse Gas Emissions*

| Code  | Question                         | What your answer must contain                                                                                                                                                                                                                                                                                                                                                                                          | Level and references                                                                                                                  |
|-------|----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| CL-8  | What are your Scope 1 emissions? | Gross Scope 1 emissions in tCO <sub>2</sub> e; the share covered by regulated emission trading schemes, such as the EU ETS; the gases included; the consolidation approach (operational control, financial control or equity share); the emission factors and global warming potential values used and their sources.                                                                                                  | Core (VS B3). ESRS E1; GRI 305-1 (GRI 102 from 2027); IFRS S2                                                                         |
| CL-9  | What are your Scope 2 emissions? | Gross Scope 2 emissions in tCO <sub>2</sub> e calculated using both the location-based and the market-based method; the contractual instruments used for the market-based figure (energy attribute certificates, power purchase agreements, supplier-specific factors) and the share of consumption they cover.                                                                                                        | Core (VS B3). ESRS E1; GRI 305-2 (GRI 102 from 2027); IFRS S2                                                                         |
| CL-10 | What are your Scope 3 emissions? | Gross Scope 3 emissions in tCO <sub>2</sub> e for each significant category of the 15 categories of the GHG Protocol; the method used to screen all categories and to identify the significant ones; the reasons for excluding any category; the calculation methods (supplier-specific, average data, spend-based); the share of emissions calculated with primary data from suppliers or other value chain partners. | Full; optional under the voluntary standard, but increasingly requested by customers. ESRS E1; GRI 305-3 (GRI 102 from 2027); IFRS S2 |

| Code  | Question                                                  | What your answer must contain                                                                                                                                                                                                                                                                                                                            | Level and references                                           |
|-------|-----------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|
| CL-11 | What are your total emissions, and how have they changed? | Total GHG emissions (Scope 1, 2 and 3), with Scope 2 on both bases; the base year and base year emissions; the change against the base year and the previous year, with the main reasons for the change; any recalculation of the base year and the reason for it.                                                                                       | Core. ESRS E1; GRI 305-1 to 305-3 (GRI 102 from 2027); IFRS S2 |
| CL-12 | How emission-intensive are your activities?               | Total GHG emissions per unit of net revenue, and, where meaningful, per unit of physical output, with the denominators stated.                                                                                                                                                                                                                           | Core (VS B3). ESRS E1; GRI 305-4 (GRI 102 from 2027)           |
| CL-13 | Do you remove carbon or use carbon credits?               | GHG removals in the organisation's own operations and value chain, in tCO <sub>2</sub> e, with the methods; carbon credits purchased or cancelled, in tCO <sub>2</sub> e, the share from removal and from reduction projects, the quality standards applied (such as the ICVCM Core Carbon Principles); any claims of neutrality and the basis for them. | Full. ESRS E1; IFRS S2                                         |

### Targets

| Code  | Question                                  | What your answer must contain                                                                                                                                                                                                                                                                                                                                                                                                                                            | Level and references                                          |
|-------|-------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|
| CL-14 | What are your emission reduction targets? | Absolute targets for Scope 1, 2 and, where significant, Scope 3, expressed in tCO <sub>2</sub> e or as a percentage of base year emissions; the base year and baseline; target years, including interim targets; whether the targets are validated by the SBTi or otherwise demonstrated to be compatible with 1.5°C; the decarbonisation levers expected to deliver them; progress in the reporting period. Intensity targets, if any, in addition to absolute targets. | Core (VS C3). ESRS E1; GRI 305-5 (GRI 102 from 2027); IFRS S2 |

| Code  | Question                                           | What your answer must contain                                                                                                           | Level and references   |
|-------|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| CL-15 | Do you have targets for energy and for adaptation? | Targets for energy efficiency, renewable energy and the reduction of physical climate risk, where set, with the same elements as CL-14. | Full. ESRS E1; IFRS S2 |

**Evidence to have on file:** energy invoices and meter readings; fuel purchase records; refrigerant logs; renewable electricity contracts and cancelled certificates; the GHG inventory with emission factors and their sources; the Scope 3 screening and calculations; base year documentation and recalculation policy; climate risk assessment and scenario analysis; transition plan and its board approval; carbon credit purchase and retirement records.

**Warning.** Five errors appear repeatedly in climate disclosures. First, reporting only the market-based Scope 2 figure, which can show near-zero emissions on the basis of certificates while hiding the real grid intensity. Second, omitting Scope 3, which for most companies in retail, consumer goods, technology, financial services and professional services represents the large majority of their footprint. Third, subtracting carbon credits from reported emissions. Credits must be reported separately and never counted towards emission reduction targets. Fourth, setting only intensity targets that can be met while absolute emissions grow. Fifth, announcing a net-zero target without a transition plan, interim targets and identified investments, which since 27 September 2026 can also constitute a prohibited environmental claim in communications to consumers in the EU.

## Pollution, Water and Resources

This block covers three environmental topics that are material mainly for organisations with industrial, agricultural, extractive or product-related activities: pollution, water, and resource use and circular economy. In the revised ESRS, they correspond to ESRS E2 Pollution, ESRS E3 Water and ESRS E5 Resource Use and Circular Economy, which now also covers marine resources. Organisations in services, such as finance, software and consulting, will often find these topics not material in their own operations, but must still consider them in their value chain, for example in the products they finance or buy.

## Pollution

| Code | Question                                                 | What your answer must contain                                                                                                                                                                                                                                                                       | Level and references                               |
|------|----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|
| PW-1 | Which pollutants do you release to air, water and soil?  | The quantities in kilograms or tonnes of each pollutant that the organisation is required to report to authorities, or that is material, by medium (air, water, soil); the methods of measurement or estimation; the sites concerned.                                                               | Core (VS B4). ESRS E2; GRI 305-7 for air emissions |
| PW-2 | Do you produce or use substances of concern?             | The total amount of substances of concern and of substances of very high concern (as identified under the EU REACH Regulation) that are produced, used, procured or leave the organisation's facilities as emissions, products or part of products, by main hazard class; plans to substitute them. | Full. ESRS E2                                      |
| PW-3 | Do you release microplastics?                            | The quantities of microplastics generated or used, where material, and the measures to prevent their release.                                                                                                                                                                                       | Full. ESRS E2                                      |
| PW-4 | Have you had pollution incidents or breaches of permits? | The number and description of significant environmental incidents (spills, leaks, accidental releases) and of breaches of permit conditions; their consequences; the fines and sanctions; the remedial actions taken.                                                                               | Core. ESRS E2; GRI 2-27                            |
| PW-5 | What financial effects do pollution-related risks have?  | Anticipated financial effects of material pollution-related risks, such as the costs of remediation, liabilities, the cost of compliance with new limits, and the opportunities from substitution and cleaner production.                                                                           | Full. ESRS E2                                      |

## Water

| Code | Question                        | What your answer must contain                                                                                                     | Level and references       |
|------|---------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| PW-6 | How much water do you withdraw, | Total water withdrawal, water consumption and water discharge in cubic metres, by source (surface water, groundwater, third-party | Core (VS B6). ESRS E3; GRI |

| Code | Question                                        | What your answer must contain                                                                                                                                                                                                     | Level and references                    |
|------|-------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|
|      | consume and discharge?                          | supply such as municipal networks, seawater) where material; water recycled and reused; the measurement methods.                                                                                                                  | 303-3, 303-4, 303-5                     |
| PW-7 | Do you operate in areas of water stress?        | The sites located in areas of high or extremely high water stress, identified with a recognised tool such as the WRI Aqueduct Water Risk Atlas; the withdrawal and consumption at these sites; the measures taken at these sites. | Core (VS B6). ESRS E3; GRI 303-3, 303-5 |
| PW-8 | How intensive is your water use?                | Water consumption per unit of net revenue, and, where meaningful, per unit of physical output.                                                                                                                                    | Full. ESRS E3                           |
| PW-9 | What is the quality of the water you discharge? | Treatment of wastewater before discharge; the main substances of concern in discharges and compliance with permitted limits; incidents of non-compliance.                                                                         | Full. ESRS E3 and E2; GRI 303-2, 303-4  |

#### *Resource Use and Circular Economy*

| Code  | Question                                                                   | What your answer must contain                                                                                                                                                                                                              | Level and references                           |
|-------|----------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|
| PW-10 | Which materials do you use, and how much of them is recycled or renewable? | The total weight of the main materials used in products and packaging; the share of secondary (recycled or reused) materials; the share of sustainably sourced biological materials; the main critical raw materials used, where material. | Full. ESRS E5; GRI 301-1, 301-2                |
| PW-11 | How circular are your products?                                            | The expected durability of the main products compared with the sector average; their reparability; the share of recyclable content in products and packaging; take-back, reuse and refurbishment schemes and their results.                | Full. ESRS E5; GRI 301-3                       |
| PW-12 | How much waste do you generate, and how is it treated?                     | Total waste generated in tonnes; the split into hazardous and non-hazardous waste; the amounts diverted from disposal (prepared for reuse, recycled, other recovery) and directed                                                          | Core (VS B7). ESRS E5; GRI 306-3, 306-4, 306-5 |

| Code  | Question                     | What your answer must contain                                                                                                                                                | Level and references |
|-------|------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
|       |                              | to disposal (incineration, landfill, other), by type of treatment; radioactive waste, where relevant; the methods of measurement.                                            |                      |
| PW-13 | Do you use marine resources? | Where material: the marine resources used (such as fish, seafood, seaweed, marine minerals), their quantities and sources, and the measures to ensure their sustainable use. | Full. ESRS E5        |

**Evidence to have on file:** environmental permits and monitoring reports; reports submitted to authorities; incident records; the inventory of substances of concern; water meter data and invoices; the water stress analysis by site; materials and packaging data from procurement and production; waste transfer notes and reports from waste contractors.

**Warning.** Waste figures are among the least reliable data in many reports, because they are often based on estimates by waste contractors or on the number of collections rather than on weight. Organisations should require weighed data from their contractors. Water data must be reported by site in water-stressed areas, because a group total hides the local impacts that matter most. A small volume of water drawn in an area of extreme water stress can be a more significant impact than a large volume drawn where water is abundant.

## Biodiversity and Land

Biodiversity is the newest environmental topic in mandatory reporting, and the area in which methods are least mature. Requirements are developing rapidly: the GRI biodiversity standard was revised in 2024, the TNFD recommendations are being integrated into the ISSB standards, and the EU Deforestation Regulation creates binding obligations for specific commodities. An organisation should report what it can measure now and explain how it is building the capacity to report more.

| Code | Question                                                | What your answer must contain                                                                                                                                                                                                                                          | Level and references           |
|------|---------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| BD-1 | Do you operate in or near biodiversity-sensitive areas? | The number and area (in hectares) of sites owned, leased or managed in or near biodiversity-sensitive areas, such as Natura 2000 sites, UNESCO World Heritage sites, Key Biodiversity Areas and other protected areas; the tools used to identify them; the activities | Core (VS B5). ESRS E4; GRI 101 |

| Code | Question                                                                              | What your answer must contain                                                                                                                                                                                                                                                                                                                                                                      | Level and references                                        |
|------|---------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|
|      |                                                                                       | carried out at these sites and their impacts on the areas.                                                                                                                                                                                                                                                                                                                                         |                                                             |
| BD-2 | How do you use land?                                                                  | Total land use in hectares; total sealed area; nature-oriented areas on site and off site; changes in land use and land cover during the reporting period, including any conversion of natural ecosystems.                                                                                                                                                                                         | Core (VS B5). ESRS E4; GRI 101                              |
| BD-3 | What are your impacts and dependencies on nature?                                     | The material impacts on biodiversity and ecosystems, by direct driver of biodiversity loss (land-use change, direct exploitation, climate change, pollution, invasive species), in own operations and in the value chain; the ecosystem services on which the organisation depends; the method used, such as the LEAP approach of the TNFD.                                                        | Full. ESRS E4; GRI 101; TNFD                                |
| BD-4 | Is your supply chain linked to deforestation or the conversion of natural ecosystems? | The commodities in the supply chain associated with deforestation and conversion (cattle, cocoa, coffee, oil palm, rubber, soya, wood and derived products); the countries of origin; the share of volumes traceable to the plot of production and verified as deforestation-free and conversion-free; the cut-off date applied; compliance with the EU Deforestation Regulation where applicable. | Core where the commodities are used. ESRS E4; GRI 101; EUDR |
| BD-5 | Have you made commitments on biodiversity, and what have you done?                    | Commitments such as no net loss or net positive impact, no deforestation or no conversion, and their scope and timeline; the actions taken, ordered according to the mitigation hierarchy (avoid, minimise, restore, offset); the role of biodiversity offsets, if any, and the standards applied to them; progress against targets.                                                               | Full. ESRS E4; GRI 101                                      |

| Code | Question                                             | What your answer must contain                                                                                                                                      | Level and references |
|------|------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| BD-6 | What financial effects do nature-related risks have? | The material physical, transition and systemic nature-related risks and opportunities, the assets and activities exposed, and their anticipated financial effects. | Full. ESRS E4; TNFD  |

**Evidence to have on file:** the list of sites with their coordinates and the results of the screening against protected and key biodiversity areas; environmental impact assessments and biodiversity management plans for sensitive sites; land use data; supply chain traceability data and due diligence statements under the EU Deforestation Regulation; certificates used to support deforestation-free claims.

**Warning.** Certification of a commodity under a sustainability scheme does not by itself prove that it is deforestation-free under the EU Deforestation Regulation, which requires geolocation of the plots of land where the commodity was produced and a due diligence statement for each product placed on the EU market. Organisations that rely on certification alone should check whether the scheme provides the information the regulation requires. Biodiversity offsets also deserve caution: they are acceptable only as a last step of the mitigation hierarchy, after avoidance, minimisation and restoration, and only when their results are measurable, additional and lasting.

## Own Workforce

This block covers the people who work for the organisation: employees and non-employee workers, such as self-employed persons and workers provided by temporary work agencies. It corresponds to ESRS S1 Own Workforce. Health and safety, which is also part of ESRS S1, has its own block below because of its importance and the volume of data it requires.

