

An aerial photograph of a wide, winding river flowing through a lush green valley. The river has several sharp meanders, creating a complex, looping pattern. The surrounding landscape is a mix of dense green forests and open, lighter green fields, some of which are divided by thin, dark lines, possibly fences or roads. In the far background, a range of dark, rugged mountains rises against a hazy sky. The overall scene is one of natural beauty and tranquility.

# ESG Regulations Quick Reference Guide



Subject	United States	European Union	United Kingdom
Regulation	Enhancement and Standardization of Climate-Related Disclosures (Proposed Rule)	Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRS)	The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022; The Limited Liability Partnerships (Climate-related Financial Disclosure) Regulations 2022
Reporting Requirement Authority	United States Securities and Exchange Commission (SEC)	European Financial Reporting Advisory Group (EFRAG)	United Kingdom Financial Reporting Council (FRC) for Climate-related Financial Disclosure Regulations
Regulation Effective Date	TBD	January 5, 2023, for EU promulgation; June 16, 2024, for EU Member State to ratify into law.	April 26, 2022, for Climate-related Financial Disclosure Regulations
Final Reporting Requirements Publication	<u>Publication date unknown, expected October 2023.</u>	<u>Slated for publication no later than August 31, 2023.</u>	January 17, 2022, for Climate-related Financial Disclosure Regulations
Source(s)	<u>Proposed Rule, March 2022.</u>	<u>CSRD, Final Publication, December 2022.</u> <u>ESRS, First Set (Draft), June 2023.</u> <u>EFRAG summary of First Set of draft ESRS (includes educational videos).</u>	<u>Final Publication, January 2022.</u> <u>Non-binding Guidance, February 2022.</u>



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Reporting Scope	<p><b>The proposed rule would require SEC registrants to disclose the following:</b></p> <ul style="list-style-type: none"><li>• Climate-related risks and their actual or likely material impacts on the registrant’s business, strategy, and outlook.</li><li>• The registrant’s governance of climate-related risks and relevant risk management processes.</li><li>• The registrant’s greenhouse gas (GHG) emissions, which, for accelerated and large accelerated filers and with respect to certain emissions, would be subject to assurance.</li><li>• Certain climate-related financial statement metrics and related disclosures in a note to its audited financial statements.</li><li>• Information about climate-related targets and goals, and transition plan, if any.</li></ul>	<p>The CSRD uses the term “<b>sustainability matters,</b>” <b>which covers ESG topics</b> including climate-related or environmental issues (e.g., greenhouse gas emissions), fundamental rights-related issues (e.g., child labor), anti-corruption and bribery-related issues (e.g., Foreign Corrupt Practices Act), and diversity-related issues (e.g., board member diversity).</p> <p><b>Companies will be required to assess sustainability impacts from a “double materiality” perspective, capturing both:</b></p> <ul style="list-style-type: none"><li>• The impacts to the company (i.e., how sustainability matters affect a company, including its financial performance); and</li><li>• The impacts of the company on the larger community and the environment.</li></ul> <p><b>Generally, these disclosures must be made in companies’ existing management reports,</b> which must be prepared by many EU companies in accordance with the Accounting Directive, and by EU and non-EU companies listed on EU-regulated markets in accordance with the Transparency Directive.</p> <p><b>The 12 draft ESRS are organized as follows.</b> For more detail, <a href="https://efrag.org">refer to efrag.org</a>.</p> <p><b>Cross-cutting Standards:</b></p> <ul style="list-style-type: none"><li>• ESRS 1 General requirements</li><li>• ESRS 2 General disclosures</li></ul> <p><b>Environmental Standards:</b></p> <ul style="list-style-type: none"><li>• ESRS E1 Climate change</li><li>• ESRS E2 Pollution</li><li>• ESRS E3 Water and marine resources</li><li>• ESRS E4 Biodiversity and ecosystems</li><li>• ESRS E5 Resource use and circular economy</li></ul> <p><b>Social Standards:</b></p> <ul style="list-style-type: none"><li>• ESRS S1 Own workforce</li><li>• ESRS S2 Workers in the value chain</li><li>• ESRS S3 Affected communities</li><li>• ESRS S4 Consumers and end-users</li></ul> <p><b>Governance Standards:</b></p> <ul style="list-style-type: none"><li>• ESRS G1 Business conduct</li></ul>	<p>The organizations impacted by the legislation must now produce a <b>sustainability statement on climate-related disclosures in their annual strategic or energy and carbon reports</b>. While the new regulations are commonly being referred to as ESG laws, <b>the language of the regulations only applies to environmental risk factors</b>.</p> <p><b>The sustainability information statement requires companies to report the following:</b></p> <ul style="list-style-type: none"><li>• A listing and description of environmental risks identified as impacting the company’s operations.</li><li>• The company’s governance strategy for assessing and managing environmental risk that takes into account different environmental outcomes.</li><li>• The scope for the assessment (e.g., fiscal year 20xx).</li><li>• List and description of environmental goals and key performance indicators (KPIs) used to measure environmental risk performance.</li><li>• The process used to identify, assess, and manage environmental risks.</li><li>• The company’s process for integrating environmental risk into the broader enterprise risk management (ERM) strategy.</li></ul>



