



Corporate Finance Institute®

# Navigating the ESG Compliance Landscape

Strategies and Best Practices for Finance Professionals:  
A Comprehensive Guide

## Expert Contributors

### Noah Miller

Co-Founder and Chief Advisory Officer  
Rho Impact

### Gal Shargil-Yaari

Senior ESG Advisor  
Rho Impact

### Kyle Peterdy

Vice President, Commercial Credit and Banking  
CFI



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“The concept of doing good in the world is no longer an optional ‘nice-to-have’ for companies; it has become a fundamental ‘must-have’.”

**Natalia Meissner**  
CFO, Eaton

“Investors increasingly view ESG factors as non-negotiable, signaling a shift from being a nice-to-have to an essential part of risk management and value creation.”

**Kenneth Squire**  
Founder and President of  
13D Monitor / 13D Activist Fund

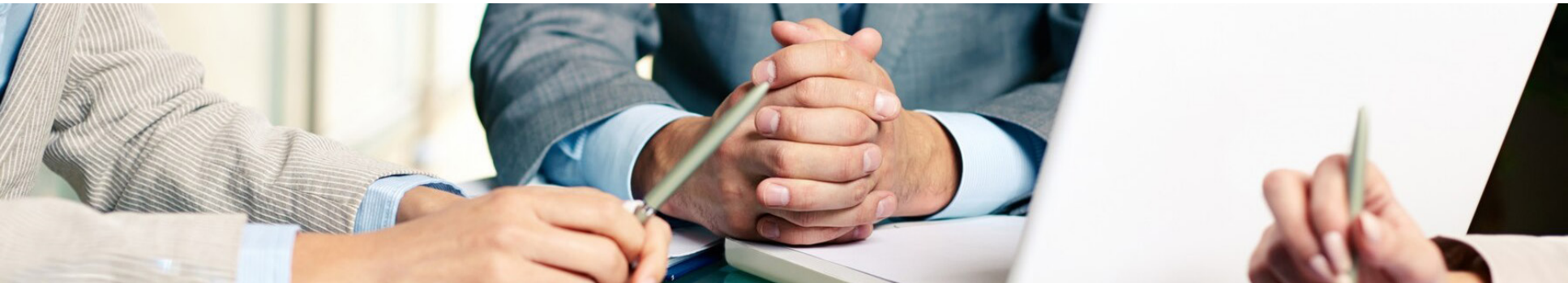


## Shifting Perspective: ESG as a Critical Business Imperative

ESG (Environmental, Social, and Governance) is a management framework for addressing the risks and opportunities associated with changing environmental, social, and economic conditions. The increasing effects of climate change, changing stakeholder expectations and emerging global regulations have moved ESG from a “nice-to-have” option to a “table-stakes” necessity for businesses of all types and sizes.

ESG has become a core concept for maintaining competitiveness and relevance in the global transition to a Net Zero economy. As businesses increasingly recognize the importance of responsible and sustainable practices, ESG is a key driver of long-term value creation and a societal license to operate.

Since the Paris Accords in 2015, ESG regulations have become a driving force in normalizing ESG as a mainstream business concept. This shift has made ESG compliance a top concern for executive teams globally.



## Shifting Perspective: ESG as a Critical Business Imperative

### ESG Compliance Fast Facts

- 1. There are 29 countries and territories with some degree of mandatory ESG disclosure regulations.\***  
Including the US, EU, UK, Canada, India, Hong Kong, Singapore, Australia, China, South Africa\*.
- 2. Global ESG regulation increased by 155% over the past decade.**  
1,255 ESG policy interventions have been introduced worldwide since 2011, according to World Business Council for Sustainable Development (WBCSD), compared to 493 regulations published between 2001 and 2010.
- 3. Out of S&P 500 companies, 99% report on ESG, and 65% are obtaining ESG assurance.**  
Out of 500 companies, 494 had reported ESG information to some degree, which is 30 more companies than the previous year.
- 4. Global ESG fund assets reached about \$2.5 trillion at the end of 2022.**  
Global ESG fund assets reached about \$2.5 trillion at the end of 2022, up from \$2.24 trillion at the end of the third quarter. The nearly 12% jump in assets was almost double the growth of the broader global fund market.
- 5. Nearly 9 out of 10 investors consider ESG in decision-making.**  
89% of investors consider ESG issues as part of their investment approach, according to a 2022 study by asset management firm Capital Group.

#### Citations

<https://corpgov.law.harvard.edu/2021/05/10/the-effects-of-mandatory-esg-disclosure-around-the-world/>  
<https://esgnews.com/global-esg-regulation-increases-by-155-over-the-past-decade/>  
<https://www.bdo.com/insights/sustainability-and-esg/99-of-the-s-p-500-is-reporting-on-esg-and-65-are-obtaining-esg-assurance#:~:text=ESG%20reporting%20is%20on%20the%20rise.%20Out%20of%20year%20and%20approximately%2099%25%20of%20the%20S%26P%20500.>  
<https://www.bankrate.com/investing/esg-investing-statistics/#stats>

## Understanding the Spectrum of ESG Compliance

### Big C vs. little c compliance

Every firm will encounter various compliance obligations, from laws or regulations enforced by government or regulatory authorities to the expectations of stakeholders, industry norms, or voluntary guidelines. This complex landscape necessitates a nuanced understanding of compliance in both its formal and informal contexts.

Compliance with a capital 'C' means adhering to laws and regulations set by governments at every level for ESG performance and disclosure. These legally-binding requirements set a clear baseline for ESG compliance.