### *Workforce Characteristics and Working Conditions*

| Code | Question                                         | What your answer must contain                                                                                                                                                                                                                                                                                          | Level and references           |
|------|--------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| OW-1 | How many people work for you, and on what terms? | The number of employees in headcount or full-time equivalents, stating which; the split by gender, by country where the organisation has a significant number of employees, by type of contract (permanent and temporary) and by working time (full-time and part-time); the methods and assumptions used, and whether | Core (VS B8). ESRS S1; GRI 2-7 |

| Code | Question                                                                 | What your answer must contain                                                                                                                                                                                                                                                                                                                                                                                 | Level and references                            |
|------|--------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|
|      |                                                                          | figures are at the end of the period or an average.                                                                                                                                                                                                                                                                                                                                                           |                                                 |
| OW-2 | How many people work for you who are not your employees?                 | The number of non-employee workers, such as self-employed persons and agency workers, and the most common types of work they perform; significant fluctuations during the period.                                                                                                                                                                                                                             | Core (VS C5), Full for detail. ESRS S1; GRI 2-8 |
| OW-3 | How many employees leave?                                                | The number of employees who left during the period and the rate of employee turnover, with the method of calculation; where meaningful, the split by gender, age group and country.                                                                                                                                                                                                                           | Core (VS B8). ESRS S1; GRI 401-1                |
| OW-4 | Do your employees earn an adequate wage?                                 | Whether all employees are paid an adequate wage in line with applicable benchmarks, such as a statutory minimum wage set in accordance with the EU Adequate Minimum Wage Directive, a collectively agreed wage or a recognised living wage benchmark; if not, the countries and the share of employees concerned.                                                                                             | Core (VS B10). ESRS S1                          |
| OW-5 | Are your employees covered by collective agreements and social dialogue? | The share of employees covered by collective bargaining agreements, in total and by significant country; for employees not covered, whether their working conditions are determined on the basis of collective agreements covering other employees; the share of employees in countries with significant employment represented by workers' representatives; any European Works Council or similar agreement. | Core (VS B10). ESRS S1; GRI 2-30                |
| OW-6 | Do you respect freedom of association?                                   | The policy on freedom of association and collective bargaining; operations or countries where this right is at risk, and the measures taken to protect it; any incidents of interference with the right to organise.                                                                                                                                                                                          | Full. ESRS S1; GRI 407-1                        |

| Code | Question                                             | What your answer must contain                                                                                                                                                                                                                                                                               | Level and references     |
|------|------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|
| OW-7 | Are your employees protected against loss of income? | Whether all employees are covered by social protection, through public programmes or benefits offered by the organisation, against loss of income due to sickness, unemployment, employment injury and disability, parental leave and retirement; if not, the countries and types of employees not covered. | Full. ESRS S1; GRI 401-2 |
| OW-8 | Can your employees balance work and family life?     | The share of employees entitled to family-related leave and the share who took it, by gender; return-to-work rates.                                                                                                                                                                                         | Full. ESRS S1; GRI 401-3 |

### *Equal Treatment and Opportunities*

| Code  | Question                                                        | What your answer must contain                                                                                                                                                                                                                                                                                                              | Level and references                                                         |
|-------|-----------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|
| OW-9  | How diverse is your workforce and management?                   | The gender distribution in top management, in number and percentage, with the definition of top management used; the distribution of employees by age group (under 30, 30 to 50, over 50); other dimensions of diversity where data is collected lawfully and voluntarily.                                                                 | Core for gender in management (VS C5), Full for the rest. ESRS S1; GRI 405-1 |
| OW-10 | What is your gender pay gap?                                    | The difference between the average gross hourly pay of men and women, expressed as a percentage of the average pay of men; the method, including whether it is the mean or median and which pay elements are included; where significant, the gap by country or category of workers; the reasons for the gap and the measures to close it. | Core (VS B10). ESRS S1; GRI 405-2; EU Pay Transparency Directive             |
| OW-11 | How large is the difference between the highest and median pay? | The ratio of the annual total remuneration of the highest-paid individual to the median annual total remuneration of all employees, excluding the highest-paid individual; contextual information needed to understand it.                                                                                                                 | Full. ESRS S1; GRI 2-21                                                      |

| Code  | Question                                                         | What your answer must contain                                                                                                                                                                                                                                                                                                                                                                                                       | Level and references                                        |
|-------|------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|
| OW-12 | Do you employ persons with disabilities?                         | The share of persons with disabilities among employees, where data is collected lawfully; the measures to ensure accessibility and reasonable accommodation.                                                                                                                                                                                                                                                                        | Full. ESRS S1; GRI 405-1                                    |
| OW-13 | How do you invest in skills?                                     | The average number of training hours per employee, by gender; the share of employees who participated in regular performance and career development reviews, by gender.                                                                                                                                                                                                                                                             | Core for training hours (VS B10). ESRS S1; GRI 404-1, 404-3 |
| OW-14 | How do you prevent and respond to discrimination and harassment? | The policy and procedures for preventing discrimination, harassment and violence, including sexual harassment; the channels through which employees can report; the number of reported incidents of discrimination and harassment; the number of complaints filed through internal channels and with national authorities; the outcomes and corrective measures; the total amount of fines, penalties and compensation for damages. | Full. ESRS S1; GRI 406-1                                    |

#### *Human Rights Incidents and Remedy*

| Code  | Question                                                             | What your answer must contain                                                                                                                                                                                                                                                                                                                                    | Level and references                    |
|-------|----------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|
| OW-15 | Have there been severe human rights incidents in your own workforce? | The number of severe human rights incidents, such as forced labour, human trafficking or child labour, and cases of non-respect of the UN Guiding Principles, the ILO Declaration or the OECD Guidelines involving the own workforce; the amount of fines, penalties and compensation; the remediation provided. If there were none, a statement to that effect. | Core (VS C7). ESRS S1; GRI 408-1, 409-1 |
| OW-16 | How can your workers raise concerns, and what                        | The channels available to employees and non-employee workers; how their accessibility and effectiveness are ensured; protection against retaliation; how concerns are tracked and                                                                                                                                                                                | Full. ESRS S1; GRI 2-25, 2-26           |

| Code | Question              | What your answer must contain                                | Level and references |
|------|-----------------------|--------------------------------------------------------------|----------------------|
|      | happens when they do? | resolved; the number of concerns raised and the main themes. |                      |

**Evidence to have on file:** HR information system extracts and the methods used to compile them; payroll data and the gender pay gap calculation; wage benchmarks by country; collective agreements and records of social dialogue; training records; records of complaints and investigations of discrimination and harassment; records of grievances raised by workers.

**Warning.** The gender pay gap must be calculated exactly as the applicable standard and law define it. The EU Pay Transparency Directive requires employers to report several indicators, including the mean and median gap and the gap in complementary and variable components, and to carry out a joint pay assessment with workers' representatives where a gap of 5% or more in any category of workers cannot be justified by objective, gender-neutral criteria and has not been remedied within six months. Organisations should align their sustainability reporting with the reporting they will submit under national law transposing the directive, so that the same figures do not appear in two different versions.

## Occupational Health and Safety

This block covers the health and safety of the organisation's own workforce. It is the point at which ESG reporting depends most directly on EHS management, because almost every figure comes from the incident records and hazard assessments of the EHS function. It corresponds to the health and safety requirements of ESRs S1 and to GRI 403.

| Code | Question                                                         | What your answer must contain                                                                                                                                                                                                                                            | Level and references            |
|------|------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|
| HS-1 | Do you have an occupational health and safety management system? | Whether the organisation has a management system based on legal requirements or recognised standards, such as ISO 45001; the share of employees and non-employee workers covered by it, by internal audit and by external certification; the reasons for any exclusions. | Core. ESRs S1; GRI 403-1, 403-8 |
| HS-2 | How do you identify hazards and assess risks?                    | The processes for identifying work-related hazards and assessing risks, applying the hierarchy of controls; how workers can report hazards and remove themselves from                                                                                                    | Full. GRI 403-2                 |

| Code | Question                                            | What your answer must contain                                                                                                                                                                                                                                                                     | Level and references                     |
|------|-----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|
|      |                                                     | situations they believe could cause injury or ill health without fear of reprisal; how incidents are investigated.                                                                                                                                                                                |                                          |
| HS-3 | How do workers participate in health and safety?    | The processes for consultation and participation of workers, including joint health and safety committees, their responsibilities and the share of workers represented by them; the training provided on health and safety.                                                                       | Full. GRI 403-4, 403-5; ISO 45001        |
| HS-4 | How many workers died as a result of work?          | The number of fatalities as a result of work-related injuries and work-related ill health among employees; the number of fatalities among other workers working on the organisation's sites, such as contractors and agency workers; the circumstances and the actions taken after each fatality. | Core (VS B9). ESRS S1; GRI 403-9, 403-10 |
| HS-5 | How many work-related accidents occurred?           | The number and the rate of recordable work-related accidents, with the number of hours worked used as the basis for the rate and the multiplier used (1,000,000 or 200,000 hours); the main types of injury; separate figures for employees and for non-employee workers where available.         | Core (VS B9). ESRS S1; GRI 403-9         |
| HS-6 | How serious were the injuries?                      | The number of high-consequence work-related injuries (from which the worker cannot recover, or does not recover fully within six months), excluding fatalities, and their rate; the number of days lost to work-related injuries, fatalities and ill health.                                      | Full. ESRS S1; GRI 403-9                 |
| HS-7 | How many cases of work-related ill health occurred? | The number of recordable cases of work-related ill health, the main types, and the main hazards that cause them, including psychosocial hazards.                                                                                                                                                  | Full. ESRS S1; GRI 403-10                |

| Code | Question                                         | What your answer must contain                                                                                                                                                                             | Level and references                          |
|------|--------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|
| HS-8 | What do you do to prevent harm before it occurs? | Leading indicators, such as near misses reported, inspections carried out, hazards corrected, and workers trained; the main prevention programmes; the occupational health services available to workers. | Full (good practice). GRI 403-3, 403-6, 403-7 |

**Evidence to have on file:** the health and safety policy; risk assessments; incident and near-miss records, including investigation reports; records of hours worked by employees and contractors; certificates and audit reports of the management system; minutes of health and safety committees; training records; records of occupational health surveillance.

**Warning.** Three practices undermine the credibility of safety data. First, reporting only employee figures while contractors, who often carry out the most dangerous work, are excluded. Second, low injury rates combined with very few reported near misses, which usually signals under-reporting rather than safe work. Third, incentive schemes that reward managers or workers for low injury numbers, which discourage reporting. A reader should be able to see both the outcomes and the preventive activity behind them.

## Workers in the Value Chain

This block covers the working conditions and rights of people who work for the organisation's suppliers, contractors and other business partners, upstream and downstream. It corresponds to ESRS S2 Workers in the Value Chain. For companies that buy from high-risk sectors and countries, it is often the most material social topic, and the one in which the most severe impacts occur.

| Code | Question                                                      | What your answer must contain                                                                                                                                                                                                                                                                                                                                                                                                    | Level and references         |
|------|---------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|
| VC-1 | Which workers in your value chain could be affected, and how? | The types of value chain workers who could be materially affected (for example, workers in raw material extraction, at tier one suppliers, in logistics, in outsourced services, or at downstream sites); the geographies, sectors and commodities where risks of forced labour, child labour, unsafe work and wage violations are significant; the groups at particular risk, such as migrant workers, women and young workers. | Core where material. ESRS S2 |

| Code | Question                                                   | What your answer must contain                                                                                                                                                                                                                                                                                                                                                                | Level and references                                           |
|------|------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|
| VC-2 | What policies apply to workers in your value chain?        | The human rights policy and supplier code of conduct; their explicit coverage of forced labour, human trafficking and child labour; their alignment with the UN Guiding Principles, the ILO Declaration and the OECD Guidelines; how they are communicated to suppliers and included in contracts.                                                                                           | Core (VS C6). ESRS S2; GRI 2-23                                |
| VC-3 | How do you identify and assess risks in your supply chain? | The due diligence process: the risk scoping and its criteria; the share of suppliers (by number and by spend) covered by risk assessment; the methods used for high-risk suppliers, such as on-site assessments, worker interviews and engagement with trade unions; the share of tier one suppliers whose identity is known and, where relevant, the depth of traceability beyond tier one. | Full. ESRS S2; GRI 414-1, 414-2                                |
| VC-4 | How do you engage with value chain workers?                | How the perspectives of value chain workers or their legitimate representatives, such as trade unions, inform decisions; the stage, type and frequency of engagement; any global framework agreements with trade union federations.                                                                                                                                                          | Full. ESRS S2                                                  |
| VC-5 | Can value chain workers raise concerns?                    | The channels available to value chain workers, whether operated by the organisation, by suppliers or by third parties; how the organisation ensures they are known, accessible in local languages and trusted; how cases are handled and tracked; the number and types of cases received and resolved.                                                                                       | Full. ESRS S2; GRI 2-25                                        |
| VC-6 | What have you found, and what have you done about it?      | The main issues identified through due diligence and grievances; the number of severe human rights cases, such as forced labour or child labour, connected to the value chain; the corrective actions agreed and their status; the remedy provided to affected workers; the                                                                                                                  | Core for severe incidents (VS C7), Full for the rest. ESRS S2; |

| Code | Question                           | What your answer must contain                                                                                                                                                                                        | Level and references    |
|------|------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
|      |                                    | changes made to the organisation's own purchasing practices; any decision to suspend or end a business relationship and how its consequences for workers were considered.                                            | GRI 408-1, 409-1, 414-2 |
| VC-7 | How do you know your actions work? | The indicators used to track effectiveness, such as the share of corrective actions completed, the recurrence of findings, or wages and working hours measured at supplier sites; targets, if any; results achieved. | Full. ESRS S2           |

**Evidence to have on file:** supplier list and risk segmentation; supplier code of conduct acknowledgements and contracts; assessment and audit reports with corrective action plans; records of engagement with trade unions and NGOs; grievance records and remediation documentation; analysis of purchasing practices.

**Warning.** Publishing an audit compliance rate, for example “95% of audited suppliers compliant”, says little on its own. Readers need to know how suppliers were selected for audit, what share of the supply chain the audits covered, what the most frequent findings were and how many critical findings were remedied. Organisations that import into the EU should also keep in mind that from 14 December 2027 the EU Forced Labour Regulation will allow authorities to prohibit products made with forced labour from the EU market, which makes the quality of this information a matter of market access.

## Affected Communities

This block covers the people who live or work near the organisation's operations and those of its value chain, or who depend on the same land and resources. It corresponds to ESRS S3 Affected Communities. It is most material in extractive industries, energy, agriculture, infrastructure and real estate, but can also arise in manufacturing and logistics.

| Code | Question                                                    | What your answer must contain                                                                                                                                                                                                      | Level and references                    |
|------|-------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|
| AC-1 | Which communities are affected by your activities, and how? | The communities materially affected by the organisation's own operations and its value chain; the nature of the impacts, such as on land and housing, access to water and food, health and safety, security, livelihoods, cultural | Core where material. ESRS S3; GRI 413-2 |

| Code | Question                                             | What your answer must contain                                                                                                                                                                                                                                                                           | Level and references                                                                                                |
|------|------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
|      |                                                      | heritage, and freedom of expression and assembly; the groups at particular risk, including indigenous peoples, women and human rights defenders.                                                                                                                                                        |                                                                                                                     |
| AC-2 | How do you engage with affected communities?         | The processes for engaging with communities or their legitimate representatives at all stages of a project, including before decisions are taken; the share of operations with community engagement, impact assessments and development programmes; how the outcomes of engagement influence decisions. | Full. ESRS S3; GRI 413-1                                                                                            |
| AC-3 | How do you respect the rights of indigenous peoples? | Whether the organisation operates on or near the territories of indigenous peoples; the policy on free, prior and informed consent; the processes followed and their outcomes; any incidents involving the rights of indigenous peoples.                                                                | Full where relevant. ESRS S3; GRI 411-1; ILO Convention No. 169; UN Declaration on the Rights of Indigenous Peoples |
| AC-4 | Have you acquired land or resettled people?          | The land acquired and the number of households physically or economically displaced; the standards applied, such as IFC Performance Standard 5; the compensation and livelihood restoration provided; the status of any outstanding claims.                                                             | Full where relevant. ESRS S3; IFC PS5                                                                               |
| AC-5 | How do you manage security around your operations?   | The security arrangements, including private and public security providers; the standards applied, such as the Voluntary Principles on Security and Human Rights; training of security personnel in human rights; any security-related incidents.                                                       | Full where relevant. ESRS S3; GRI 410-1                                                                             |
| AC-6 | Can communities raise concerns, and                  | The grievance mechanisms available to communities; how they meet the effectiveness                                                                                                                                                                                                                      | Full. ESRS S3; GRI 2-25, 413-2                                                                                      |

| Code | Question                   | What your answer must contain                                                                                                                                                                     | Level and references |
|------|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
|      | what happens when they do? | criteria of the UN Guiding Principles; the number of complaints received, their main themes and how they were resolved; the remedy provided; severe human rights incidents involving communities. |                      |

**Evidence to have on file:** environmental and social impact assessments; stakeholder engagement plans and records; agreements with communities and indigenous peoples; resettlement and livelihood restoration plans and monitoring reports; security agreements and training records; grievance registers.

**Warning.** Community investment and philanthropy, such as funding schools or health centres, are not a substitute for managing the negative impacts of operations. Reports that describe donations at length while saying little about land acquisition, pollution, water use or complaints from neighbouring communities are a recognised form of social washing.

## Consumers and End Users

This block covers the impacts of the organisation's products and services on the people who use them. It corresponds to ESRS S4 Consumers and End-users and is most material for companies in consumer goods, food, pharmaceuticals, financial services, telecommunications, technology and digital platforms.

| Code | Question                                                        | What your answer must contain                                                                                                                                                                                                                                                            | Level and references            |
|------|-----------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|
| CU-1 | Are your products and services safe?                            | The processes for assessing the health and safety impacts of products and services; incidents of non-compliance with safety regulations and voluntary codes; product recalls, with the number and the reasons.                                                                           | Full. ESRS S4; GRI 416-1, 416-2 |
| CU-2 | How do you protect the privacy and personal data of your users? | The data protection and information security policies; the governance of data protection, including the role of the data protection officer; the number of substantiated complaints about breaches of privacy and losses of personal data; data breaches notified to authorities; fines. | Full. ESRS S4; GRI 418-1; GDPR  |

| Code | Question                                    | What your answer must contain                                                                                                                                                                                                                         | Level and references                                     |
|------|---------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|
| CU-3 | Do your users receive accurate information? | The policies on labelling, product information and marketing; incidents of non-compliance concerning product information, labelling and marketing communications, including misleading environmental and social claims; the measures to prevent them. | Full. ESRS S4; GRI 417-2, 417-3; Directive (EU) 2024/825 |
| CU-4 | How do you protect vulnerable users?        | The measures to protect children and other vulnerable users from harmful products, content or marketing; responsible lending or selling practices where relevant; accessibility of products and services for persons with disabilities.               | Full where relevant. ESRS S4                             |
| CU-5 | Can your users raise concerns?              | The channels for complaints; how they are handled; the number and types of complaints and their outcomes; remedies provided to affected users.                                                                                                        | Full. ESRS S4; GRI 2-25                                  |

**Evidence to have on file:** product safety assessments and test reports; records of recalls and incidents; the data protection register, breach logs and notifications to authorities; reviews of marketing and environmental claims with supporting evidence; complaint records.

