Diligent

How to Prepare for Mandatory Disclosures: **6 Foundational Components of a Mature ESG Program**

Preparing for Future ESG Disclosure Requirements

Stakeholders and shareholders continue to shine an increasingly bright spotlight on environmental, social and governance (ESG) issues. The ongoing global pandemic, questions of social justice and emerging geopolitical risks have driven an increased demand for companies to demonstrate responsible, ethical and sustainable business strategies and operations.

Now regulators are intensifying their own scrutiny:

- In the United States, the Securities and Exchange Commission (SEC) is moving toward mandatory disclosures of the risks corporations face from climate change, as well as actions to manage these risks
- The G7 nations made their own push toward mandatory climate reporting, proposing requirements that follow the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)
- The EU's High-Level Expert Group launched its Sustainable Finance Disclosure Regulations (SFDR) for the finance community, and its accompanying concept of Principal Adverse Impacts (PAIs), which cover sustainability factors that include both environmental and social issues

These measures have big implications for boards, executives, legal and investor relations teams. Accessible and auditable metrics are fast moving from nice-to-haves to must-haves.

Diligent

Are Today's Organizations Ready for Mandatory Disclosure Requirements?

It's likely that new regulations on ESG reporting will soon become a reality. Research, however, shows that a majority of firms are far from prepared for this shift. In a recent survey by Diligent and nonprofit think tank OCEG, more than half of respondents said they were "minimally" (30.1%) or "not at all" (27.6%) confident that their organization had mature, well-defined ESG capabilities.

New disclosure regulations will require data, processes and technology that most organizations still don't have in place. Firms shouldn't wait until disclosures become an obligation to install these systems; by then, it will be too late.

The best way to prepare for new disclosure requirements is to start building an ESG infrastructure now.

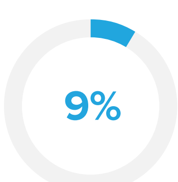
Fewer than 1 in 10 (9.3%) organizations today are highly confident in their ESG maturity

What's Holding Organizations Back?

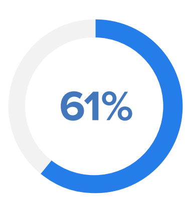
Seamless ESG compliance and reporting require getting the right information to the right people at the right time for actionable decisions — a process easier said than done in today's complex ESG environment.

The evolving array of standards and frameworks makes ESG a target that is constantly in motion. Within each company, numerous roles, departments and systems are responsible for ESG issues: from governance/strategy and risk management to compliance, audit and operations. Finally, most organizations lack the data and the tools to make ESG reporting simpler, including software that unifies data collection and maps it against chosen frameworks and standards.

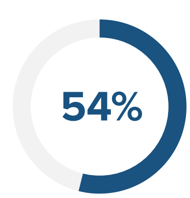
Diligent/OCEG survey:



Of organizations "comprehensively" use software that supports ESG data collection, analysis and reporting



Of organizations did not use such software



Of organizations want to learn about ESG technology

These factors combine to create a huge amount of organizational risk based on the current trajectory of regulatory required disclosure.

An ESG Alphabet Soup

Which regulations should organizations follow? In the Diligent/OCEG survey, respondents reported* aligning with:

49% The Global Reporting Initiative (GRI)

33% The Sustainability Accounting Standards Board (SASB)

24% The World Economic Forum's environmental and sustainability goals

14% The standards of international nonprofit CDP

14% The Dow Jones Sustainability Index

14% International Integrated Reporting Council (IIRC)

11% The Global ESG Benchmarks for Real Assets (GRESB)

8% The Climate Disclosure Standards Board (CDSB)

Minding the ESG Gaps

An ESG program needs to be aligned with overall organizational goals, objectives and operations. To identify how your organization performs toward these ends, and how prepared you are for upcoming disclosure requirements, ask yourself:

- Does your organization consider ESG metrics when making investments?
- Does your organization consider ESG metrics when choosing suppliers?
- Do you align senior executive compensation with ESG metrics — and are you considering doing so with broader employee compensation?
- Does your organization publish ESG metrics in a sustainability report, an integrated report or some other vehicle?

