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ESG disclosure rules: new developments as catalysts of the ‘cascade effect’

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ESG disclosure rules

New developments

In 2023 we enter into a new cycle of sustainability reporting rules:

- European companies start the adaptation to full CSRD (Corporate Sustainability Reporting Directive) compliance – and namely to the very important European Sustainability Reporting Standards (ESRS)
- International Sustainability Standards Board (ISSB) issued its global IFRS S1 and IFRS S2 on sustainability disclosures
- US Securities and Exchange Commission (SEC) soon to adopt its final climate-related disclosure rule

How can we assess these developments?

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New developments and the 'cascade effect'

- This progress in terms of ESG reporting rules will bring clear benefits to end-users of information (investors and stakeholders). However, in respect to sustainability information that is a means to an end and not an end in itself.

- ESG **cascade effect** [Câmara 2023] as an assessment tool:
  - ➢ the potential aptitude for companies to engage in ESG-based decisions and to systemically influence others to do so, including investors, investee companies and their respective supply chain and community.

What are the factors that affect negatively such cascade effect?

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Interoperability

Some relevant differences persist in terms of the ESRS/ IFRS S/ expected SEC rule in relation to principles, structure, concepts, terminology and measurement bases.

It is very important that area of intersection are extended in order that companies applying both IFRS Sustainability Disclosure Standards and ESRSs certainty that by applying one they could comply with both.

This requires continuous and extensive dialogue between standard-setters (EFRAG/ISSB).

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Difficulties of adaptation from SMEs

CSRD also applies to SME listed companies, but with some adaptations:

- Sustainability report may limited to key indicators (article 19a/6)
- Specific sustainability reporting standards for small and medium-sized undertakings and SME value chain companies (Article 29b/4, 29c)
- CSRD starts application for financial years starting on or after 1 January 2026.

However, SME are clearly lagging behind in terms of preparation and internal capacity of adaptation. Recent EC Recommendations on facilitating finance for the transition to a sustainable economy provide tailored indications to SME.