**Warning.** From 27 September 2026, generic environmental claims, sustainability labels not based on certification schemes or established by public authorities, and claims of climate neutrality based on offsetting are prohibited in communications to consumers in the EU. Organisations should review every environmental claim on products, packaging, websites and advertising, and make sure that each one can be supported by evidence.

## Business Conduct

This block covers corporate culture, the prevention of corruption and bribery, the protection of whistleblowers, political engagement and payment practices. It corresponds to ESRS G1 Business Conduct and applies, at least in its core form, to every organisation.

| Code | Question                                              | What your answer must contain                                                                                                                                                                                                                                                                                                                                                               | Level and references                       |
|------|-------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|
| BC-1 | How do you promote an ethical corporate culture?      | The code of conduct and how it is communicated; how the organisation establishes, develops and evaluates its corporate culture; the role of the governing bodies; training on business conduct.                                                                                                                                                                                             | Full. ESRS G1; GRI 2-23, 2-24              |
| BC-2 | How do you prevent and detect corruption and bribery? | The anti-corruption policy and its alignment with the UN Convention against Corruption; the procedures for preventing, detecting and investigating corruption, including due diligence on intermediaries and third parties; the functions most at risk; the share of those functions covered by training; whether the investigating function is independent of management.                  | Core. ESRS G1; GRI 205-1, 205-2; ISO 37001 |
| BC-3 | Have there been cases of corruption or bribery?       | The number of convictions and the amount of fines for violation of anti-corruption and anti-bribery laws; the number of confirmed incidents of corruption, their nature, and the actions taken, including dismissals and terminated contracts with business partners; public legal cases brought against the organisation or its employees. If there were none, a statement to that effect. | Core (VS B11). ESRS G1; GRI 205-3          |
| BC-4 | How do you protect whistleblowers?                    | The internal reporting channels, including anonymous reporting; who can use them (employees, suppliers, other stakeholders); the measures to protect reporting persons against retaliation, in line with the EU Whistleblower Protection Directive where it applies; the procedure for investigating reports; the number of reports received, substantiated and acted upon.                 | Core. ESRS G1; GRI 2-26                    |

| Code | Question                                                                          | What your answer must contain                                                                                                                                                                                                                                                                                                                                                                                                            | Level and references                            |
|------|-----------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|
| BC-5 | How do you engage in politics and lobbying?                                       | Political contributions, in cash and in kind, by country and recipient type, or a statement that none were made; the main topics of lobbying and the organisation's positions on them; registration in the EU Transparency Register or equivalent national registers; membership of trade associations that lobby on material topics; the appointment of former public officials to management or board positions in the past two years. | Full. ESRS G1; GRI 415-1                        |
| BC-6 | Do you pay your suppliers on time?                                                | The average number of days to pay an invoice from the date of its receipt; the standard payment terms by main category of supplier; the share of payments made in line with standard terms; legal proceedings for late payment that are outstanding.                                                                                                                                                                                     | Full. ESRS G1; Late Payment Directive 2011/7/EU |
| BC-7 | Have you been sanctioned for anti-competitive behaviour or other breaches of law? | Legal actions for anti-competitive behaviour, anti-trust and monopoly practices, and their outcomes; significant fines and non-monetary sanctions for non-compliance with laws and regulations in the social and economic area.                                                                                                                                                                                                          | Full. GRI 206-1, 2-27                           |
| BC-8 | How do you approach tax?                                                          | The tax strategy; the governance and control of tax risk; country-by-country reporting of revenues, profits, taxes paid and employees, where it is published.                                                                                                                                                                                                                                                                            | Full (good practice). GRI 207                   |

**Evidence to have on file:** the code of conduct and anti-corruption policy; risk assessments of corruption by function and country; training records; due diligence files on intermediaries; whistleblowing records and investigation reports; records of political contributions and lobbying; accounts payable data on payment times; records of legal proceedings and fines.

**Warning.** A report that states “zero incidents of corruption” while the organisation operates in high-risk countries and sectors, with no information on how incidents are detected, is not credible. Readers judge the system, not the number. The same applies to whistleblowing: a channel that receives no reports in a large organisation is more likely to be unknown or distrusted than to reflect the absence of misconduct.

## EU Taxonomy

Companies subject to the CSRD must disclose how and to what extent their activities are associated with environmentally sustainable economic activities as defined by the EU Taxonomy Regulation. The disclosure is made in the sustainability statement, using templates set out in delegated acts. The simplifications that apply from 1 January 2026 introduced a materiality threshold of 10% for turnover, capital expenditure and operating expenditure, allowed companies to exempt operating expenditure from the alignment assessment where it is not material to their business model, and reduced the number of datapoints for non-financial companies by 64%.<sup>146</sup> Financial undertakings report different key performance indicators, such as the green asset ratio for banks, which are not covered in this checklist.

| Code | Question                                                                                        | What your answer must contain                                                                                                                                                                                                                                             | Level and references                                                       |
|------|-------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| TX-1 | Which of your activities are taxonomy-eligible?                                                 | The economic activities carried out by the organisation that are described in the Taxonomy delegated acts, with the relevant activity codes; the environmental objectives to which they relate; activities below the 10% materiality threshold that were not assessed.    | Full. Taxonomy Regulation, Article 8; Disclosures Delegated Act as amended |
| TX-2 | Which of your eligible activities are taxonomy-aligned?                                         | For each eligible activity, whether it meets the technical screening criteria for substantial contribution, the criteria for doing no significant harm to the other five objectives, and the minimum safeguards; the method and evidence used for each assessment.        | Full. Taxonomy Regulation, Articles 3 and 18                               |
| TX-3 | What share of your turnover, capital expenditure and operating expenditure is taxonomy-aligned? | The three key performance indicators, each showing the eligible and aligned shares, in the prescribed templates; the accounting policies used to calculate the numerators and denominators and their reconciliation with the financial statements; the explanation of any | Full. Disclosures Delegated Act as amended                                 |

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<sup>146</sup> Grant Thornton, *The European Commission adopts a new Delegated Act to simplify EU Taxonomy reporting requirements*. <https://www.grantthornton.global/en/insights/articles/new-delegated-act-released-to-simplify-eu-taxonomy-reporting/>; CMS, *European Commission adopts delegated act simplifying EU Taxonomy reporting*. <https://cms.law/en/int/legal-updates/european-commission-adopts-delegated-act-simplifying-eu-taxonomy-reporting>

| Code | Question                                   | What your answer must contain                                                                                                                                                                                                                                            | Level and references                       |
|------|--------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|
|      |                                            | use of the operating expenditure exemption; enabling and transitional activities identified separately.                                                                                                                                                                  |                                            |
| TX-4 | Do you meet the minimum safeguards?        | The procedures in place to ensure alignment with the OECD Guidelines and the UN Guiding Principles, covering human rights, including labour rights, bribery and corruption, taxation and fair competition; any convictions or final findings of breaches in these areas. | Full. Taxonomy Regulation, Article 18      |
| TX-5 | What are your plans to increase alignment? | For capital expenditure linked to a plan to expand aligned activities or to make eligible activities aligned (a CapEx plan), the plan's objectives, timeline, approval by the governing bodies and amounts.                                                              | Full. Disclosures Delegated Act as amended |

**Evidence to have on file:** the mapping of activities to Taxonomy activity codes; assessments of technical screening criteria and do no significant harm criteria with supporting documents; the assessment of minimum safeguards; the reconciliation of the key performance indicators with the financial statements; approved CapEx plans.

**Warning.** The most frequent errors in Taxonomy reporting are double counting of the same turnover or expenditure under more than one objective, numerators and denominators that cannot be reconciled with the financial statements, and claims of alignment without documented assessment of the do no significant harm criteria and minimum safeguards. A company that reports high alignment without this documentation is exposed to an adverse conclusion from its assurance provider.

## 19. Writing a Credible Report

A report can answer every question in the checklist and still fail to convince its readers. Credibility depends on how the information is selected, written and presented, on whether negative information is reported as openly as positive information, and on whether the report withstands examination by an independent assurance provider. This chapter explains the principles of credible reporting, how to structure and write a report, how to present data, how to avoid greenwashing and social washing, and how to prepare for assurance.

### What Makes Sustainability Information Credible

The ESRS and the ISSB standards set out the same qualitative characteristics of useful sustainability information, and the GRI Standards set out reporting principles that cover the same ground.<sup>147</sup> They are not abstract requirements. They are the criteria that investors, analysts, auditors and journalists apply when they read a report.

| Characteristic          | What it means                                                                                                                    | Test to apply to a draft                                                                                        |
|-------------------------|----------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| Relevance               | The information can make a difference to the decisions of readers, because it concerns material impacts, risks and opportunities | Would a reader decide differently without this paragraph? If not, it can be shortened or removed                |
| Faithful representation | The information is complete, neutral and accurate                                                                                | Are negative developments reported as fully as positive ones? Are the limits of the data explained?             |
| Completeness            | All information needed to understand a matter is included, including its boundaries and limitations                              | Does each metric state its scope, period and method? Are excluded sites, subsidiaries or categories identified? |

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<sup>147</sup> Commission Delegated Regulation (EU) 2026/1563, ESRS 1 General Requirements. [https://eur-lex.europa.eu/eli/reg\\_del/2026/1563/oj](https://eur-lex.europa.eu/eli/reg_del/2026/1563/oj); IFRS Foundation, *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information*. <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements/>; Global Reporting Initiative, *GRI 1: Foundation 2021*, section 4 (reporting principles). <https://www.globalreporting.org/standards/>

| Characteristic               | What it means                                                                                                                | Test to apply to a draft                                                                                                      |
|------------------------------|------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| Neutrality                   | The information is not selected or presented in a way that makes it more favourable than it is                               | Would the same matter be described in the same way if the result were negative?                                               |
| Accuracy                     | The information is free from material error, and estimates are based on reasonable inputs and disclosed as estimates         | Can every figure be traced to a source document and recalculated?                                                             |
| Comparability                | The information can be compared with previous periods and with other organisations                                           | Are prior-year figures shown? Are recognised metrics and units used? Are changes in method explained?                         |
| Verifiability                | Independent persons could reach broadly the same conclusion using the same sources and methods                               | Could an assurance provider reproduce the figure from the evidence on file?                                                   |
| Understandability            | The information is clear, concise and organised so that readers can find what they need                                      | Can a non-specialist reader understand the main message of each section?                                                      |
| Balance (GRI)                | Positive and negative aspects of performance are both reported                                                               | Does the report mention the targets that were missed and the incidents that occurred?                                         |
| Sustainability context (GRI) | Performance is presented in relation to wider sustainability conditions, such as climate science or local water availability | Is the organisation's water use related to the water stress of the area? Is its emission target related to the 1.5°C pathway? |
| Timeliness (GRI)             | The information is published on a regular schedule and in time for readers to use it                                         | Is the report published together with the financial report, or at least within a few months of the end of the period?         |

## Structuring the Report

### *Under the CSRD*

For companies subject to the CSRD, the structure is largely prescribed. The sustainability statement is a clearly identifiable, dedicated section of the management report, published together with the financial statements. It is organised in four parts: general information,

environmental information, social information and governance information. Environmental information includes the Taxonomy disclosures. The ESRS require an index of the disclosure requirements that the company has reported, which allows readers and assurance providers to find each requirement. Information can be incorporated by reference from other parts of the management report, such as the corporate governance statement, provided that the reference is precise and the information meets the requirements of the ESRS.

### *For Other Organisations*

Organisations that report voluntarily, under the GRI Standards or the EU voluntary standard, have more freedom. A clear and practical structure is the following.

| Section                                       | Content                                                                                                                                               | Typical length                                           |
|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|
| Message from the chief executive or the chair | The main developments, achievements and failures of the year, and the priorities for the next. Signed and specific, not a general statement of values | One page                                                 |
| About this report                             | Standard applied, reporting period, entities covered, assurance, contact person                                                                       | Half a page                                              |
| Organisation and value chain                  | Business model, products and services, markets, value chain                                                                                           | One to two pages                                         |
| Governance of sustainability                  | Responsibilities, oversight, expertise, remuneration                                                                                                  | One to two pages                                         |
| Strategy and materiality                      | How sustainability is part of strategy; the materiality process and the list of material topics; stakeholder engagement                               | Two to four pages                                        |
| Material topics                               | One section for each material topic, following the topic template in chapter 18: policy, actions, targets, metrics                                    | Two to five pages per topic, depending on its importance |
| Performance data                              | All metrics in tables, with at least three years of data where available, and notes on methods                                                        | As needed                                                |
| Content index                                 | The index required by the standard, with references to pages or sections                                                                              | As needed                                                |
| Assurance statement                           | The report of the assurance provider, if any                                                                                                          | One to three pages                                       |

The length of the report should follow the number and importance of the material topics, not the ambition to appear comprehensive. A report of 40 well-written pages that covers six material topics in depth is more credible than a report of 200 pages that describes 30 topics in general terms.

### *Connecting with the Financial Report*

Sustainability information and financial information must tell the same story. If the sustainability report identifies a material climate risk to a production site, the financial statements should reflect it where relevant, for example in impairment testing, provisions or the assumptions about the useful life of assets. If the financial report announces a major acquisition, the sustainability report should explain how it affects emissions, workforce and material topics. Inconsistencies between the two are among the first things analysts and regulators look for. The person responsible for the sustainability report should therefore work closely with the finance function throughout the reporting process.

## Writing Rules

Most weak reports are weak not because the organisation has nothing to say, but because it says it in general and promotional language. Ten rules produce clearer and more credible text.

1. **State facts, not intentions.** Describe what the organisation did and achieved. Present plans as plans, with dates and responsibilities.
2. **Use numbers with context.** A number needs a unit, a period, a scope and a point of comparison, such as the previous year, the base year or the target.
3. **Report failures as clearly as successes.** Missed targets, incidents, fines and complaints must be reported in the same place and with the same prominence as achievements, with an explanation of the causes and the corrective measures.
4. **Replace adjectives with evidence.** Words such as “leading”, “robust”, “comprehensive”, “significant” and “committed” add nothing unless they are supported by facts. Remove them, or replace them with the facts that would justify them.
5. **Use the same terms throughout.** If the report uses “employees” and “workforce”, it must be clear whether they mean the same group. Define terms once and use them consistently.
6. **Explain methods and limits.** Every metric must be accompanied by a short explanation of how it was calculated, and by a statement of any significant limitation, such as the share of estimated data.

7. **Distinguish what the organisation controls from what it influences.** Emissions from own operations, emissions from suppliers and avoided emissions from the use of products are different things and must not be added together or confused.
8. **Write for a non-specialist reader.** Use short sentences, plain words and active verbs. Explain technical terms when they first appear, or refer to a glossary.
9. **Avoid images that replace information.** Photographs of nature and smiling workers do not prove anything. Use visual elements to explain data and processes.
10. **Make every claim verifiable.** Before publication, check that each statement can be supported by a document on file.

The difference these rules make is visible in the following illustrative examples, which use invented figures.

| Weak wording                                                                                               | Credible wording                                                                                                                                                                                                                                                                                                      |
|------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| "We are deeply committed to reducing our environmental footprint and made significant progress this year." | "Our Scope 1 and 2 emissions fell from 48,500 tCO <sub>2</sub> e in 2024 to 43,100 tCO <sub>2</sub> e in 2025, a reduction of 11%, mainly because two plants switched to renewable electricity. Scope 3 emissions rose by 4% because of higher sales volumes."                                                        |
| "Safety is our top priority."                                                                              | "One contractor died at our Lyon site in March 2025 after a fall from height. We stopped all work at height across the group for two weeks, retrained 1,200 workers and introduced mandatory fall arrest systems. The total recordable incident rate for employees and contractors was 1.9, against a target of 1.5." |
| "We have a robust supplier code of conduct and work with responsible suppliers."                           | "All 640 tier one suppliers signed our supplier code of conduct. We assessed 85 high-risk suppliers on site, including worker interviews. We found excessive overtime at 31 of them and unpaid wages at 4. Twenty-two corrective action plans were completed by year end; the others are ongoing."                    |
| "We value diversity and inclusion."                                                                        | "Women make up 46% of our employees and 24% of senior management. Our unadjusted gender pay gap is 12%, mainly because men hold more senior technical roles. Our target is 35% women in senior management by 2030."                                                                                                   |

**Warning.** The chief executive's or the chair's message is the most widely read part of a report and the part most often written in promotional language. Investors and journalists compare it with the data. A message that celebrates progress in a year in which emissions rose, a fatality occurred or a major target was missed damages the credibility of the whole report.