If you answered "No" to any of these questions, you're not alone. In the Diligent/OCEG survey:

- Only 1 out of 5 (20.4%) respondents consider ESG metrics when making investments and even fewer (14%) for choosing suppliers in all categories
- Only 1 out of 5 (20.1%) respondents are increasing their alignment of senior executive compensation with ESG metrics
- Nearly half (49.5%) of respondents do not publish ESG metrics

Yet, with various ESG regulations ahead, greater focus in these areas will soon be required. Organizations must begin to build their data and technology infrastructure for ESG today.

*Some survey respondents reported using multiple frameworks

Diligent

6 Components for Bringing ESG Together

Seamless compliance with future disclosure requirements starts with building a mature ESG program — and ESG maturity depends on many things: leadership, the right frameworks, and data and technology to drive both action and reporting.

The 6 Foundational Elements of a Mature ESG Program:

1 LEADERSHIP

2 GOALS

3 FRAMEWORKS

4 DATA

5 TECHNOLOGY

6 REPORTING

Diligent

A Checklist for Evaluating Your Organization's ESG Maturity

1 LEADERSHIP

First and foremost, a successful ESG program requires company leadership to not only prioritize ESG but integrate it across company operations. This chain reaction must start with the board and senior executives, then cascade down to leaders across the company. Without this level of commitment from leadership, a successful ESG program is not possible.

Organizations that are unsure where to begin should simply start by making time for ESG discussions, not to mention bringing an ESG lens to all current discussions of company strategy, risk, talent, and so on. Management teams must also strategize how ESG strategies will trickle down; department heads and even mid-level managers must feel ownership of the company's ESG goals and be motivated to incorporate them into day-to-day processes.

Recommended Actions:

- ☐ **Prioritize ESG on the board agenda.** ESG should be a standing item on the board agenda by now. General counsel and company secretaries should take the lead in educating the board about ESG developments, keeping them abreast of evolving regulations and disclosure requirements and bringing in outside experts when necessary.
- ☐ **Determine how ESG becomes part of the company culture.** A successful ESG program requires the entire organization to own ESG objectives and recognize their ability to impact them. Leadership must be intentional about incorporating ESG goals into company culture and consider the company policies or leadership actions that will lead to the desired results.

Guiding Questions

- Does your organization's board and senior leadership prioritize ESG goals?
- Does the leadership team put these goals into action with ESG activities?
- Do department heads and middle managers feel ownership of the organization's ESG goals and empowered to do something about it?
- Do employees live out your organization's ESG goals in their day-to-day work — e.g., hiring, operations, reporting and setting their own goals?

Diligent

2 GOALS

Every organization must be clear in what they're trying to achieve. Their ESG goals should ultimately serve the broader company purpose, which is increasingly important to investors. Each company will have different ESG goals based on their priorities, as well as the unique circumstances of their industry. In the end, some companies' ESG goals may be imposed upon them (e.g., the EU's Sustainable Finance Disclosure Regulation, which will be imposed on all asset managers). Regardless, boards and leadership teams that are proactive about ESG goal-setting send the right signals to investors and regulators — especially at a time when policies are still being formed.

Recommended Actions:

- ☐ **Consider the material issues for your industry.** ESG goals vary based on the demands of each business. For example, a company in manufacturing might have a stronger focus on water use, while a tech company or recruiting agency may decide that goals centered around diversity are most important.
- ☐ **Keep tabs on required regulations.** You probably won't get to decide on all of the ESG goals you'll have to follow. If local, state or federal agencies mandate reducing carbon emissions by a certain date, you'll have to add that to your list of objectives.
- ☐ **Communicate your goals.** Establish clarity on your goals throughout the organization; every employee should be versed on the organization's targets. Then be sure to communicate ESG goals to external stakeholders with equal vigor.

?

Guiding Questions

- Does your organization have a defined purpose on what it intends to achieve with an ESG program, and clear direction on how to get there?
- Do these ESG goals consider the priorities of your industry?
- Do these ESG goals account for regulatory mandates and requirements, both current and upcoming?
- Do you have a mechanism for communicating your goals to stakeholders?

