Sustainability reporting FAQ:

Your comprehensive guide

Struggling to navigate the complex world of ESG reporting? We've put together a list of frequently asked questions to help demystify the reporting journey – from reporting essentials to the intricacies of ESG frameworks, our experts tackle some of your most pressing questions.

Sustainability reporting: mastering the fundamentals

1 What is ESG reporting?

ESG reporting is the formal disclosure of data related to an organisation's environmental, social and governance initiatives. A cornerstone of sustainable business practices, ESG reporting impacts investment decisions, consumer preferences and organisational reputation.

ESG reporting requirements, while often global, frequently include additional regional variations. Assessing and reporting on material ESG matters, in a way that can be audited, requires the right tools and processes.

2 Is ESG reporting mandatory?

While ESG reporting is not yet compulsory in every jurisdiction, mandatory reporting is gaining traction globally. In the EU, for example, new legislation – the Corporate Sustainability Reporting Directive (CSRD) – will make sustainability reporting mandatory for more than 50,000 companies doing business in the region.

3 How is ESG reporting data used?

ESG reports gives investors, stakeholders and regulators an insight into a company's sustainability practices and performance. Report results can be used to inform strategic decision-making and to drive long-term value creation.

4 Why does ESG reporting matter?

Investors favour companies that perform well across the ESG reporting factors as these companies are likely to be more stable, resilient and profitable.

Prioritising sustainable practices yields numerous long-term benefits, including greater access to capital, reduced costs, enhanced reputation, effective risk management and increased competitive advantage.

5 What is a materiality assessment?

A financial and/or impact materiality assessment will help you identify the ESG issues that are material to your business; these insights will ultimately inform your strategic objectives and enhance performance.

In Europe and China's Mainland, companies are now required to conduct double materiality assessments (DMAs) which analyse the reciprocal relationship between an organisation's sustainability efforts and its financial performance.

6 Who is involved in sustainability reporting?

The reporting process requires input from a range of internal and external stakeholders, including executive leaders; shareholders; clients; and internal functions such as Finance, HR and Procurement.

7 Who is responsible for compiling sustainability reports?

Report ownership will vary depending on company size and organisational structure. In large organisations that have reached a high level of ESG maturity, CSOs and CFOs will often share the responsibility of compiling reports, ensuring that financial and sustainability goals are closely aligned.

8 How many ESG reporting frameworks are there?

Worldwide, there are over 600 ESG reporting frameworks and standards.

Examples include:

- European Sustainability Reporting Standards (ESRS)
- International Sustainability Standards Board (ISSB)
- Sustainability Accounting Standards Board (SASB)
- Task Force on Climate-related Financial Disclosure (TCFD)
- Global Reporting Initiative (GRI)
- United Nations Global Compact
- UN Principles for Responsible Investment (PRI)
- Sustainable Finance Disclosure Regulation (SFDR)
- The Global Real Estate Sustainability Benchmark (GRESB)

9 When should ESG reports be published?

Mandatory reports need to be included in, or published with, a company's annual report. Voluntary reports are often published shortly after the annual report.

10 What are the key elements of an ESG report?

ESG reports should include the following:

- **Introduction** – an overview of the company's sustainability ambitions
- **Governance** – this section looks at board composition, ethical conduct, risk management and regulatory compliance
- **Social impact** – this section covers issues such as fair employment standards, investments in personnel development, Diversity, Equity and Inclusion (DEI), and Corporate Social Responsibility (CSR)
- **Environmental impact** – this section covers topics such as emissions disclosures, carbon reduction efforts, pollution, water usage and marine resources, biodiversity and ecosystem preservation

- **Regulatory disclosures** – this section mentions the applicable regulatory frameworks and includes the formal disclosure of ESG data.

11 What are the primary ESG reporting challenges?

Some of the key ESG reporting challenges include:

1. **Data collection complexity:** collecting data is a complex task which is often hindered by data silos and inconsistent standards
2. **Lack of skilled resources:** the shortage of ESG reporting professionals means that companies will need to invest heavily in training and development to build internal reporting teams
3. **Financial constraints:** organisations will need to invest in new technologies and data management platforms to streamline the data collection process
4. **Measurement and verification:** measuring the success of ESG initiatives involves establishing clear success indicators and enlisting third-party verification companies.

Need more advice on navigating ESG reporting complexities?

Read this article for practical strategies to help you meet the challenges head on.

12 What are the potential consequences of inaccurate ESG reporting?

Reporting inaccuracies could lead to fines, penalties, reputational damage and legal liability – it's important to establish robust controls and processes to reduce the risk of error.

13 What are the benefits of outsourcing ESG reporting?

1. **Expertise and efficiency:** external service providers have the knowledge and tools to efficiently gather, organise and validate ESG data, saving companies valuable time and resources.
2. **Cost savings:** building an in-house ESG team can be costly. Outsourcing ESG administration services can be a cost-effective alternative, allowing companies to focus on their core business operations.
3. **Data accuracy:** external service providers stay on top of ESG standards and best practices, ensuring accurate and up-to-date reporting.
4. **Scalability:** ESG reporting requirements may change as a company grows. Service providers can scale their support to meet evolving needs, accommodating both small and large enterprises.
5. **Risk management:** by outsourcing ESG data management, companies reduce the risk of inaccuracies or non-compliance with ESG standards and regulations, protecting their reputation and financial stability.
6. **Focus on core activities:** outsourcing ESG administration services allows companies to concentrate on their core competencies while leaving ESG data management to the experts.