## Presenting Data

Data tables are the backbone of a credible report. They should meet the following standards:

- **Show trends.** Present at least three years of data where available, together with the base year for any target.
- **State units, scope and period** for every metric, in the table or in a note.
- **Show absolute values and intensities.** Absolute values show the total impact; intensities show efficiency. Both are needed, and the denominator of each intensity must be stated.
- **Mark restated figures** and explain the reason for the restatement in a note.
- **Separate measured and estimated data** where the share of estimates is significant.
- **Link metrics to targets.** Show the target value next to the actual value, so that progress is visible.
- **Use honest charts.** Bar charts should start at zero, scales should not be manipulated to exaggerate small changes, and the same scale should be used when comparing periods.
- **Provide data in a usable format.** Many investors and rating agencies extract data automatically. Publishing the data tables also in a spreadsheet format makes the information easier to use and reduces errors in ratings.

## Avoiding Greenwashing and Social Washing

Chapter 7 introduced six rules for avoiding greenwashing and social washing. In the EU, many of the practices described there have become unlawful in communications to consumers from 27 September 2026, under Directive (EU) 2024/825 on empowering consumers for the green transition. Consumer protection authorities, competitors and NGOs can bring proceedings, and courts in several countries had already found environmental claims misleading under the general prohibition of unfair commercial practices before the directive applied.

Example: On 20 March 2024, the District Court of Amsterdam ruled in a case brought by the Dutch environmental organisation Fossielvrij NL against the airline KLM. The court found that 15 of the 19 advertising statements it examined were misleading and unlawful. They included vague claims about a more sustainable future, a programme that suggested passengers could neutralise the emissions of their flights through offsetting, and an exaggerated presentation of the effect of sustainable aviation fuel and reforestation.<sup>148</sup> The case shows that courts examine the overall

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<sup>148</sup> Osborne Clarke, *District Court of Amsterdam declares green claims of KLM misleading and unlawful*, 2024. <https://www.osborneclarke.com/insights/district-court-amsterdam-declares-green-claims-klm-misleading-and-unlawful>

impression a claim creates, not only its literal wording, and that claims based on offsetting and future technologies receive particular scrutiny.

The table below lists the claims most often found misleading and how to replace them.

| Problematic claim                                                              | Why it is problematic                                                                                                                              | Credible alternative                                                                                                               |
|--------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| “Eco-friendly”,<br>“green”,<br>“sustainable”,<br>“responsible”                 | Generic environmental claims are prohibited in the EU without recognised excellent environmental performance relevant to the claim                 | State the specific, measured attribute: “made with 70% recycled aluminium”                                                         |
| “Climate neutral” or<br>“carbon neutral”<br>product based on<br>carbon credits | Claims of neutral, reduced or positive impact based on offsetting are prohibited in the EU in communications to consumers                          | Report emission reductions, and describe any financial contribution to climate projects separately, without claiming neutrality    |
| “Net zero by 2050”<br>without a plan                                           | Claims about future environmental performance require clear, verifiable commitments and a detailed implementation plan with independent monitoring | Publish the transition plan, interim targets and progress                                                                          |
| A self-created<br>sustainability label or<br>seal                              | Labels not based on a certification scheme or established by public authorities are prohibited in the EU                                           | Use recognised certification schemes, or describe the attribute without a label                                                    |
| A claim about the<br>whole product based<br>on one feature                     | Presents a partial improvement as a characteristic of the whole product or company                                                                 | Specify which part, component or share the claim concerns                                                                          |
| Presenting legal<br>requirements as a<br>distinctive feature                   | Advertising compliance with the law as if it were a voluntary achievement is prohibited in the EU                                                  | Do not present legal obligations as achievements                                                                                   |
| “We pay fair wages”                                                            | Unclear benchmark; often not supported by data from the supply chain                                                                               | State the benchmark, the scope and the result: “all employees in our own operations earn at least the living wage benchmark of the |

| Problematic claim                                                   | Why it is problematic                                                        | Credible alternative                                       |
|---------------------------------------------------------------------|------------------------------------------------------------------------------|------------------------------------------------------------|
|                                                                     |                                                                              | Global Living Wage Coalition, where one exists"            |
| "100% of suppliers audited"                                         | Suggests the absence of problems; says nothing about findings or remediation | Report findings and remediation, as in chapter 18          |
| Diversity statistics only for the categories that show good results | Selective presentation                                                       | Report the same indicators every year, whatever the result |

Social washing deserves the same attention as greenwashing, although it is less regulated. It includes presenting philanthropy as a substitute for respecting rights, highlighting a diversity initiative while the pay gap remains unexplained, reporting the existence of a grievance mechanism without any data on its use, and describing human rights due diligence in general terms without disclosing what it found. Investors and NGOs increasingly test social claims against independent sources, such as trade union reports, court cases and investigations by journalists.

**Warning.** Statements in the sustainability report are not exempt from consumer protection and securities law because they appear in a report rather than in advertising. Claims made in a report are frequently repeated on websites, in product marketing and in investor presentations, and can be used as evidence in proceedings. Every environmental and social claim should be reviewed by the legal function before publication.

## Preparing for Assurance

Assurance is an independent examination of the sustainability information by a qualified provider, who expresses a conclusion on whether the information has been prepared in accordance with the applicable criteria. For companies subject to the CSRD, limited assurance is mandatory. For other organisations it is voluntary, but it significantly increases the credibility of a report, and many customers, investors and lenders now expect it, at least for greenhouse gas emissions.

### *Who Provides Assurance, and Under Which Standards*

Under the CSRD, assurance is provided by a statutory auditor or audit firm, or, where a Member State allows it, by an independent assurance services provider accredited for this purpose. Until

EU-wide limited assurance standards apply, providers follow the national requirements of each Member State.<sup>149</sup> Internationally, the main standards are:

- **ISSA 5000 General Requirements for Sustainability Assurance Engagements**, issued by the International Auditing and Assurance Standards Board, which applies to assurance engagements on sustainability information for periods beginning on or after 15 December 2026 and is designed for both limited and reasonable assurance.
- **ISAE 3000 (Revised)**, the general standard for assurance engagements other than audits of historical financial information, which has been used for most sustainability assurance to date.
- **ISAE 3410**, which applies specifically to assurance engagements on greenhouse gas statements.
- **AA1000AS v3**, issued by AccountAbility, which is used by some organisations alongside or instead of the IAASB standards, particularly to assess adherence to principles such as inclusivity and responsiveness.

#### *Limited and Reasonable Assurance*

| Aspect             | Limited assurance                                                                                                                                                       | Reasonable assurance                                                                                               |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| Level of assurance | Meaningful, but lower                                                                                                                                                   | High, comparable to a financial statement audit                                                                    |
| Form of conclusion | Negative: “nothing has come to our attention that causes us to believe that the information is not prepared, in all material respects, in accordance with the criteria” | Positive: “in our opinion, the information is prepared, in all material respects, in accordance with the criteria” |
| Work performed     | Mainly inquiries and analytical procedures, with limited testing of details                                                                                             | Extensive testing of controls and details, site visits and confirmation of evidence                                |
| Cost and effort    | Lower                                                                                                                                                                   | Significantly higher                                                                                               |

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<sup>149</sup> At the time of writing, EU-wide limited assurance standards had not been adopted, and ISSA 5000 was expected to serve as their basis. Coolset, *ISSA 5000 for CSRD*, March 2026. <https://coolset.com/sv/academy/issa-5000-csrd-guide>; Arthur Cox, *Omnibus I Directive published: revised scope and reduced obligations under CSRD and CSDDD*, 2026. <https://www.arthurcox.com/insights/omnibus-i-directive-published-revised-scope-and-reduced-obligations-under-csrd-and-csddd/>

| Aspect               | Limited assurance | Reasonable assurance                    |
|----------------------|-------------------|-----------------------------------------|
| Required by the CSRD | Yes               | No; the option was removed by Omnibus I |

### *What the Assurance Provider Will Examine*

An assurance provider will typically examine five areas:

1. **The materiality assessment:** whether the process is documented, consistent with the standard and supported by evidence, and whether its results are reflected in the report.
2. **The reporting boundary:** whether the entities and value chain covered match the requirements and the financial statements.
3. **Data and controls:** how data is collected, aggregated and checked; whether calculations can be reproduced; whether source documents support the figures; whether estimates are reasonable and disclosed.
4. **Narrative disclosures:** whether descriptions of policies, actions and processes match what actually exists and happens in the organisation.
5. **Consistency:** whether the sustainability information is consistent with the financial statements and with other information the provider knows about the organisation.

### *Readiness Review*

Organisations that will be assured for the first time should carry out a readiness review, either internally or with external support, at least six months before the end of the reporting period.

The review checks the following:

| Area           | Readiness questions                                                                                                                                |
|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| Materiality    | Is the assessment documented with sources, scores, thresholds, consultations and approvals?                                                        |
| Data inventory | Does every datapoint have an owner, a source, a definition, a method and a control?                                                                |
| Evidence       | Can source documents be produced for a sample of figures within a few days?                                                                        |
| Calculations   | Are calculation files structured, protected and free of manual overrides that are not documented? Are emission factors and their sources recorded? |
| Estimates      | Are estimation methods documented and the share of estimated data known?                                                                           |
| Controls       | Is there a review and approval step for each data set, with evidence that it took place?                                                           |

| Area      | Readiness questions                                                                                                                               |
|-----------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| Narrative | Is there evidence for every statement about policies, processes and actions, such as approved policies, minutes and training records?             |
| Timeline  | Is there enough time between the end of the period, the delivery of data and the publication of the report for the provider to complete its work? |

**Warning.** Assurance providers are not consultants for the same report. Independence rules prevent a provider from designing the processes or preparing the information that it then assures. Organisations that need help building their systems should use a different firm for advice, or complete the advisory work well before the assurance engagement begins.

## Publication and After

Before publication, the report must be approved by the body responsible, which for companies subject to the CSRD is the body that approves the management report. It should be published in a format that is accessible, including to persons with disabilities, in the languages of the main stakeholders, and in a place where it is easy to find and remains available for several years.

Publication is not the end of the cycle. Organisations should collect feedback from investors, rating agencies, customers, employees, NGOs and the assurance provider, and use it to improve the next report and, more importantly, the management of the material topics. Errors discovered after publication must be corrected openly in the next report, with an explanation of their cause and their effect. Criticism from stakeholders should be answered on substance. An organisation that responds to a credible allegation with facts and corrective action gains more trust than one that published a flawless report and then remains silent.

## 20. Learning from Global Companies

The previous chapters explained what organisations need to have in place and what they must report. This chapter shows how global companies have applied specific practices, and what others can learn from them. Two cases show what happens when practices fail.

The cases were selected by three criteria. First, each illustrates one practice described in chapters 17 to 19 more clearly than other available examples. Second, the facts are documented in the company's own publications, in court or regulatory records, or in reliable independent sources. Third, the practice has produced measurable results or has had a lasting effect on the field. Three further examples appear earlier in the guide: Schneider Electric on linking remuneration to sustainability performance and Unilever on identifying salient human rights issues, both in chapter 17, and KLM on misleading environmental claims, in chapter 19.

No company is a model in every respect. Several of the companies presented here have also faced serious criticism, which is noted where relevant. The cases show what a practice looks like when it works, not that the company as a whole is beyond reproach.

| Practice                                                                   | Company      | Related chapters          |
|----------------------------------------------------------------------------|--------------|---------------------------|
| A transition plan that changed the business model                          | Ørsted       | 17, 18 (climate change)   |
| A circular economy metric linked to revenue                                | Philips      | 17, 18 (resources)        |
| Satellite monitoring of deforestation in supply chains                     | Nestlé       | 17, 18 (biodiversity)     |
| Safety as a precondition, led from the top                                 | Alcoa        | 5, 18 (health and safety) |
| Annual pay equity assessments                                              | Salesforce   | 18 (own workforce)        |
| Publishing an independent review of workplace culture                      | Rio Tinto    | 17, 19                    |
| Eliminating recruitment fees and remedying harm in the supply chain        | Apple        | 17, 18 (value chain)      |
| Failure of community consent and heritage protection                       | Rio Tinto    | 17, 18 (communities)      |
| Rebuilding an anti-corruption system after a scandal                       | Siemens      | 18 (business conduct)     |
| Embedding sustainability in the corporate charter and integrated reporting | Novo Nordisk | 17, 19                    |

## Ørsted: A Transition Plan That Changed the Business Model

**The practice.** A credible climate transition plan does not only reduce emissions at the margin. It changes what the company produces and how it earns its money, with targets, investments and milestones that can be tracked.

**What the company did.** In 2008, 85% of the heat and power production of the Danish energy company DONG Energy came from fossil fuels, mainly coal, and 15% from renewables. The company set itself the goal of reversing this ratio. It sold its oil and gas business, invested heavily in offshore wind, converted coal-fired power stations to sustainable biomass, and in 2017 changed its name to Ørsted. It reached the target ratio far earlier than originally planned, closed its last coal-fired power station in 2024, and reports that renewable energy accounted for 99% of its generation in 2025. Since 2006, it has reduced its direct and indirect emissions by 98%, and it has set a net-zero target for its entire value chain, covering Scopes 1, 2 and 3, by 2040.<sup>150</sup>

**Why it matters.** The case shows the elements that make a transition plan credible: a clear quantified goal, decisions on the business portfolio, large-scale capital allocation and annual reporting of progress. It is often cited as evidence that a carbon-intensive company can transform itself within about a decade.

**Limits and lessons.** The transition did not remove financial risk. From 2023, Ørsted recorded significant impairments on offshore wind projects in the United States because of rising interest rates, supply chain problems and changes in policy. The use of biomass also remains contested, because its climate benefit depends on how the wood is sourced. A transition plan replaces some risks with others, and these must also be identified and disclosed.

## Philips: A Circular Economy Metric Linked to Revenue

**The practice.** Circular economy commitments are often vague. A credible approach defines a metric that connects circularity to the business and reports it every year against a target.

**What the company did.** Philips, the Dutch health technology company, defined circular revenues as its overarching circularity metric: the share of sales generated by products, services and solutions designed to reduce waste and pollution, including refurbished medical systems, upgrades, product-as-a-service models and products that meet the company's ecodesign

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<sup>150</sup> Ørsted, *History and transformation*. <https://orsted.com/en/about-us/about-orsted/our-green-energy-transformation>

requirements. It set a target for circular revenues to reach 25% of sales by 2025. In its annual report for 2025, it reported 27.9%, which exceeded the target.<sup>151</sup>

**Why it matters.** Linking circularity to revenue turns it from an environmental side project into a business indicator that management, investors and auditors can track. The metric is published in the annual report alongside financial results, which signals that it is treated with the same seriousness.

**Limits and lessons.** A revenue-based metric shows how much of the business follows circular models. It does not show by itself how much material or waste was avoided. Organisations that adopt a similar metric should also report physical indicators, such as the share of recycled materials and the volume of products taken back, so that readers can judge the environmental effect.

## Nestlé: Satellite Monitoring of Deforestation in Supply Chains

**The practice.** Companies that buy commodities linked to deforestation cannot rely on supplier declarations alone. They need independent ways to verify where commodities come from and whether forest is being cleared there.

**What the company did.** Nestlé committed in 2010 to eliminate deforestation from its supply chains. In 2019, it announced that it had become the first company to monitor its entire global palm oil supply chain with Starling, a satellite-based service developed by Airbus and the Earthworm Foundation, and began to extend monitoring to pulp and paper and soy. It combined satellite monitoring with supply chain mapping, certification and on-the-ground verification, and published a transparency dashboard showing deforestation trends around the mills supplying it. In April 2020, it reported that 77% of its supply of the commodities covered was verified as deforestation-free, against its target of 100% by 2020.<sup>152</sup>

**Why it matters.** The case shows how technology can make due diligence verifiable and continuous, rather than dependent on periodic audits. Satellite monitoring and traceability to the place of production are now part of what the EU Deforestation Regulation requires, which demands geolocation of the plots where commodities are produced.