Diligent

3 FRAMEWORKS

There are various frameworks for operationalizing ESG goals (including GRI, SASB, TCFD, CDP and CDSB). Some focus heavily on environmental impact, others on social progress (fair labor, equality, diversity), and still others around good governance. In March 2021, Acting Securities and Exchange Committee (SEC) Chair Allison Lee indicated that the SEC is undertaking concrete steps to develop and implement a mandatory ESG disclosure framework. The EU is also adopting a comprehensive package of sustainable finance measures, with rules and proposals encompassing ESG reporting requirements for companies with the aim to make Europe the first climate-neutral continent by 2050. Yet, the metrics that will be tied to these regulations is currently unknown.

Companies are increasingly being encouraged to lead the initiative in terms of voluntarily disclosing the positive impact of their ESG operations. Until this guidance is finalized and communicated across these various regions, companies should borrow parts from the various available frameworks that best align with their ESG goals.

Recommended Actions:

- ☐ **Mix and match frameworks.** Leverage frameworks (e.g., SASB, GRI, TCFD) early on in your ESG journey, and feel free to mix and match elements that are most relevant or material to your company and industry.
- ☐ **Stay abreast of evolving regulations.** Ensure your organization has a method for tracking regulatory developments in all the countries and jurisdictions in which you operate. Regulatory entities are expected to standardize reporting frameworks in the years ahead.

"Organizations must ensure that they're leading the way in respect of disclosures, rather than having them imposed upon them."

Samantha Wellington
Senior Vice President, Chief Legal Officer & Secretary, TriNet

Guiding Questions

- How does your organization measure the success of your ESG goals?
- Are you able to translate your organization's existing ESG-related initiatives into an actionable, reportable format?
- What frameworks are you using to operationalize good governance, environmental impact and social progress in areas such as fair labor, equality and diversity?
- How do you map your ESG activities against these requirements and standards — e.g., carbon and climate activities against TCFD and GRI standards and executive compensation plans against key governance metrics?
- How do you stay up to date with the latest updates and requirements, including new mandates and the standardization and consolidation of frameworks?

READ Learn how Diligent helps organizations map progress against ESG frameworks

Building on Strong Foundations

If your organization is like many today, you already have a foundation in place for establishing ESG leadership, setting ESG goals and finding the ESG frameworks that work best for you.

In the Diligent/OCEG survey:

Formal Programs

8 out of 10 respondents have or plan to have a formal documented ESG program

ESG Budgets

More than half (55%) already have an ESG budget — and nearly three quarters (73%) plan to increase this budget

KPI's

43% of respondents have, and an additional 30% plan to have, key performance indicators on ESG

ESG Assessments

Nearly half (43%) have conducted an ESG assessment, with 30% having assessed their ESG initiatives in the past year

Diligent

4 DATA

The ESG data you collect will ultimately power the organization's tracking, reporting and collaboration, so it's vital to identify the right mix of internal and external data sources.

To assess your ESG data needs, start with the ESG goals you've laid out as an organization, as well as the frameworks you've selected. As you identify the data you'll need, take time to determine where it will be sourced — whether it is internal vs. external data. Robust external data sets can be purchased from proxy advisory or consulting firms — or even from companies like Diligent, who specialize in governance data and peer group modeling.

Given the evolving nature of ESG regulations and a rapidly changing world, make sure that you have a solution that keeps your data relevant and timely. Ideally your datasets — whether drawing from internal departments or external markets — should update automatically in real-time. Relying on old data not only limits the visibility of your ESG performance, but it serves as a warning to investors and stakeholders that your organization is not taking its ESG responsibilities seriously.

Recommended Actions:

- ☐ **Look around you.** Take the time to analyze the ESG processes and disclosures your peers and competitors are using. Monitor the news. Keep abreast of regulatory change.
- ☐ **Involve relevant business units in the data discussion.** To ensure adoption and commitment to ESG goals, it's important to involve relevant business leaders and department heads in the data discussion, too. Make sure all those involved in monitoring and reporting on ESG (including sustainability officers, general counsel, compliance departments, audit teams and investor relations representatives) are aligned on KPIs and are working within the same ecosystem.
- ☐ **Don't overlook data security.** As you aggregate ESG data, remember that some of this data will be confidential in nature, potentially involving employee wage information or containing personally identifiable information. Ensure you're setting up internal data systems with the right protections — looping the CIO or CISO into data discussions where necessary.