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Initial Compliance Deadline	<b>TBD based on proposed rule.</b> Finalization currently expected in October 2023.	<b>The application of the regulation will take place in four stages:</b>  1) Reporting in 2025 on the financial year 2024 for <b>companies already subject to the Non Financial Reporting Directive (NFRD)</b> .  2) Reporting in 2026 on the financial year 2025 for <b>large companies that are not currently subject to the NFRD</b> .  3) Reporting in 2027 on the financial year 2026 for <b>listed small to medium enterprises (SMEs)</b> (except micro undertakings), <b>small and non-complex credit institutions</b> , and <b>captive insurance undertakings</b> .  4) Reporting in 2029 on the financial year 2028 for <b>third-country undertakings with net turnover above \$150M in the EU</b> if they have at least one subsidiary or branch in the EU exceeding certain thresholds.	The new climate-related financial disclosure obligations <b>now apply to entities where their accounting periods start on or after April 6, 2022</b> .



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Applicable Companies	<p>The proposed rule would apply to all SEC registrants, with different requirements based on issuer type (defined as follows):</p> <ul style="list-style-type: none"><li>• <b>Large Accelerated Filer:</b> The issuer has a public float of \$700M or more, as of the last business day of the issuer’s most recently completed second fiscal quarter.</li><li>• <b>Accelerated Filer:</b> The issuer has a public float of \$75M or more, but less than \$700M, as of the last business day of the issuer’s most recently completed second fiscal quarter.</li><li>• <b>Non-Accelerated Filer and Smaller Reporting Companies:</b> All other.</li></ul>	<p>EU rules on non-financial information apply to <b>all large companies</b> and <b>all companies listed on regulated markets</b>. These companies are also responsible for assessing the information at the level of their <b>subsidiaries</b>. Large companies are EU entities or an EU consolidated group that exceeds <i>at least two of the following three thresholds</i>:</p> <ul style="list-style-type: none"><li>• Balance sheet total of €20M.</li><li>• Net turnover of €40M.</li><li>• Average of 250 employees during the financial year.</li></ul> <p>The rules also apply to <b>listed SMEs</b>, taking into account their specific characteristics. An opt-out will be possible for SMEs during a transitional period, meaning that they will be exempted from the application of the directive until 2028.</p> <p><b>For non-EU companies</b>, the requirement to provide a sustainability report applies to <b>all companies generating a net turnover of €150M in the EU and which have at least one subsidiary or branch in the EU</b>. These companies must provide a report on their ESG impact as defined in the directive.</p>	<p>The Climate-related Financial Disclosure Regulations apply to <b>UK Registered Companies, which include:</b></p> <ul style="list-style-type: none"><li>• <b>Publicly quoted companies</b> with (i) more than 500 employees and (ii) transferable securities trading on a UK regulated market or AIM.</li><li>• <b>Private limited companies</b> with (i) more than 500 employees and (ii) a turnover of more than £500M.</li><li>• <b>Relevant public interest</b> entities such as insurance or banking companies with more than 500 employees.</li></ul> <p><b>Limited Liability Partnerships which include:</b></p> <ul style="list-style-type: none"><li>• <b>Traded or banking LLPs</b> with more than 500 employees.</li><li>• <b>LLPs</b> which (i) are not traded or banking LLPs, (ii) have more than 500 employees, and (iii) have a turnover of more than £500M.</li></ul>



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<b>Audit Requirements</b>	<b>Mandatory</b> initial limited assurance, then phased-in mandatory reasonable assurance for accelerated and large accelerated filers.	<b>Mandatory</b> initial limited assurance, with a planned transition to reasonable assurance in the following years.	For Climate-related Financial Disclosure Regulations: <b>Voluntary</b> , based on <u>TCFD guidance</u> .
<b>Most Relevant Standard(s)</b>	<u>TCFD; Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard</u>	<u>IFRS/ISSB</u> (ISSB's inaugural standards, IFRS S1 and S2, were issued on June 26, 2023. Also, ISSB has committed to aligning with ESRS, and CSRD has indicated interoperability with SASB standards.)	<u>TCFD</u> (for Climate-related Financial Disclosure Regulations). <u>ISSB IFRS Sustainability Disclosure Standards</u> (for <u>UK Sustainability Disclosure Standards</u> ).
<b>Number of Companies Impacted</b>	<u>Approximately 6,000 SEC registrants (as of May 2023)</u>	<u>Approximately 50,000 companies</u>	<u>More than 1,300 companies</u> (for Climate-related Financial Disclosure Regulations).
<b>More Information</b>	<u>FACT SHEET: Enhancement and Standardization of Climate-Related Disclosures</u> <u>Comprehensive Analysis of the SEC's Proposed Rule on Climate Disclosure Requirements</u>	<u>EFRAG Delivers the First Set of Draft ESRS to the European Commission</u> <u>Corporate Sustainability Reporting Directive: New EU ESG Disclosure Requirements for EU and Non-EU Companies</u> <u>Council Gives Final Green Light to Corporate Sustainability Reporting Directive</u>	<u>Mandatory Climate-Related Financial Disclosures by Publicly Quoted Companies, Large Private Companies, and LLPs</u>



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