New reporting mandates: how ready is corporate USA?

Expert Opinion: US firms are better prepared than expected for the impacts of SEC and CSRD regulations, with 82% of listed firms already voluntarily disclosing sustainability performance.

7 November 2023 / Climate change, Global, Legal, North America

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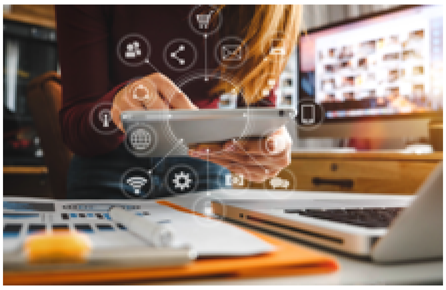

A transformative shift is underway in the realm of corporate environmental disclosure. Voluntary initiatives are giving way to a new era of mandatory climate disclosure.

The EU's Corporate Sustainability Reporting Directive (CSRD) and the eagerly awaited Securities and Exchange Commission (SEC) climate disclosure rule in the United States are set to reshape the corporate disclosure landscape, both of them demanding transparency in unprecedented ways.

What are the implications of these shifts for businesses — and how prepared for them are American and European public companies?

From voluntary to mandatory

For private companies, climate disclosure has historically been a voluntary endeavour, spurred by client and shareholder pressures. Despite organisational standards and frameworks from entities like CDP, GRI and B-Corp, a substantial number of companies globally have remained inconsistent or even silent in their disclosures.

For large, public-interest companies listed on the European stock exchanges, the CSRD will bring new reporting obligations. Effective since January 5, 2023 and applicable in stages from 2024, the CSRD brings focus to producing consistent, comparable and reliable information — and from 2025 it will compel public-interest companies with more than 500 employees to report their carbon footprints. This category of companies is the first of the four groups that will be gradually subjected to CSRD (and that currently comply with the non-financial reporting directive, NFRD — to be replaced by the new scheme).

The SEC's climate disclosure rules, delayed amid political instability, are also expected to bring disruption, upending the conventional approach to corporate disclosure in the US, which is historically less regulated than European markets. In recent developments, the California legislature has taken the lead by passing two landmark disclosure bills, and currently carries the torch for mandatory reporting in North America.

Comparing scopes: SEC vs. CSRD

Dissecting the scope of these regulations, a stark contrast emerges.

The SEC's rule, anticipated to cover around 12,000 companies (including 1,150 non-US entities), pales in comparison to the extensive CSRD, set to encompass approximately 50,000 organisations, which represent 75% of the EU's total company turnover and include 10,300 non-EU companies. In its full application, the CSRD is poised to affect more than 3,000 American companies.

Beyond the sheer numbers, the regulatory lenses also differ. The SEC has sharpened its focus on financial materiality and climate risks to companies, while the CSRD adopts a more comprehensive "double materiality" approach, considering the impact a company has on people and the environment, as well as traditional financial materiality.

The SEC's focus on investors, rather than on establishing environmental protection regulations, serves as a pretext to counter the potential threats of lawsuits and any criticism suggesting the institution is exceeding its competences.

However regulatory developments that steer business towards more ambitious climate action, fostering decarbonisation and the construction of a greener future, are welcomed on the market.

Just as we celebrate and advocate for private sector and legislative progress in pursuit of these objectives in Europe, we also hold the belief that the US SEC's long-awaited climate risk rules will serve as a catalyst, propelling corporate America towards a steadfast commitment to environmental preservation.

Despite the legal uncertainty surrounding the new framework, we remain confident that companies are in relatively good shape and are adapting promptly to meet these requirements. This conviction is rooted in our robust connections with American firms, their current reporting culture, their prior compliance with TCFD and the impending necessity to adhere to CSRD regulations if businesses also operate in Europe.

CDP disclosure and SBTi strategy validation

In fact, ahead of the sweeping SEC and EU CSRD climate reporting rules, and despite looming lawsuits, corporate America is much better prepared than expected. Analysis by STX Group suggests it is also reasonably well aligned with European listed counterparts.

In the US, 81.8% of S&P500 firms are already voluntarily disclosing to CDP but that remains behind the numbers of British (91%), French (98%) and German (95%) companies.

However, in terms of STBi targets, only nearly 42.4% of American companies had set or committed SBTi targets by the end of 2022. By comparison, European listed firms show a significantly higher level of preparation. These firms have been voluntarily disclosing environmental information and setting science-based targets at a higher rate too. See table below.

	S&P 500	FTSE100	CAC40	DAX40
DISCLOSURE RATE 2022[1]	**409 (81.8%)**	**91%**	**39 (98%)**	**38 (95%)**
2021	398 (79.6%)	93%	40 (100%)	26 (86.6%)[2]
2020	375 (75%)	89%	40 (100%)	28 (93.3%)
SBTi CLIMATE TARGET SET OR COMMITTED END OF 2022	**212 (42.4%)**	**69%**	**35 (88%)**	**28 (70%)**

[1] CDP 2022 data is collected throughout the prior year's activity and index listing and then released.
[2] The number of DAX holdings was increased from 30 to 40 effective September 20, 2021.

Urgency of disclosure preparation

As the regulatory waves gain momentum, companies must not procrastinate in preparing for mandatory, quality climate disclosure. Voluntary initiatives, exemplified by CDP and SBTi reporting, serve as a valuable stepping stone, revealing challenges and pain points.

In conclusion, the advent of mandatory climate disclosure through SEC and CSRD regulations signifies a paradigm shift. Companies must embrace this change, leveraging voluntary initiatives to navigate the challenges ahead. The era of ambitious climate action is upon us, and it's time for businesses on both sides of the Atlantic to set sail into a future defined by transparency, responsibility, and meaningful climate actions.

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Further Information:

- STX Group