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<sup>151</sup> Philips, *Annual Report 2025*. <https://www.results.philips.com/ar25>

<sup>152</sup> Nestlé, *Nestlé verifies three-quarters of its supply chain as deforestation-free*, 2020. <https://www.nestle.com.au/en/media/nestle-three-quarters-deforestation-free>; The Grocer, *Nestlé hits deforestation-free supply chain milestone*, 30 April 2020. <https://www.thegrocer.co.uk/environment/nestle-hits-deforestation-free-supply-chain-milestone/592855.article>

**Limits and lessons.** Nestlé did not meet its 2020 target of 100%. Its experience shows that traceability to the plot of land is hardest for commodities produced by large numbers of smallholders and traded through many intermediaries. Companies should report their progress honestly, including the share of supply that is not yet verified, and explain how they will close the gap.

## Alcoa: Safety as a Precondition, Led from the Top

**The practice.** Safety performance improves when top management treats it as a condition of doing business, not as one priority among many, and when every incident is visible and investigated.

**What the company did.** When Paul O’Neill became chief executive of the aluminium producer Alcoa in 1987, he made worker safety his first message to investors and the central measure of management performance. He introduced a system under which every injury and incident had to be reported to him within 24 hours, with the root cause and the corrective action. During his tenure, which ended in 2000, Alcoa’s lost workday rate fell from 1.86 to 0.23, and the company’s market value grew from about USD 3 billion to USD 27.5 billion.<sup>153</sup>

**Why it matters.** The case is the most frequently cited example of the link between safety leadership and operational performance. Its lesson is that a strong safety culture requires transparency about incidents, rapid learning and personal accountability at the top, which are the same elements that ISO 45001 and the reporting standards ask about.

**Limits and lessons.** Lost workday rates measure only part of safety performance. Later research and practice have shown that low injury rates can coexist with serious process safety risks, as the disasters described in chapter 2 illustrate. A modern safety system complements the focus on personal injuries with leading indicators and process safety management.

## Salesforce: Annual Pay Equity Assessments

**The practice.** Equal pay for work of equal value cannot be achieved once and then assumed. Pay differences reappear through hiring, promotions, acquisitions and market changes, so they must be measured and corrected regularly.

**What the company did.** The software company Salesforce has carried out an annual global pay equity assessment since 2015. Each year, it groups employees doing comparable work, analyses differences in pay that cannot be explained by objective factors such as role, location and

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<sup>153</sup> EHS Today, NSC 2013: O’Neill Exemplifies Safety Leadership, 2013.  
<https://www.ehstoday.com/nsc-2013-leadership>

performance, and adjusts pay where unexplained differences are found. The analysis covers gender globally and race and ethnicity in the United States. In its seventh assessment, published in 2022, it reviewed the pay of almost 70,000 employees, including those who joined through the acquisition of Slack, and allocated USD 5.6 million to adjustments. By then it had spent more than USD 22 million since 2015 to address unexplained differences.<sup>154</sup>

**Why it matters.** The case shows the method that the EU Pay Transparency Directive now requires in the form of the joint pay assessment: compare pay for work of equal value, identify differences that cannot be justified by gender-neutral criteria, and correct them. It also shows why the assessment must be repeated, because acquisitions alone can create new gaps.

**Limits and lessons.** Pay equity for comparable work does not close the overall gender pay gap, which also results from the under-representation of women in senior and better-paid roles. A complete answer to the reporting questions in chapter 18 covers both: equal pay for comparable work and the measures taken to increase the share of women in senior positions.

## Rio Tinto: Publishing an Independent Review of Workplace Culture

**The practice.** Credible reporting includes negative information. An organisation that commissions an independent review of a sensitive issue and publishes the full results, however damaging, demonstrates the balance and transparency that reporting standards require.

**What the company did.** In 2021, the mining company Rio Tinto commissioned Elizabeth Broderick, a former Australian Sex Discrimination Commissioner, to review its workplace culture. More than 10,000 people took part through surveys, group sessions, confidential meetings and written submissions. The report, which the company published in full in February 2022, found that almost half of employees had experienced bullying in the previous five years, that 28.2% of women had experienced sexual harassment, and that 21 women had reported actual or attempted rape or sexual assault. It made 26 recommendations. The chief executive said publicly that he felt shame and enormous regret about the findings, and the company committed to implement all recommendations.<sup>155</sup>

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<sup>154</sup> Salesforce, *2022 Equal Pay Update: The Salesforce Approach to Pay Fairness*, 30 March 2022. <https://www.salesforce.com/news/stories/2022-equal-pay-update-the-salesforce-approach-to-pay-fairness/>

<sup>155</sup> E&MJ, *Rio Tinto review of workplace culture shows bullying, sexual harassment, racism*, February 2022. <https://www.e-mj.com/breaking-news/rio-tinto-review-of-workplace-culture-shows-bullying-sexual-harassment-racism/>; Al Jazeera, *Rio Tinto employees report rise in bullying, sexual assault*, 20 November 2024.

**Why it matters.** Few companies publish findings of this kind. The case shows how an independent review can establish facts that internal channels had not brought to light, and how publication creates accountability for follow-up. It also shows that engagement with workers, conducted confidentially and at scale, is the only way to understand the reality of a workplace culture.

**Limits and lessons.** Publication is the beginning, not the end. A follow-up review published in November 2024, based on responses from nearly 12,000 employees, found that the share of employees who had experienced bullying had risen to 39%, from 31% in 2021, with a sharp rise among women, and that the share who had experienced sexual harassment had not changed. About half of respondents nevertheless perceived an improvement, and the company reported that the 26 recommendations had been largely implemented. Organisations that follow this example must commit to repeat the review and publish the results, so that readers can judge whether the measures work.

### Apple: Eliminating Recruitment Fees and Remedying Harm in the Supply Chain

**The practice.** Debt bondage through recruitment fees is one of the most common indicators of forced labour among migrant workers in global supply chains. Effective due diligence prohibits it, detects it and ensures that workers who paid fees are repaid.

**What the company did.** Apple’s supplier code of conduct prohibits suppliers from charging any recruitment fees to workers, even where national law allows such fees, and requires suppliers who are found to have charged fees to repay them in full. According to the company, suppliers have repaid more than USD 34.5 million in recruitment fees to more than 37,700 workers since 2008. In its report on 2024, the company stated that it conducted 893 independent supplier assessments and engaged more than 1.3 million supplier workers through surveys, interviews during assessments and campaigns to raise awareness of grievance channels. Apple also publishes a list of its suppliers that represents at least 98% of its direct spend on materials, manufacturing and assembly.<sup>156</sup>

**Why it matters.** The case shows the full cycle of due diligence described in chapter 17: a clear standard, detection through assessments and worker interviews, remediation that returns money to the people harmed, and public reporting with quantified results. Repayment of fees is

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<https://www.aljazeera.com/economy/2024/11/20/rio-tinto-employees-report-rise-in-bullying-sexual-assault>

<sup>156</sup> Apple, *Supply Chain 2025 Progress Report*.  
[https://s203.q4cdn.com/367071867/files/doc\\_downloads/2025/07/Apple-Supply-Chain-2025-Progress-Report.pdf](https://s203.q4cdn.com/367071867/files/doc_downloads/2025/07/Apple-Supply-Chain-2025-Progress-Report.pdf)

a concrete form of remedy that can be measured and verified, unlike general statements about respecting human rights.

**Limits and lessons.** NGOs and journalists have continued to document labour rights problems in electronics supply chains, including in Apple's, and the company's figures are largely self-reported. The case shows good practice in one area of due diligence. It does not show that the risks have been eliminated, and readers should look for independent verification where it exists.

## Rio Tinto at Juukan Gorge: When Community Consent Fails

**The practice.** Respect for the rights of indigenous peoples and affected communities requires their free, prior and informed consent and continuous engagement, not only compliance with the law. A legal permit is not a social licence to operate.

**What happened.** On 24 May 2020, Rio Tinto destroyed two rock shelters at Juukan Gorge in the Pilbara region of Western Australia to expand an iron ore mine. The shelters showed evidence of continuous human occupation going back 46,000 years and were of profound cultural significance to the Puutu Kunti Kurrama and Pinikura peoples. The destruction was legal: the company had obtained ministerial consent in 2013 under section 18 of the Western Australian Aboriginal Heritage Act 1972, which allowed developers to damage heritage sites. Following public and investor pressure, the chief executive and two other senior executives announced their resignations in September 2020, and the chair later announced that he would step down. An Australian parliamentary inquiry, in an interim report entitled *Never Again* published in December 2020, found that the traditional owners had been let down by the company, by the state and federal governments and by the law, and recommended that the company compensate the traditional owners and that the law be reformed.<sup>157</sup>

**Why it matters.** Juukan Gorge became a turning point for the mining industry and its investors. It showed that compliance with national law is not enough when the law falls short of international standards, such as the UN Declaration on the Rights of Indigenous Peoples, and that

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<sup>157</sup> CBS News, *Mining CEO resigns over destruction of 46,000-year-old sacred Indigenous site*, September 2020. <https://www.cbsnews.com/news/rio-tinto-ceo-resigns-aboriginal-site-destruction-juukan-gorge-australia>; Al Jazeera, *'Never again': Rio Tinto blasted over Juukan Gorge destruction*, 10 December 2020. <https://www.aljazeera.com/news/2020/12/10/rio-tinto-government-faulted-for-blast-at-aboriginal-caves>; Al Jazeera, *Rio Tinto chairman quits over Aboriginal site damage in Australia*, 3 March 2021. <https://www.aljazeera.com/news/2021/3/3/rio-tinto-chairman-resigns-over-aboriginal-site-destruction>

the failure to engage meaningfully with affected communities can destroy irreplaceable heritage and cost senior leaders their positions.

**Lessons.** The case illustrates three points from chapters 17 and 18. First, consent obtained once, years earlier, is not ongoing consent; engagement must continue as plans and knowledge change. Second, a grievance mechanism and channels of communication must be able to stop a decision before harm becomes irreversible. Third, investors now treat failures of this kind as governance failures, not only as social ones.

## Siemens: Rebuilding an Anti-Corruption System After a Scandal

**The practice.** An anti-corruption system is credible when it has independent authority, adequate resources, consistent sanctions and oversight from the top, and when it changes the incentives that led to misconduct.

**What the company did.** In December 2008, the German industrial group Siemens settled bribery charges in the United States and Germany after investigations revealed systematic payments to obtain contracts in many countries. It paid USD 800 million to the US Department of Justice and the Securities and Exchange Commission and about the same amount to German authorities, a total of about USD 1.6 billion, which was then the largest penalty ever imposed in a case of foreign bribery. Under the settlement, it accepted an independent compliance monitor for four years and rebuilt its compliance organisation, with a properly empowered and staffed compliance department, mandatory anti-bribery policies and training, stronger financial controls, an enlarged internal audit function and improved investigation and disciplinary procedures. In a separate settlement with the World Bank Group in 2009, it committed USD 100 million over 15 years to the Siemens Integrity Initiative, which funds organisations and projects that fight corruption in the private sector. By March 2023, the initiative had funded 85 projects in more than 50 countries with about USD 120 million.<sup>158</sup>

**Why it matters.** The case shows the elements of an effective anti-corruption system that ISO 37001 and the reporting standards ask about, and how a company can rebuild trust after a serious failure. It also shows that the cost of corruption, in penalties, monitoring and reputation, far exceeds the cost of prevention.

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<sup>158</sup> WilmerHale, *Siemens Agrees to Record-Setting \$800 Million in FCPA Penalties*, 22 December 2008. <https://www.wilmerhale.com/en/insights/publications/siemens-agrees-to-record-setting-800-million-in-fcpa-penalties-december-22-2008>; UNODC, *Siemens Integrity Initiative*. <https://businessintegrity.unodc.org/bip/en/template/box-6-7--siemens-integrity-initiative.html>

**Limits and lessons.** Even a rebuilt system cannot guarantee that misconduct will not recur. The test of the system is whether it detects and sanctions misconduct when it happens, and whether the company reports such cases openly.

## Novo Nordisk: Embedding Sustainability in the Corporate Charter and Integrated Reporting

**The practice.** Sustainability is most durable when it is anchored in the organisation's constitution and reported together with financial performance, so that it cannot easily be dropped when management or market conditions change.

**What the company did.** The Danish pharmaceutical company Novo Nordisk embedded the triple bottom line principle in its articles of association, which requires it to balance financial, social and environmental considerations in its decisions. It published its first integrated annual report, combining financial and sustainability performance in one document, in 2004, many years before the Integrated Reporting Framework was published and before reporting on sustainability became mandatory in the EU.<sup>159</sup>

**Why it matters.** Anchoring the principle in the company's constitution makes the board legally responsible for considering it. Integrated reporting forces the organisation to explain how sustainability performance relates to its strategy and financial results, which is what the CSRD now requires by placing the sustainability statement in the management report.

**Limits and lessons.** Pharmaceutical companies, including Novo Nordisk, face scrutiny over the pricing of and access to medicines, which are material social topics for the sector. An integrated report is credible only if it addresses the topics that are most contested, not only those on which the company performs well.

## Common Lessons

Ten cases from different sectors and countries show recurring patterns.

1. **Leadership decides.** In every successful case, the chief executive or the board made the issue a personal priority and held management accountable for it.
2. **Measurement comes first.** Philips, Salesforce, Apple and Ørsted defined metrics, set targets and reported progress every year. What is measured and published is managed.

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<sup>159</sup> Triodos Investment Management, *Case study: Novo Nordisk*, 2019. <https://www.triodos-im.com/articles/2019/case-study-novo-nordisk>

3. **Transparency includes bad news.** Rio Tinto's culture review and Nestlé's admission that it had not met its deforestation target show that credibility grows when organisations report what has not worked.
4. **Remedy is part of the system.** The repayment of recruitment fees and the adjustment of pay show that addressing harm already done is as important as preventing future harm.
5. **Legal compliance is not enough.** Juukan Gorge showed that meeting national legal requirements does not protect a company when it falls short of international standards and the expectations of affected communities.
6. **Failure is expensive.** The costs of the Siemens bribery case, of Juukan Gorge and of the KLM ruling, in money, leadership and reputation, far exceeded what prevention would have cost.

## 21. ESG for Non-Profit Organisations

Non-profit organisations often see ESG as a subject for companies. Many of them work on environmental protection, human rights, social inclusion or good governance, and assume that their mission answers the question of their own sustainability. It does not. A non-profit organisation affects the environment through its travel, offices and programmes, it employs people and works with volunteers, it handles the personal data of vulnerable people, it manages public and private funds, and it is governed by a board that must be accountable. Donors, corporate partners, regulators and the communities it serves increasingly expect it to demonstrate that it manages these matters as responsibly as it expects others to.

This chapter adapts the approach of the guide to associations, foundations, international NGOs and other non-profit organisations. It explains what is different for them, which topics are typically material, how to handle safeguarding, which is the most serious social risk specific to the sector, and how to report in a proportionate way.

### Why ESG Matters for Non-Profits

Five reasons make ESG relevant for non-profit organisations.

1. **Credibility.** An organisation that campaigns for climate action, labour rights or transparency loses credibility if it cannot show that it meets the same standards. Critics, including governments hostile to civil society, use any gap between what an organisation demands and what it practises.
2. **Donor requirements.** Institutional donors, foundations and corporate funders increasingly ask grantees about safeguarding, anti-fraud and anti-corruption measures, data protection, environmental impact and governance. These questions appear in due diligence questionnaires, grant agreements and audits.
3. **Corporate partnerships.** Companies that must report on their value chain and conduct due diligence extend their requirements to the non-profit organisations they fund or work with, for example in employee volunteering, cause-related marketing or the delivery of community programmes.
4. **Risk.** Safeguarding failures, fraud, data breaches and governance crises have caused some of the most damaging crises in the sector, leading to the loss of funding, registration and public trust.
5. **Coherence with the mission.** For organisations whose mission concerns people and the planet, managing their own impacts is part of delivering the mission, not an administrative burden.