Guiding Questions

- How are you collecting and aggregating ESG data from across the enterprise?
- Where are inbound requests for ESG information coming from? The following are likely to be among the most prominent:
  - Regulators
  - Investors
  - Customers
  - Suppliers
  - Potential hires
- Do you have access to the same datasets and tools used by institutional investors?
- How do you track and benchmark ESG progress against peers and competitors?
- How do you keep up with regulatory developments across your organization's jurisdictions, industry and operations?
- How do you keep a finger on the pulse of stakeholder sentiments?

READ Learn how Diligent supports ESG data collection

Diligent

5 TECHNOLOGY

To support a mature ESG program, organizations need ESG technology that is flexible, integrated and comprehensive. According to the Diligent/OCEG survey, 6 in 10 respondents (61%) said they don't use software that supports ESG data collection, though more than half (54%) reported wanting to learn about ESG technology

Technology can aid ESG processes in a number of ways. ESG remains complex and full of variables when it comes to tracking, monitoring, reporting and compliance. Technology can help in tracking progress against ESG standards and frameworks, as well as automatically updating compliance dashboards when new regulations arise. Furthermore, when it comes to scaling and maturing your ESG program, technology can integrate with your existing systems and grow with you.

With climate emerging as a top priority for an array of invested parties, a digital solution can help organizations quickly operationalize these rising areas of investor focus with established formulas for reporting on all Scope 1, 2, 3, CSR and supply chain data sources. Selecting the right ESG technology now will help organizations lay the foundations for progress in the months, weeks and years ahead through monitoring performance and by reporting progress against expectations and goals.

Recommended Actions:

- ☐ **Look for broad solutions.** Ideally, the technology you implement should help you track ESG metrics across departments, benchmark against peers, search across thousands of disclosures and monitor news and stakeholder sentiment – all of which are critical elements in today's era of stakeholder capitalism.
- ☐ **Stay up to speed.** Your solution should curate news and filings to include regulatory developments and ESG-related updates from around the world, customized to your organization's jurisdictions and industries. Predictive modeling capabilities are also highly beneficial.
- ☐ **Don't undervalue the 'G' in ESG.** Shareholders, investors and increasingly regulators are watching corporate governance, with a particularly close eye on executive compensation. Look for technology that delivers benchmarking data on peers and competitors, specialized dashboards for comparisons and analysis, and modeling for specific compensation plans, such as equity compensation.

?

Guiding Questions

- Does the solution collect data from multiple sources? Does it accommodate data collection and reporting for multiple frameworks or multiple levels within a framework (e.g., carbon-specific factors and broader GHG measures)?
- Does it accommodate changing regulations and stakeholder requirements?
- Does it enable visibility and collaboration across departments?
- Does it report across multiple frameworks and systems?
- Are you able to use robotic process automation to streamline the monitoring and processing of complex data?
- Is the solution backed up by robust service and support?

READ Learn how Diligent can deliver custom ESG news and regulatory updates for your organization

Diligent

6 REPORTING

Reporting is your company's main channel of communication with its various stakeholders. In many respects, reporting ESG action is just as important as the ESG action itself. Your reporting mechanism should be a seamless extension of your overall ESG strategy.

When telling your ESG story, it's important to remember that no organization needs to start from scratch. ESG is a broad umbrella: Take inventory of the impactful activities your organization is already doing as a starting point. Nearly every company already has programs or efforts to support diversity or recycling or waste reduction or community engagement.

As regulations continue to evolve, organizations must also make sure that their ESG reports are meeting expectations, deadlines and commitments. Look for a technology solution that can automatically generate auditable disclosures from your ESG data and dashboards. In the months and years ahead, it will be increasingly important to make sure that all changes and values are tracked for a robust audit trail. The ability to prepopulate ESG assessments with existing data not only makes the process more efficient, but easier to refer back to when needed.