Understanding the ESG reporting frameworks and standards

1 Outside of the EU, which jurisdictions have announced mandatory sustainability reporting?

The following jurisdictions will implement mandatory ESG reporting over the next two years, which will impact a range of companies:

China's Mainland: the larger cap and dual-listed issuers from the Shanghai Stock Exchange, Shenzhen Stock Exchange and Beijing Stock Exchange

Hong Kong: all listed companies in Hong Kong subject to the Companies Ordinance (CO)

Singapore: listed companies and large, non-listed companies (defined as those with at least S$1bn in revenue and S$500m in assets)

Japan: listed companies

Australia: all public companies and large proprietary companies required to provide audited annual financial reports to the Australian Securities and Investments Commission (ASIC) that meet specific size thresholds

Malaysia: mandatory for issuers on the prime market of Bursa Malaysia ("Main Market listed issuers"), and potentially extending the reporting requirements to growth market issuers (ACE Market), as well as to large non-listed companies

South Korea: the exact scope of required ESG disclosures has yet to be unveiled. They will be implemented in phases, starting in 2026 with Korea Composite Stock Price Index (KOSPI)-listed companies with an asset size of over KRW2 trillion. By 2030, the requirement will apply to the rest of the KOSPI-listed companies.

2 The ISSB's reporting standards came into effect on 1 January 2024; how will these impact businesses?

Many jurisdictions including Australia, Japan, Malaysia, Singapore and New Zealand have begun adopting reporting standards based on the ISSB framework. Hong Kong, South Korea, India and the Philippines will likely follow suit.

The standards are designed to help businesses become more transparent, consistent and accountable on the road to long-term sustainability; they also ensure that businesses provide investors and stakeholders with the data they need to make informed decisions.

3 How do the SFDR and the ISSB compare?

The SFDR applies to financial entities in the EU, whereas the ISSB reporting standards are globally recognised and designed for all types of companies.

4 Does ISSB overrule SFDR or vice versa?

No, the frameworks have different focus areas and are applicable to different industries and sectors.

5 What if a business has already adopted earlier frameworks such as TCFD or SASB? What will they need to do to comply with ISSB?

New reporting standards, such as ISSB or the ESRS, cover a broader range of ESG data points than the earlier TCFD and SASB frameworks.

Companies that have published ESG reports based on earlier frameworks will likely need to review their materiality assessments and collect additional data to comply with new reporting requirements.

6 Under ISSB, what specific disclosures will be required for real estate, private equity, private credit, infrastructure, agriculture and venture capital funds?

The ISSB is currently developing two sets of requirements: one for general disclosures regarding sustainability-related financial information and the other for disclosing industry-specific information regarding climate-related risks and opportunities.

Many frameworks and standards – including CSRD, GRI and GRESB – have developed or are developing industry-specific reporting requirements.

7 What does signing the UN PRI or UN Global Compact mean?

Signing the PRI or Global Compact is a public demonstration of an organisation's commitment to upholding environmental, social and governance principles, and to aligning business practices with global sustainability goals. Companies will need to complete an annual questionnaire to report on progress.

8 What actions should businesses take to comply with ISSB standards, SFDR (articles 6, 8 and 9) and PRI? Are there different considerations for closed-ended private markets funds? (For example, private equity, real estate, private credit, infrastructure, venture capital).

Companies will first need to identify which regulatory, investor and client requirements they need to fulfil. This information will provide a foundation for conducting a materiality assessment, defining ownership, identifying stakeholders and collecting data. Funds will need to define their ESG strategy as this will inform their ESG reporting requirements.

9 Do closed-ended private markets funds fall under articles 6, 8 and 9 of the SFDR? Or do these articles only apply to open-ended funds?

The SFDR applies to both open and closed-ended funds. Funds registered in the EU should have already determined which articles they fall under and should have taken the necessary steps to ensure that they meet regulatory requirements.

10 Will assurance be required?

ESG reports must be verified by external auditors to ensure data accuracy; voluntary reports should be assured if companies adopt official standards.

TMF Group's ESG administration services

1 Does TMF Group provide ESG advisory services?

TMF Group doesn't provide advisory or consulting services – we help our clients build accurate and compliant sustainability reports, and provide them with the tools and support they need to effectively navigate the ESG journey.

2 Can TMF Group help conduct materiality assessments?

Yes, we can help you conduct a materiality assessment by engaging with your stakeholders and identifying and collecting data.

3 What is TMF Group's added value?

Lack of skilled resources and limited expertise are two of the biggest challenges organisations face on the ESG reporting journey. Our specialist teams can help you streamline the data collection process, stay on top of regulatory changes and deliver accurate and reliable ESG reports.

Ready to start the ESG reporting journey?

We'll help you build accurate reports that investors and stakeholders can trust.

Learn more about our ESG administration services.

We make a **complex** world **simple**

TMF Group is a leading provider of critical administrative services, helping clients invest and operate safely around the world.

With more than 11,000 colleagues across 125 offices in 87 jurisdictions, all working to the same high standards of service and security, we provide our clients with local expertise where it is needed most. Our locations cover 92% of world GDP and 95% of FDI inflow.

We are a key part of our clients' governance, providing the accounting, tax, payroll, fund administration and legal entity management services essential to their success. We make sure rules are followed, reputations protected and operational compliance maintained.

Our global service model and technology platform put our clients in control of their portfolio of entities and global locations. The data insights we deliver keep them on top of emerging regulation, the status of their own activity and any points of risk.

We serve corporates, financial institutions, asset managers, private equity and real estate investors, and family offices. Our clients include the majority of the Fortune Global 500, FTSE 100 and top 300 private equity firms.

TMF Group is a trusted and reliable partner, in strong financial health and focused on providing flawless service to our clients.

Whether operating in one country or many, with a handful of employees or several thousand, we have the business-critical support you need to expand, operate and grow safely, everywhere.

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