## What Is Different for Non-Profits

The principles of ESG apply to non-profit organisations in the same way as to companies, but several elements work differently.

| Element                     | Company                                                      | Non-profit organisation                                                                                                         |
|-----------------------------|--------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| Purpose                     | Generate value for shareholders and other stakeholders       | Achieve a public-benefit or social mission                                                                                      |
| Financial materiality       | Effects on cash flows, access to finance and cost of capital | Effects on funding, the ability to deliver the mission, registration and reputation                                             |
| Impact materiality          | Impacts of operations, products and the value chain          | Impacts of operations and programmes, including unintended negative impacts on the people the organisation serves               |
| Key stakeholders            | Investors, employees, customers, suppliers, communities      | Beneficiaries and affected communities, staff and volunteers, donors, partner organisations, members, regulators                |
| Value chain                 | Suppliers and customers                                      | Implementing partners, sub-grantees, suppliers, and the donors whose funds the organisation channels                            |
| Positive impact             | Usually a secondary part of the report                       | Central, but must be demonstrated with evidence, not assumed                                                                    |
| Legal reporting obligations | Increasingly binding for large companies                     | Rarely binding for sustainability matters; governed mainly by charity, association and foundation law and by donor requirements |

Two differences deserve emphasis. First, the most significant negative impacts of a non-profit organisation often arise in its programmes, where it holds power over people in vulnerable situations. Second, implementing partners are to a non-profit what suppliers are to a company: the organisation remains responsible for how its funds are used and for how its partners treat the people they serve.

## Legal Framework and Donor Requirements

Most non-profit organisations are not subject to the CSRD, which applies to the legal forms of undertakings listed in the EU Accounting Directive, such as limited liability companies. Associations and foundations generally fall outside its scope, although a non-profit organisation

that owns a commercial company may find that the company is covered if it meets the thresholds.<sup>160</sup>

Several other legal requirements do apply, depending on the country and the size of the organisation:

- **Data protection.** The GDPR applies fully to non-profit organisations that process personal data in the EU or of people in the EU, including data about donors, members, staff, volunteers and beneficiaries. Data about health, ethnic origin, religion, sexual orientation or political opinions, which human rights and humanitarian organisations often hold, belongs to the special categories that require additional protection.
- **Whistleblower protection.** The EU Whistleblower Protection Directive requires legal entities in the private sector with 50 or more workers, including non-profit organisations, to establish internal reporting channels.
- **Occupational health and safety and employment law** apply to non-profit organisations as employers, including the obligation to assess psychosocial risks.
- **Charity, association and foundation law** sets rules on governance, financial reporting, audit, conflicts of interest and the use of funds.
- **Anti-money laundering and counter-terrorism financing rules** affect non-profit organisations through the requirements of banks and donors. In October 2023, the Financial Action Task Force revised its Recommendation 8 on non-profit organisations, and in November 2023 it updated its best practices guidance, to require states to apply focused, proportionate and risk-based measures, and to avoid measures that disrupt or discourage legitimate non-profit activities.<sup>161</sup>

Donors add requirements of their own. Institutional donors typically require safeguarding policies, anti-fraud and anti-corruption measures, procurement rules, conflict of interest procedures, screening of partners and staff against sanctions lists, data protection, and in a growing number of cases environmental policies and reporting on emissions.

**Warning.** Requirements on governance, transparency and counter-terrorism financing are sometimes used by governments to restrict civil society rather than to manage real risks. The

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<sup>160</sup> Directive (EU) 2022/2464 (Corporate Sustainability Reporting Directive), which applies to undertakings of the legal forms listed in Annexes I and II of Directive 2013/34/EU (Accounting Directive). <https://eur-lex.europa.eu/eli/dir/2022/2464/oj>

<sup>161</sup> Financial Action Task Force, *Best Practices on Combating the Abuse of Non-Profit Organisations*, updated November 2023. <https://www.fatf-gafi.org/en/publications/Financialinclusionandnpoissues/Bpp-combating-abuse-npo.html>

Council of Europe Recommendation CM/Rec(2007)14 on the legal status of non-governmental organisations in Europe sets out the standards that regulation of NGOs must respect, including the principle that NGOs should not be subject to direction by public authorities and that reporting obligations should be proportionate.<sup>162</sup> Non-profit organisations should apply ESG on their own terms, as a tool of accountability to the people they serve, and should resist requirements that go beyond what is necessary and proportionate.

## Material Topics for Non-Profits

The materiality assessment described in chapter 17 applies to non-profit organisations as well. The table below lists the topics that are most often material for them and the questions donors, partners and stakeholders typically ask.

| Pillar | Topic                               | Typical questions                                                                                                                                                          |
|--------|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| E      | Travel and emissions                | What are your emissions from flights and other travel, offices and events? Do you have a travel policy that prefers alternatives to flying? Do you have reduction targets? |
| E      | Environmental impact of programmes  | Do your programmes, such as construction, distribution of goods, agricultural support or humanitarian logistics, cause environmental harm? Do you assess and reduce it?    |
| E      | Procurement and waste               | Do you apply environmental criteria to procurement? How do you manage waste, including electronic waste and packaging in distributions?                                    |
| S      | Staff and volunteer wellbeing       | How do you manage workload, burnout and secondary trauma among staff exposed to distressing situations? Do staff have access to psychological support?                     |
| S      | Security and duty of care           | How do you protect staff and partners working in hostile environments, including human rights defenders at risk of surveillance, harassment or violence?                   |
| S      | Fair employment and equal treatment | Are salaries fair and transparent? What is your gender pay gap? Are local and international staff treated fairly? Do interns and volunteers receive fair treatment?        |

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<sup>162</sup> Council of Europe, Recommendation CM/Rec(2007)14 of the Committee of Ministers to member states on the legal status of non-governmental organisations in Europe, adopted on 10 October 2007. <https://rm.coe.int/16807096b7>

| Pillar | Topic                                      | Typical questions                                                                                                                                                      |
|--------|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| S      | Safeguarding                               | How do you prevent sexual exploitation, abuse and harassment of beneficiaries, staff and volunteers? How do you respond to allegations?                                |
| S      | Accountability to affected people          | How do the people you serve participate in decisions that affect them? Can they give feedback and complain safely? What do you do with the feedback?                   |
| S      | Protection of beneficiaries' data          | How do you protect the personal and sensitive data of the people you serve, particularly in contexts where its disclosure could put them at risk?                      |
| S      | Partners                                   | How do you assess the capacity and practices of implementing partners? How do you ensure fair partnership terms, including adequate overhead costs for local partners? |
| G      | Board and governance                       | Is the board independent of management? Does it have the necessary skills? How are board members appointed and renewed?                                                |
| G      | Conflicts of interest                      | How are conflicts of interest of board members, staff and partners identified, declared and managed?                                                                   |
| G      | Financial integrity                        | Are accounts audited? How do you prevent and detect fraud and corruption, including in partner organisations?                                                          |
| G      | Transparency                               | Do you publish your annual report, audited accounts, sources of funding and the remuneration of senior staff?                                                          |
| G      | Fundraising ethics and donor due diligence | Do you have a policy on which donations you accept? How do you assess the risk that a donor's money, reputation or conditions conflict with your mission?              |
| G      | Advocacy and political engagement          | Is your advocacy work transparent? Are you registered in the relevant transparency registers? How do you preserve your independence?                                   |

## Safeguarding: The Sector's Most Serious Social Risk

Safeguarding means protecting people, in particular children and adults in vulnerable situations, from harm caused by the organisation's staff, volunteers, partners or programmes, and responding properly when harm occurs. It is the social topic with the most severe potential impacts for many non-profit organisations, because their staff work with people who depend on them for assistance, protection or services, which creates a significant imbalance of power.

The reference standards for the sector include the six core principles on protection from sexual exploitation and abuse of the Inter-Agency Standing Committee, adopted in 2002 and revised in 2019, which among other things classify sexual exploitation and abuse as gross misconduct, prohibit sexual activity with children and the exchange of money, employment, goods or services for sex, and oblige staff to report concerns.<sup>163</sup> The Core Humanitarian Standard on Quality and Accountability, revised in 2024, sets out nine commitments to people and communities affected by crisis and vulnerability, including commitments on the safety of people, the handling of complaints and the conduct of staff.<sup>164</sup>

A credible safeguarding system includes:

1. A safeguarding policy and code of conduct, signed by all staff, volunteers, board members and partners.
2. Safer recruitment, including reference checks and, where lawful, criminal record checks, and participation in inter-agency schemes for sharing information about misconduct.
3. Risk assessment of programmes, activities and partners.
4. Safe, accessible and confidential reporting channels for beneficiaries, staff and partners, in local languages.
5. A survivor-centred response, including support for survivors, independent investigation and consistent sanctions, regardless of the seniority of the person concerned.
6. Reporting to the board, to donors and, where required, to regulators and authorities, without minimising the seriousness of cases.
7. Regular training and monitoring.

Example: In February 2018, media reports revealed that senior staff of Oxfam GB had engaged in sexual misconduct, including with people who may have been minors, during the response to the 2010 earthquake in Haiti, and that the organisation had not been fully transparent about it. In June 2019, the Charity Commission for England and Wales published the report of its statutory inquiry. It found a culture within the charity that tolerated poor behaviour, safeguarding capacity that did not match the size and complexity of the organisation's work, weaknesses in record keeping and vetting, more lenient treatment of senior staff than of junior staff in similar cases, and reports to donors and the regulator that were not sufficiently open about the seriousness of the incidents. The Commission issued an official warning and required the trustees to submit an

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<sup>163</sup> Inter-Agency Standing Committee, *Six Core Principles Relating to Sexual Exploitation and Abuse*, 2019. <https://psea.interagencystandingcommittee.org/resources/iasc-six-core-principles-relating-sexual-exploitation-and-abuse>

<sup>164</sup> CHS Alliance, Groupe URD and the Sphere Project, *The Core Humanitarian Standard on Quality and Accountability*, 2024 edition. <https://library.alnap.org/node/118064>

action plan.<sup>165</sup> The case shows that safeguarding failures are governance failures, and that the decision to protect the organisation's reputation by limiting disclosure causes far greater damage than open reporting.

## A Proportionate Reporting Approach

Most non-profit organisations do not need a separate sustainability report. A proportionate approach integrates ESG information into the annual report that the organisation already publishes, structured around its material topics. Two standards are suitable as a basis:

- **The EU voluntary sustainability reporting standard**, whose basic module provides a simple and recognised set of disclosures on energy, emissions, workforce, health and safety, and anti-corruption. Its structure is designed for undertakings, but most of its disclosures can be applied by non-profit organisations without difficulty.
- **The GRI Standards**, applied "with reference to" the standards, which allows the organisation to select the disclosures relevant to its material topics.

Organisations in the humanitarian and development sectors can also use the Core Humanitarian Standard and the Global Standard for CSO Accountability developed by Accountable Now and its partners, which address accountability to affected people, partners and donors in a way that corporate standards do not.

### *Reporting Checklist for Non-Profits*

The checklist in chapter 18 applies in principle, but most of its questions are written for companies. The table below lists the questions that a non-profit organisation should answer in its annual report. Core questions apply to every organisation; Full questions apply to larger organisations and to those working with people in vulnerable situations.

| Code | Question                                        | What your answer must contain                                                                                                                               | Level |
|------|-------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| NP-1 | What is your mission, and how do you pursue it? | Mission; main programmes and countries; number of staff and volunteers; budget and main sources of funding by type (public, private, individual, corporate) | Core  |

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<sup>165</sup> Charity Commission for England and Wales, *Charity Commission reports on inquiry into Oxfam GB*, 11 June 2019. <https://www.gov.uk/government/news/charity-commission-reports-on-inquiry-into-oxfam-gb-no-charity-is-more-important-than-the-people-it-serves-or-the-mission-it-pursues>

| Code | Question                                                          | What your answer must contain                                                                                                                                                | Level                                                             |
|------|-------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|
| NP-2 | What are your material topics?                                    | The method used to identify them, the stakeholders involved, including the people the organisation serves, and the resulting list                                            | Full                                                              |
| NP-3 | What results have you achieved, and how do you know?              | Outcomes, not only activities, measured against objectives; the methods used to evaluate them; independent evaluations where they exist; unintended negative effects         | Core                                                              |
| NP-4 | What are your greenhouse gas emissions?                           | Scope 1 and 2 emissions, and emissions from business travel at a minimum; the method; reduction targets and measures, such as a travel policy                                | Core                                                              |
| NP-5 | How do you manage the environmental impact of your programmes?    | Environmental screening of programmes; main impacts identified; measures taken; any commitments, such as the Climate and Environment Charter for Humanitarian Organizations  | Full                                                              |
| NP-6 | Who works for you, and on what terms?                             | Number of staff by gender, contract type and location; number of volunteers; turnover; pay policy; ratio between the highest and the median salary; gender pay gap           | Core                                                              |
| NP-7 | How do you protect the wellbeing and security of your staff?      | Policies on workload, psychosocial support, security and duty of care; incidents affecting staff security; work-related injuries and ill health                              | Core                                                              |
| NP-8 | How do you safeguard the people you work with?                    | Safeguarding policy; training; reporting channels; number of allegations received, investigated and substantiated, by type; outcomes; reports made to donors and authorities | Core for organisations working with children or vulnerable adults |
| NP-9 | How are the people you serve involved, and how can they complain? | Participation in programme design; feedback and complaint mechanisms; number and types of complaints; changes made as a result                                               | Full                                                              |

| Code  | Question                                                        | What your answer must contain                                                                                                                                                                                                              | Level |
|-------|-----------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| NP-10 | How do you protect personal data?                               | Data protection policy; responsibility; protection of sensitive data of beneficiaries; data breaches                                                                                                                                       | Core  |
| NP-11 | How do you select, support and monitor partners?                | Partner assessment; capacity strengthening; terms of partnership, including overhead costs; monitoring; problems identified and measures taken                                                                                             | Full  |
| NP-12 | How is your organisation governed?                              | Board composition, independence, gender and skills; appointment and term limits; meetings; how the board oversees risks, including safeguarding and fraud                                                                                  | Core  |
| NP-13 | How do you prevent fraud, corruption and conflicts of interest? | Policies; controls, including in partner organisations; cases detected, losses and recoveries; whistleblowing channel and the number of reports                                                                                            | Core  |
| NP-14 | How transparent are you about your finances?                    | Audited accounts; sources of funding, including the largest donors where they agree to disclosure; the remuneration of senior staff; the share of expenditure on programmes, administration and fundraising, with the method of allocation | Core  |
| NP-15 | Which funding do you accept?                                    | Policy on accepting donations and partnerships; due diligence on donors; any funding refused or returned and why                                                                                                                           | Full  |

**Warning.** The share of expenditure on administration is often used by donors and the public as a measure of efficiency. It is a poor measure on its own. Organisations that cut administrative costs to show a low ratio often underinvest in exactly the systems this chapter describes: safeguarding, financial controls, data protection and staff wellbeing. Organisations should report the ratio honestly, explain what their administrative costs pay for, and argue for adequate funding of these functions.

## Getting Started

A non-profit organisation that starts from nothing can build a credible basis in six steps:

1. **Assign responsibility** to a member of the senior management and inform the board, which should review the subject at least once a year.
2. **Check legal and donor requirements**, in particular on data protection, whistleblowing, safeguarding, financial controls and occupational health and safety.
3. **Identify the material topics** with staff, partners, and representatives of the people the organisation serves, using the table above as a starting list.
4. **Adopt the core policies:** code of conduct, safeguarding, anti-fraud and anti-corruption, conflict of interest, whistleblowing, data protection, and an environmental and travel policy.
5. **Measure a small set of indicators**, starting with travel and energy emissions, staff data, safeguarding cases and financial integrity cases.
6. **Report in the annual report**, using the checklist above, and improve coverage every year.

Non-profit organisations hold a particular position in the field of ESG. They are the source of much of the scrutiny that companies face, through research, campaigns, complaints to National Contact Points and litigation. Applying the same standards to themselves strengthens the legitimacy of that scrutiny and protects the people they exist to serve.

## Part 5. Annotated Resources

Part 5 lists the key documents, standards and websites referred to in this guide, with a short explanation of what each contains and when it is useful. The resources are grouped in eight chapters. Within each chapter, they are listed in the order in which a reader is most likely to need them. All links were checked at the time of writing. Laws and standards are amended frequently, so readers should always consult the version in force on the official website of the issuing body.

## 22. International Conventions and Declarations

### **Universal Declaration of Human Rights** (United Nations, 1948)

The foundational statement of the human rights to which every person is entitled. It is the common reference point of the UN Guiding Principles, the OECD Guidelines, the UN Global Compact and the human rights policies of companies.