Recommended Actions:

- ☐ **Select an ESG technology platform that makes reporting seamless.** You can simplify your reporting by making sure it is an integral feature of the ESG technology solution you implement. By housing them in the same system, you won't have to go through the time-consuming process of disseminating siloed data.
- ☐ **Go above and beyond with your delivery.** Reporting ESG progress in a compelling way helps ensure stakeholders get the message. Spend time refining your ESG narrative and ensure key talking points extend across proxy materials, sustainability reports, and your conversations with investors.

Guiding Questions

- Do you generate dashboards and visual storyboards to make data easy to consume and act upon?
- Do your ESG disclosures include a robust audit trail, with all changes and values tracked throughout?
- Does ESG reporting seamlessly integrate into your ESG strategy and program and broader governance, risk and compliance ecosystem?

READ Learn how Diligent makes ESG reporting seamless

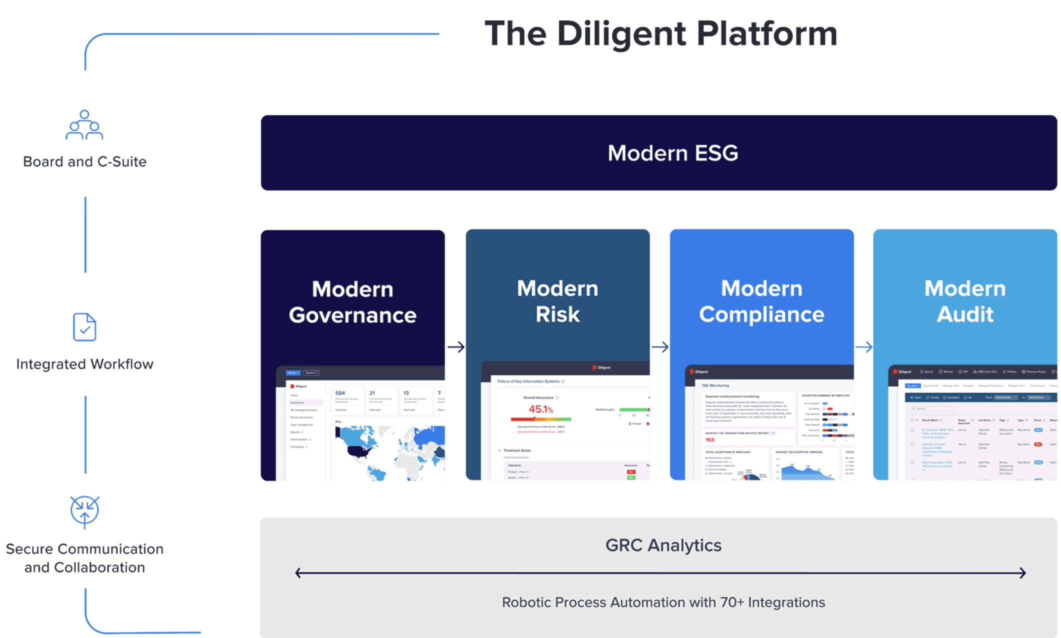
Diligent

Next Steps for ESG Maturity

While many organizations have the leadership commitment, goals and frameworks either in place or underway, they must be aware of the data, reporting and technology challenges they're likely to face when it comes to building an ESG program. A mature ESG program with the right components in place will pave the way toward seamless compliance with future disclosure requirements, at which point an organization's ESG program then becomes a continual loop of the following four steps:

- Acquiring information
- Reviewing data
- Mapping progress against goals
- Undertaking next steps, from disclosures to reporting

Time is of the essence for getting such an ESG operating system up and running. Organizations who lay the groundwork now will be better equipped to meet mandatory ESG disclosure requirements once they become law.



Ready to start building your ESG infrastructure with the right technology?

Download the Diligent ESG Buyer's Guide now.

DOWNLOAD

Diligent

About Diligent Corporation

Diligent is the leading governance, risk and compliance (GRC) SaaS provider, serving more than one million users from over 25,000 organizations around the globe. Our modern GRC platform ensures boards, executives and other leaders have a holistic, integrated view of audit, risk, information security, ethics and compliance across the organization. Diligent brings technology, insights and confidence to leaders so they can build more effective, equitable and successful organizations.

For more information or to request a demo:

Email: **info@diligent.com** • Visit: **diligent.com**