<https://www.un.org/en/about-us/universal-declaration-of-human-rights>

### **International Covenant on Civil and Political Rights and International Covenant on Economic, Social and Cultural Rights** (United Nations, 1966)

Together with the Universal Declaration, they form the International Bill of Human Rights, which the UN Guiding Principles identify as the minimum reference for the human rights that companies must respect. The second Covenant covers the rights to work, to just and favourable conditions of work, to form trade unions, to health and to an adequate standard of living.

<https://www.ohchr.org/en/instruments-mechanisms/instruments/international-covenant-civil-and-political-rights>

<https://www.ohchr.org/en/instruments-mechanisms/instruments/international-covenant-economic-social-and-cultural-rights>

### **ILO Declaration on Fundamental Principles and Rights at Work** (International Labour Organization, 1998, amended 2022)

Commits all ILO member states to respect five fundamental principles: freedom of association and collective bargaining, the elimination of forced labour, the abolition of child labour, the elimination of discrimination, and a safe and healthy working environment. It is the basis of the labour provisions in all major reporting and due diligence frameworks.

<https://www.ilo.org/ilo-declaration-fundamental-principles-and-rights-work>

### **ILO NORMLEX database** (International Labour Organization)

The official database of all ILO conventions and recommendations, their texts and their ratification status by country. Useful for checking which labour standards a country has ratified when assessing risks in operations and supply chains.

<https://normlex.ilo.org>

### **UN Declaration on the Rights of Indigenous Peoples** (United Nations, 2007)

Sets out the individual and collective rights of indigenous peoples, including the right to free, prior and informed consent on matters affecting their lands, territories and resources. Essential for companies in extractive industries, energy, agriculture and infrastructure.

<https://www.un.org/development/desa/indigenouspeoples/declaration-on-the-rights-of-indigenous-peoples.html>

**Paris Agreement** (UNFCCC, 2015)

The global agreement to hold warming well below 2°C and pursue efforts to limit it to 1.5°C. It is the reference point for corporate emission targets, transition plans and science-based targets.

<https://unfccc.int/process-and-meetings/the-paris-agreement>

**Transforming Our World: the 2030 Agenda for Sustainable Development** (United Nations, 2015)

The framework of the 17 Sustainable Development Goals and 169 targets, which organisations use to describe their contribution to sustainable development.

<https://sdgs.un.org/2030agenda>

**Kunming-Montreal Global Biodiversity Framework** (Convention on Biological Diversity, 2022)

Sets 23 global targets for 2030 to halt and reverse the loss of nature. Its Target 15 calls for large companies and financial institutions to assess and disclose their risks, dependencies and impacts on biodiversity.

<https://www.cbd.int/gbf>

**United Nations Convention against Corruption** (United Nations, 2003)

The only legally binding universal anti-corruption instrument. It is the reference for anti-corruption policies and for the minimum safeguards of the EU Taxonomy.

<https://www.unodc.org/unodc/en/treaties/CAC/>

**OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions** (OECD, 1997)

Requires its parties to criminalise the bribery of foreign public officials. It underpins national laws with extraterritorial reach that apply to multinational companies.

<https://www.oecd.org/corruption/oecdantibriberyconvention.htm>

**European Convention on Human Rights** (Council of Europe, 1950)

The core human rights treaty of the 46 member states of the Council of Europe, interpreted by the European Court of Human Rights. Its case law shapes obligations of states that affect business, including on privacy, property, non-discrimination, freedom of expression and, since 2024, climate change.

<https://www.echr.coe.int/european-convention-on-human-rights>

**European Social Charter** (Council of Europe, 1961, revised 1996)

Guarantees social and economic rights, including just and safe working conditions, fair remuneration, the right to organise and bargain collectively, and protection against discrimination. Its implementation is monitored by the European Committee of Social Rights.

<https://www.coe.int/en/web/european-social-charter>

**Convention 108+ for the protection of individuals with regard to the processing of personal data** (Council of Europe, 1981, modernised 2018)

The only legally binding international treaty on data protection, open to states worldwide.

<https://www.coe.int/en/web/data-protection/convention108-and-protocol>

**Framework Convention on Artificial Intelligence and Human Rights, Democracy and the Rule of Law** (Council of Europe, CETS No. 225, 2024)

The first legally binding international treaty on artificial intelligence. Relevant to companies that develop or deploy AI systems that may affect human rights.

<https://www.coe.int/en/web/artificial-intelligence/the-framework-convention-on-artificial-intelligence>

## 23. Business and Human Rights Frameworks

### **UN Guiding Principles on Business and Human Rights** (United Nations, 2011)

The authoritative global standard on the responsibility of companies to respect human rights, based on three pillars: the state duty to protect, the corporate responsibility to respect and access to remedy. Every reader working on the social pillar should read Principles 11 to 24 and 28 to 31 in full.

[https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr\\_en.pdf](https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr_en.pdf)

### **UN Guiding Principles Reporting Framework** (Shift and Mazars, 2015)

A set of questions that guide companies in reporting on how they respect human rights, focused on their salient human rights issues. Useful for preparing the human rights sections of a report under any standard.

<https://www.ungpreporting.org>

### **OECD Guidelines for Multinational Enterprises on Responsible Business Conduct** (OECD, 2023 edition)

Government-backed recommendations to companies on disclosure, human rights, employment, environment, bribery, consumer interests, technology, competition and taxation, with a complaints mechanism through National Contact Points.

[https://www.oecd.org/en/publications/oecd-guidelines-for-multinational-enterprises-on-responsible-business-conduct\\_81f92357-en](https://www.oecd.org/en/publications/oecd-guidelines-for-multinational-enterprises-on-responsible-business-conduct_81f92357-en)

### **OECD Due Diligence Guidance for Responsible Business Conduct** (OECD, 2018)

Explains the six-step due diligence process in practical terms, with examples and answers to frequently asked questions. It is the most useful single document for designing a due diligence system and is the basis of the CSDDD.

<https://mneguidelines.oecd.org/due-diligence-guidance-for-responsible-business-conduct.htm>

### **OECD sector-specific due diligence guidance** (OECD)

Detailed guidance for minerals from conflict-affected and high-risk areas, garments and footwear, agricultural supply chains, the extractive sector and the financial sector.

<https://mneguidelines.oecd.org/duediligence/>

### **The Ten Principles of the UN Global Compact** (UN Global Compact, 2000)

Ten principles on human rights, labour, environment and anti-corruption, to which participating companies commit and on which they report annually.

<https://unglobalcompact.org/what-is-gc/mission/principles>

**IFC Performance Standards on Environmental and Social Sustainability** (International Finance Corporation, 2012)

Eight standards that define the environmental and social requirements for projects financed by the IFC and, through the Equator Principles, by many commercial banks. Particularly detailed on labour, community health and safety, land acquisition, biodiversity and indigenous peoples.

<https://www.ifc.org/en/insights-reports/2012/ifc-performance-standards>

**Voluntary Principles on Security and Human Rights** (Voluntary Principles Initiative, 2000)

Guidance for extractive companies on maintaining the safety and security of operations while respecting human rights, including in relations with public and private security providers.

<https://www.voluntaryprinciples.org>

**Shift** (independent centre of expertise on the UN Guiding Principles)

Publishes practical resources on human rights due diligence, salient issues, leverage, remedy and the design of business models that respect human rights.

<https://shiftproject.org>

## 24. Reporting Standards and Frameworks

**European Sustainability Reporting Standards, revised** (Commission Delegated Regulation (EU) 2026/1563)

The mandatory standards for companies subject to the CSRD, applicable from financial year 2027. Two cross-cutting and ten topical standards based on double materiality.  
[https://eur-lex.europa.eu/eli/reg\\_del/2026/1563/oj](https://eur-lex.europa.eu/eli/reg_del/2026/1563/oj)

**EU voluntary sustainability reporting standard** (Commission Delegated Regulation (EU) 2026/1560)

A voluntary standard for undertakings with up to 1,000 employees that are not subject to the CSRD, with a basic and a comprehensive module. It also defines the value chain cap. The most practical starting point for small and medium-sized enterprises.  
[https://eur-lex.europa.eu/eli/reg\\_del/2026/1560/oj](https://eur-lex.europa.eu/eli/reg_del/2026/1560/oj)

**EFRAG** (European Financial Reporting Advisory Group)

The body that develops the ESRS and the voluntary standard for the European Commission. Its website publishes implementation guidance, explanations and educational material.  
<https://www.efrag.org>

**GRI Standards** (Global Reporting Initiative)

The most widely used standards for reporting on impacts on the economy, the environment and people. Free to download, with Universal, Sector and Topic Standards.  
<https://www.globalreporting.org/standards/>

**IFRS S1 and IFRS S2** (International Sustainability Standards Board, 2023)

The global baseline of sustainability-related financial disclosures for investors, adopted or being adopted by more than thirty jurisdictions. IFRS S2 covers climate-related disclosures.  
<https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements/>  
<https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures/>

**SASB Standards** (maintained by the ISSB)

Industry-specific disclosure topics and metrics for 77 industries. Useful for identifying financially material topics in a given industry.  
<https://sasb.ifrs.org/standards/>

**GHG Protocol Corporate Standard and Corporate Value Chain (Scope 3) Standard** (World Resources Institute and World Business Council for Sustainable Development)

The global standards for measuring and reporting greenhouse gas emissions, used by all major

reporting frameworks. The website also provides calculation tools and sector guidance.  
<https://ghgprotocol.org/corporate-standard>  
<https://ghgprotocol.org/corporate-value-chain-scope-3-standard>

**TNFD Recommendations** (Taskforce on Nature-related Financial Disclosures, 2023)  
Recommendations and guidance for identifying, assessing and disclosing nature-related dependencies, impacts, risks and opportunities, including the LEAP approach.  
<https://tnfd.global>

**Science Based Targets initiative** (SBTi)  
Criteria, standards and validation for corporate greenhouse gas reduction targets, including the Corporate Net-Zero Standard.  
<https://sciencebasedtargets.org>

**CDP** (formerly the Carbon Disclosure Project)  
The global environmental disclosure system for climate change, forests and water. Companies respond at the request of investors and major buyers.  
<https://www.cdp.net>

**Integrated Reporting Framework** (IFRS Foundation)  
Principles for a concise report that connects financial and sustainability information and explains how an organisation creates value over time.  
<https://integratedreporting.ifrs.org>

**ESRS and ISSB interoperability guidance** (EFRAG and IFRS Foundation, 2024) and **GRI-ESRS interoperability index** (GRI and EFRAG, 2023)  
Explain how to report under more than one standard without duplicating work.  
<https://www.efrag.org/en/news-and-calendar/news/ifrs-foundation-and-efrag-publish-interoperability-guidance>  
<https://globalreporting.org/news/news-center/efrag-gri-joint-statement-of-interoperability/>

## 25. EU Legislation

All EU legislation is available free of charge, in all official languages, on EUR-Lex. The links below lead to the original act; the consolidated version, which incorporates later amendments, is available from the same page.

| Act                                 | What it covers                                                                                | Link                                                                                                        |
|-------------------------------------|-----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| Directive (EU) 2022/2464 (CSRD)     | Sustainability reporting by large companies                                                   | <a href="https://eur-lex.europa.eu/eli/dir/2022/2464/oj">https://eur-lex.europa.eu/eli/dir/2022/2464/oj</a> |
| Directive (EU) 2026/470 (Omnibus I) | Amendments to the scope and content of the CSRD and the CSDDD                                 | <a href="https://eur-lex.europa.eu/eli/dir/2026/470/oj">https://eur-lex.europa.eu/eli/dir/2026/470/oj</a>   |
| Directive (EU) 2024/1760 (CSDDD)    | Human rights and environmental due diligence by the largest companies                         | <a href="https://eur-lex.europa.eu/eli/dir/2024/1760/oj">https://eur-lex.europa.eu/eli/dir/2024/1760/oj</a> |
| Regulation (EU) 2020/852 (Taxonomy) | Classification of environmentally sustainable economic activities                             | <a href="https://eur-lex.europa.eu/eli/reg/2020/852/oj">https://eur-lex.europa.eu/eli/reg/2020/852/oj</a>   |
| Regulation (EU) 2019/2088 (SFDR)    | Sustainability disclosures by financial market participants                                   | <a href="https://eur-lex.europa.eu/eli/reg/2019/2088/oj">https://eur-lex.europa.eu/eli/reg/2019/2088/oj</a> |
| Regulation (EU) 2023/1115 (EUDR)    | Deforestation-free products                                                                   | <a href="https://eur-lex.europa.eu/eli/reg/2023/1115/oj">https://eur-lex.europa.eu/eli/reg/2023/1115/oj</a> |
| Regulation (EU) 2024/3015           | Prohibition of products made with forced labour                                               | <a href="https://eur-lex.europa.eu/eli/reg/2024/3015/oj">https://eur-lex.europa.eu/eli/reg/2024/3015/oj</a> |
| Regulation (EU) 2023/956 (CBAM)     | Carbon Border Adjustment Mechanism                                                            | <a href="https://eur-lex.europa.eu/eli/reg/2023/956/oj">https://eur-lex.europa.eu/eli/reg/2023/956/oj</a>   |
| Regulation (EU) 2023/1542           | Batteries, including supply chain due diligence                                               | <a href="https://eur-lex.europa.eu/eli/reg/2023/1542/oj">https://eur-lex.europa.eu/eli/reg/2023/1542/oj</a> |
| Directive (EU) 2024/825             | Empowering consumers for the green transition; prohibition of misleading environmental claims | <a href="https://eur-lex.europa.eu/eli/dir/2024/825/oj">https://eur-lex.europa.eu/eli/dir/2024/825/oj</a>   |

| Act                               | What it covers                                                   | Link                                                                                                        |
|-----------------------------------|------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| Directive (EU) 2023/970           | Pay transparency and equal pay for women and men                 | <a href="https://eur-lex.europa.eu/eli/dir/2023/970/oj">https://eur-lex.europa.eu/eli/dir/2023/970/oj</a>   |
| Directive (EU) 2019/1937          | Protection of whistleblowers                                     | <a href="https://eur-lex.europa.eu/eli/dir/2019/1937/oj">https://eur-lex.europa.eu/eli/dir/2019/1937/oj</a> |
| Regulation (EU) 2016/679 (GDPR)   | Protection of personal data                                      | <a href="https://eur-lex.europa.eu/eli/reg/2016/679/oj">https://eur-lex.europa.eu/eli/reg/2016/679/oj</a>   |
| Regulation (EU) 2024/3005         | Transparency and integrity of ESG rating activities              | <a href="https://eur-lex.europa.eu/eli/reg/2024/3005/oj">https://eur-lex.europa.eu/eli/reg/2024/3005/oj</a> |
| Council Directive 89/391/EEC      | Framework Directive on safety and health at work                 | <a href="https://eur-lex.europa.eu/eli/dir/1989/391/oj">https://eur-lex.europa.eu/eli/dir/1989/391/oj</a>   |
| Directive 2012/18/EU (Seveso III) | Control of major-accident hazards involving dangerous substances | <a href="https://eur-lex.europa.eu/eli/dir/2012/18/oj">https://eur-lex.europa.eu/eli/dir/2012/18/oj</a>     |

**EBA Guidelines on the management of ESG risks** (European Banking Authority, 2025)

Explain what banks in the EU must do to identify, measure and manage ESG risks, and therefore what information they will ask from their corporate clients.

<https://www.eba.europa.eu/publications-and-media/press-releases/eba-publishes-its-final-guidelines-management-esg-risks>

## 26. Other Jurisdictions

### **UK Sustainability Reporting Standards (UK SRS S1 and UK SRS S2)** (UK Government, 2026)

The UK versions of IFRS S1 and IFRS S2, published in February 2026.

<https://www.hsfkramer.com/notes/esg/2026-posts/uk-government-issues-final-uk-sustainability-reporting-standards>

### **Modern Slavery Act 2015** (United Kingdom)

Requires commercial organisations with a turnover of at least GBP 36 million carrying on business in the UK to publish an annual modern slavery statement.

<https://www.legislation.gov.uk/ukpga/2015/30>

### **California Climate Corporate Data Accountability Act (SB 253)** (California, 2023)

Requires large companies doing business in California to report their greenhouse gas emissions.

[https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=202320240SB253](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240SB253)

### **Uyghur Forced Labor Prevention Act** (United States, 2021)

Establishes a rebuttable presumption that goods made in the Xinjiang Uyghur Autonomous Region are made with forced labour. The US Customs and Border Protection website explains its application.

<https://www.cbp.gov/trade/forced-labor/UFLPA>

### **Australian Sustainability Reporting Standards** (Australian Accounting Standards Board)

AASB S1 and AASB S2, the Australian versions of the ISSB standards; AASB S2 is mandatory for entities in scope.

<https://www.aasb.gov.au>

### **Sustainability Standards Board of Japan** (SSBJ)

Publishes the Japanese sustainability disclosure standards based on IFRS S1 and IFRS S2.

<https://www.ssb-j.jp/en/>

### **French Duty of Vigilance Law** (Loi n° 2017-399, France)

The first national law requiring large companies to establish and implement a due diligence plan covering human rights, health and safety and the environment.

<https://www.legifrance.gouv.fr/jorf/id/JORFTEXT000034290626>

### **German Supply Chain Due Diligence Act** (Lieferkettensorgfaltspflichtengesetz)

The Federal Office for Economic Affairs and Export Control (BAFA), which enforces the act, publishes guidance and handouts in English.

[https://www.bafa.de/EN/Supply\\_Chain\\_Act/Overview/overview](https://www.bafa.de/EN/Supply_Chain_Act/Overview/overview)

**Norwegian Transparency Act** (Norway, 2021)  
Requires large enterprises to carry out human rights due diligence, publish an account of it and respond to requests for information from the public.  
<https://lovdata.no/dokument/NLE/lov/2021-06-18-99>

**ISSB adoption tracker** (S&P Global Sustainable1)  
Regularly updated overview of which jurisdictions have adopted the ISSB standards and on what timeline.  
<https://www.spglobal.com/sustainable1/en/insights/research-reports/issb-q3-2026>

## 27. EHS Standards and Guidance

### **ISO 45001 Occupational health and safety management systems (ISO)**

The international standard for OHS management systems, based on hazard identification, risk assessment, worker participation and continual improvement.

<https://www.iso.org/standard/63787.html>

### **ISO 14001 Environmental management systems (ISO, revised 2026)**

The international standard for environmental management systems. The 2026 revision strengthens requirements on climate change, the life cycle perspective and biodiversity.

<https://www.iso.org/iso-14001-environmental-management.html>

ILO Occupational Safety and Health Convention, 1981 (No. 155) and Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187)

The two fundamental ILO conventions on occupational safety and health. Their texts and ratifications are available in NORMLEX.

<https://normlex.ilo.org>

### **World Bank Group Environmental, Health, and Safety Guidelines (IFC and World Bank)**

General and industry-specific technical guidelines with examples of good international industry practice, emission limits and OHS measures.

<https://www.ifc.org/en/insights-reports/general-environmental-health-and-safety-guidelines>

### **European Agency for Safety and Health at Work (EU-OSHA)**

Publishes guidance, risk assessment tools (including the OiRA tool for small enterprises), research and campaigns on health and safety at work, including psychosocial risks.

<https://osha.europa.eu>

### **Health and Safety Executive (United Kingdom)**

One of the most comprehensive free sources of practical guidance on risk assessment, specific hazards, process safety and safety management.

<https://www.hse.gov.uk>

### **Occupational Safety and Health Administration (United States)**

Guidance on hazards and on recording and reporting work-related injuries and illnesses, the basis of the TRIR metric.

<https://www.osha.gov>

### **ILO Safety and Health at Work (International Labour Organization)**

Global statistics, standards and guidance on occupational safety and health.

<https://www.ilo.org/topics/safety-and-health-work>

## 28. Practical Guides and Toolkits

**Building a Sustainable Future: ESG Business Handbook** (The AIRE Centre and UNDP Bosnia and Herzegovina, written with Sustineri Partners, 2023)

A practical handbook for companies in Bosnia and Herzegovina and the wider region, explaining the business case for ESG, the main frameworks and steps for implementation, with regional case studies. Available in English and in the local languages.

[https://airewb.org/wp-content/uploads/PUBLICATIONS/OTH\\_EN\\_building-sustainable-future-esg-business-Handbook.pdf](https://airewb.org/wp-content/uploads/PUBLICATIONS/OTH_EN_building-sustainable-future-esg-business-Handbook.pdf)

**ESG Reporting Guidelines** (Bucharest Stock Exchange, with the support of the EBRD, 2022) Guidelines for listed companies in Romania, with clear explanations of reporting principles and recommended indicators. A useful model for companies in Central and South-East Europe; the description of EU legislation predates the 2026 changes.

[https://ebrd.com/content/dam/ebrd\\_dxp/assets/pdfs/green-economy-transition/Bucharest%20Stock%20Exchange%20ESG.pdf](https://ebrd.com/content/dam/ebrd_dxp/assets/pdfs/green-economy-transition/Bucharest%20Stock%20Exchange%20ESG.pdf)

**How to Prepare an ESG Report: A Step-by-Step Guide to ESG Reporting** (Hong Kong Exchanges and Clearing, 2020)

A clear, practical guide through the reporting process, from establishing a working group to materiality and target setting, with a materiality table by industry. Written for the Hong Kong rules, but the method applies everywhere.

<https://www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Other-Resources/Letters-to-Issuers/2020/20200306.pdf>

**ESG Toolkit for NGOs** (PwC Hong Kong, 2023)

An introduction to ESG for non-profit organisations, covering stakeholder engagement, materiality, strategy, climate risk, staff wellbeing, community impact and board oversight.

<https://www.pwccn.com/en/corporate-sustainability/esg-toolkit-ngos.pdf>

**Environmental, Social, and Governance Issues in Investing: A Guide for Investment Professionals** (CFA Institute, 2015)

Explains how investors integrate ESG factors into analysis and decisions. Useful for understanding what investors look for in company disclosures.

<https://www.cfainstitute.org/-/media/documents/article/position-paper/esg-issues-in-investing-a-guide-for-investment-professionals.pdf>

**EFRAF implementation guidance** (EFRAF, 2024)

Implementation guidance on the materiality assessment (IG 1), the value chain (IG 2) and the list of ESRS datapoints (IG 3). Prepared for the first set of ESRS, but its methodological explanations

remain

<https://www.efrag.org>

useful.

## 29. Useful Websites and Databases

| Resource                                       | What it offers                                                                               | Link                                                                                                                                                  |
|------------------------------------------------|----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| WRI Aqueduct Water Risk Atlas                  | Maps of water stress and other water risks, used to identify sites in water-stressed areas   | <a href="https://www.wri.org/aqueduct">https://www.wri.org/aqueduct</a>                                                                               |
| Integrated Biodiversity Assessment Tool (IBAT) | Data on protected areas, Key Biodiversity Areas and threatened species, used to screen sites | <a href="https://www.ibat-alliance.org">https://www.ibat-alliance.org</a>                                                                             |
| Global Forest Watch                            | Near real-time data and maps of tree cover loss and deforestation                            | <a href="https://www.globalforestwatch.org">https://www.globalforestwatch.org</a>                                                                     |
| Business & Human Rights Resource Centre        | Allegations against companies, company responses and news on business and human rights       | <a href="https://www.business-humanrights.org">https://www.business-humanrights.org</a>                                                               |
| World Benchmarking Alliance                    | Benchmarks of the largest companies, including the Corporate Human Rights Benchmark          | <a href="https://www.worldbenchmarkingalliance.org">https://www.worldbenchmarkingalliance.org</a>                                                     |
| KnowTheChain                                   | Benchmarks of corporate efforts to address forced labour in supply chains                    | <a href="https://knowthechain.org">https://knowthechain.org</a>                                                                                       |
| US Department of Labor, List of                | Goods and countries with                                                                     | <a href="https://www.dol.gov/agencies/ilab/reports/child-labor/list-of-goods">https://www.dol.gov/agencies/ilab/reports/child-labor/list-of-goods</a> |

| Resource                                                | What it offers                                                                                   | Link                                                                                          |
|---------------------------------------------------------|--------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| Goods Produced by Child Labor or Forced Labor           | significant risk of child or forced labour                                                       |                                                                                               |
| Transparency International Corruption Perceptions Index | Country scores on perceived public sector corruption, used in corruption risk assessments        | <a href="https://www.transparency.org/en/cpi">https://www.transparency.org/en/cpi</a>         |
| ILOSTAT                                                 | Global labour statistics, including occupational injuries, wages and working time                | <a href="https://ilostat.ilo.org">https://ilostat.ilo.org</a>                                 |
| Climate Change Laws of the World                        | Database of climate laws, policies and litigation, maintained by the Grantham Research Institute | <a href="https://climate-laws.org">https://climate-laws.org</a>                               |
| EU Transparency Register                                | Register of organisations that seek to influence EU decision-making                              | <a href="https://transparency-register.europa.eu">https://transparency-register.europa.eu</a> |
| UN Principles for Responsible Investment                | Resources on how investors integrate ESG and engage with companies                               | <a href="https://www.unpri.org">https://www.unpri.org</a>                                     |
| Integrity Council for the Voluntary Carbon Market       | The Core Carbon Principles and the list of approved carbon credit programmes                     | <a href="https://icvcm.org">https://icvcm.org</a>                                             |

## Annexes

The two annexes provide practical tools for applying the guide: a self-assessment of readiness and a template for the register of impacts, risks and opportunities.

## A1. ESG Readiness Self-Assessment

This self-assessment helps an organisation see where it stands and where to start. For each statement, choose the score that best describes the current situation: 0 means not in place, 1 means partly in place, and 2 means fully in place and documented. Add the scores for each area and for the whole assessment.

| Area         | Statement                                                                                                                      | Score (0, 1 or 2) |
|--------------|--------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Governance   | The board or a board committee has formal responsibility for overseeing sustainability matters.                                |                   |
| Governance   | A member of executive management is accountable for sustainability, and a cross-functional working group coordinates the work. |                   |
| Governance   | The board discusses material sustainability topics at least twice a year, and the discussions are minuted.                     |                   |
| Requirements | We know which laws, standards and customer, investor and lender requirements apply to us.                                      |                   |
| Requirements | We have chosen the reporting standard we will apply.                                                                           |                   |
| Materiality  | We have carried out a materiality assessment covering both impacts and financial effects within the last two years.            |                   |
| Materiality  | The assessment covered our value chain and involved affected stakeholders or their representatives.                            |                   |
| Materiality  | The assessment is documented with sources, scores, thresholds and approvals.                                                   |                   |
| Policies     | We have a code of conduct approved by the board.                                                                               |                   |
| Policies     | We have policies for each material topic, including human rights, health and safety, environment and anti-corruption.          |                   |
| Policies     | We have a supplier code of conduct that is included in contracts.                                                              |                   |
| Targets      | We have measurable targets with baselines for our material topics.                                                             |                   |
| Targets      | We have absolute greenhouse gas reduction targets for Scope 1 and 2 emissions.                                                 |                   |
| Data         | We have a data inventory that names an owner, a source and a method for each metric we report.                                 |                   |

| Area             | Statement                                                                                                                     | Score (0, 1 or 2) |
|------------------|-------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Data             | We measure our energy consumption and our Scope 1 and 2 emissions.                                                            |                   |
| Data             | We have screened our Scope 3 emissions and calculated the most significant categories.                                        |                   |
| Data             | Our workforce and health and safety data cover employees and non-employee workers.                                            |                   |
| Data             | Sustainability data is checked and approved before use, and the checks are documented.                                        |                   |
| Due diligence    | We have assessed human rights and environmental risks in our supply chain and prioritised high-risk suppliers.                |                   |
| Due diligence    | Workers, suppliers' workers and communities can raise concerns through accessible and trusted channels.                       |                   |
| Due diligence    | We track the effectiveness of corrective actions and provide remedy where we have caused or contributed to harm.              |                   |
| Business conduct | We have a protected whistleblowing channel, and reports are investigated independently.                                       |                   |
| Business conduct | Employees in functions exposed to corruption risk receive regular training.                                                   |                   |
| Reporting        | We have published, or are ready to publish, a report that covers all our material topics.                                     |                   |
| Reporting        | Our environmental and social claims in marketing and communication are supported by evidence and reviewed before publication. |                   |

**Interpreting the results.** The maximum score is 50.

| Total score | Interpretation                                             | Next steps                                                                                       |
|-------------|------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| 0 to 15     | Starting point. The basic structures are not yet in place. | Follow the eight first steps in chapter 7 and the first two phases of the roadmap in chapter 17. |

| Total score | Interpretation                                                                                | Next steps                                                                                       |
|-------------|-----------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| 16 to 30    | Developing. Several foundations exist, but gaps remain in materiality, data or due diligence. | Close the gaps in the lowest-scoring areas before preparing a full report.                       |
| 31 to 42    | Established. The organisation can produce a credible report.                                  | Prepare for assurance with the readiness review in chapter 19; extend value chain coverage.      |
| 43 to 50    | Advanced. Systems are in place and documented.                                                | Focus on performance improvement, the quality of targets and the effectiveness of due diligence. |

Any area in which the organisation scores 0 on a statement related to a material topic should be treated as a priority, whatever the total score.

## A2. Template: Register of Impacts, Risks and Opportunities

The register records the results of the materiality assessment described in chapter 17. One row is completed for each impact, risk or opportunity. The register should be kept as a spreadsheet, reviewed every year and approved together with the materiality assessment.

| Column                          | Content                                                                 |
|---------------------------------|-------------------------------------------------------------------------|
| ID                              | A unique reference, such as E1-01 for the first IRO on climate change   |
| Sustainability matter           | The topic and sub-topic, using the list in the standard applied         |
| Description                     | A precise description of the impact, risk or opportunity                |
| Type                            | Impact (positive or negative, actual or potential), risk or opportunity |
| Location in value chain         | Own operations, upstream or downstream, with countries or sites         |
| Affected stakeholders           | The people or the parts of the environment affected                     |
| Time horizon                    | Short, medium or long term                                              |
| Scale (1 to 5)                  | For impacts                                                             |
| Scope (1 to 5)                  | For impacts                                                             |
| Irremediable character (1 to 5) | For negative impacts                                                    |
| Likelihood (1 to 5)             | For potential impacts, risks and opportunities                          |
| Financial magnitude (1 to 5)    | For risks and opportunities                                             |
| Impact materiality result       | Material or not material, with the reason                               |
| Financial materiality result    | Material or not material, with the reason                               |
| Evidence and sources            | The documents, data and consultations on which the scores are based     |
| Owner                           | The manager responsible for the topic                                   |
| Policies, actions and targets   | References to the policies, actions and targets that address the IRO    |
| Date of last review             | The date on which the row was last reviewed                             |

The following illustrative example shows how one row may be completed for a food processing company.

| Column                                 | Example                                                                                                                                                                                                                            |
|----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ID                                     | E3-01                                                                                                                                                                                                                              |
| Sustainability matter                  | Water: water withdrawal in water-stressed areas                                                                                                                                                                                    |
| Description                            | Groundwater withdrawal of about 450,000 m <sup>3</sup> per year at the processing plant in a region classified as extremely high water stress, reducing the water available to local farmers and households during summer droughts |
| Type                                   | Negative impact, actual; also a risk of restrictions on water permits                                                                                                                                                              |
| Location in value chain                | Own operations, one plant                                                                                                                                                                                                          |
| Affected stakeholders                  | Farmers and households in the same aquifer; local ecosystems                                                                                                                                                                       |
| Time horizon                           | Short to long term                                                                                                                                                                                                                 |
| Scale / Scope / Irremediable character | 4 / 3 / 3                                                                                                                                                                                                                          |
| Likelihood                             | 5 (occurring)                                                                                                                                                                                                                      |
| Financial magnitude                    | 4 (production losses and permit restrictions in drought years)                                                                                                                                                                     |
| Impact materiality result              | Material: scale 4 triggers the severity override                                                                                                                                                                                   |
| Financial materiality result           | Material: high likelihood and high magnitude                                                                                                                                                                                       |
| Evidence and sources                   | Water meter data; WRI Aqueduct classification; complaints from the local farmers' association; permit conditions                                                                                                                   |
| Owner                                  | Plant director, with the group EHS manager                                                                                                                                                                                         |
| Policies, actions and targets          | Environmental policy; water efficiency programme; target to reduce withdrawal by 30% by 2029                                                                                                                                       |
| Date of last review                    | The date of the board's approval of the materiality assessment                                                                                                                                                                     |

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# ESG and EHS: From Principles to Practice

A Practical Guide to  
Sustainability Strategy,  
Management and Reporting

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