In contrast, compliance with a lowercase 'c' refers to broader implications of these laws and regulations to businesses, including stakeholder expectations and industry standards. These expectations may entail more detailed disclosure or higher performance thresholds than those mandated formally by law or regulation.

As markets around the globe adopt ESG regulations and disclosure requirements, you may find yourself at the forefront of navigating Big 'C' Compliance and little 'c' compliance. This complexity underscores the importance of understanding both legal mandates and broader expectations that influence a company's ESG strategy.



## Understanding the Spectrum of ESG Compliance

# Big 'C' ESG Compliance

### Legally-binding requirements

A company's Big 'C' obligations may include multiple, legally-binding, market-level compliance requirements depending on company type, industry, revenue, and more.

**Regional** — Example: EU's Corporate Sustainability Reporting Directive (CSRD), applicable to all EU member states

**Country** — Example: US Securities and Exchange Commission (SEC) Human Capital Disclosure Rule

**State** — California's two new climate disclosure bills, The Climate Corporate Data Accountability Act and Greenhouse Gases: Climate-Related Financial Risk

**Municipal** — Example: New York City's Law 97 for emission reductions and disclosure from the built environment

### Relevant to:



**Public Companies** — Companies trading on stock exchanges will face the greatest amount of Compliance requirements.



**Multi-Nationals (public & private)** — Companies with international operations will face more stringent and complex Compliance requirements.



**Certain Industries in Certain Markets** — Some industries will have specific market-based requirements, such as Insurers in Canada's 2024 climate risk disclosure regulations and New York City's Law 97 for real estate.

## Understanding the Spectrum of ESG Compliance

# Little 'c' ESG Compliance

### Stakeholder requirements and voluntary disclosures

Although stakeholder expectations aren't legally binding, non-compliance can result in significant financial and reputational consequences

**Investor Capital Mandates** — Example: ESG mandates from pension funds, endowments, family offices, or from capital providers like private lenders

**Vendor Requirements** — Example: ESG supplier requirements and partner ESG codes of conduct

**Industry Initiatives & Coalitions** — Example: UN Global Compact participation and disclosure requirements

**Stock Exchanges** — Example: NASDAQ's diversity transparency disclosure requirement

**Best Practices** — Example: Voluntary disclosure recommendations

### Relevant to:



**All companies** — All companies will face some sort of compliance requirement, whether from a capital provider, B2B customer, industry initiative, or in preparation for an IPO or M&A activity.



**Vendors, suppliers, or partners** — Any company working with a public or large name-brand customer will have ESG disclosure requirements.



**Private companies bidding for brand-name customers and investors** — Acquiring any well-known investor or customer will involve ESG due diligence and disclosure requirements.

## Navigating ESG Reporting Requirements

# Big ‘C’ Compliance and little ‘c’ compliance require ESG reporting and disclosures



Key concepts to consider when navigating these requirements:



### Engage Stakeholders and Validate Expectations

Stakeholder expectations may fluctuate as each stakeholder’s pressures and requirements evolve. Don’t assume you know the latest set of expectations. Engage your stakeholders and validate what expectations and associated compliance requirements are current and up-to-date.



### Review Fine Print of Legally-Binding ESG Regulations

Formal ESG laws and regulations are implemented in a multi-year process. Read the fine print to determine the timeframe and circumstances determining compliance requirements. You may find that you have multiple years to prepare for compliance depending on your company’s publicly-traded status, size, and additional characteristics.



### Determine if Requirements are Legally Binding

Prioritize addressing expectations from legally-binding regulations. Determine if non-legally binding or voluntary policy requirements are attainable or relevant to stakeholder expectations before allocating time, energy, and resources to address them. Although you would ideally be compliant with all requirements, there may be instances in which addressing these expectations are beyond a management team’s current expertise, capabilities, or time constraints.



### New Market Entry, New Market Requirements

Identifying and preparing to address new ESG compliance requirements should be part of the planning process for new market entry. Depending on the market, there could be multiple sets of regulatory requirements. For example, France has issued additional requirements beyond the EU’s regulatory requirements.



### ESG Compliance is a Team Sport

The information sharing and data governance required for effective compliance requires strong cross-functional coordination. Make sure the process is standardized and scalable as your company grows.



## Navigating ESG Reporting Requirements

Pose these questions internally to determine compliance requirements and regulatory risk exposure.



### **Are we public or private?**

Public companies are subject to more rigorous disclosure requirements and are the first types of companies required to act on new ESG regulations as regulatory agencies publish compliance schedules. While not bound by the same regulatory obligations, private companies must address ESG considerations to meet B2B ESG procurement requirements as well as relevant investor mandates.



### **In what markets and countries do we operate?**

Different regions have distinct ESG regulations that may impact compliance requirements and timelines for adherence.



### **What are our revenues in international markets?**

Certain markets have revenue bands that determine ESG compliance requirements and timelines. Prominent regulations, like the EU's Corporate Sustainability Reporting Directive (CRSD), include revenue in its criteria for compliance.



### **How many employees do we have and where are they based?**

In addition to revenue, employee headcount is a criteria for determining a company's inclusion in certain regulations. Various ESG regulations require companies with a certain number of domestic employees to comply.



### **In what industries do we operate?**

Your industry verticals influence compliance requirements and timelines depending on the jurisdiction. For example, as Canada's ESG disclosure regulations roll out over a multi-year timeframe, banks and insurance companies are required to comply first, while companies in other industries must comply in subsequent years as determined by the regulatory agency.



### **What ESG requirements do we face from vendors?**

B2B buyers may expect their vendors to meet ESG criteria and baseline performance requirements. Noncompliance can result in termination of the relationship as well as potential fines.



### **What ESG requirements do we face from investors?**

Most investors are incorporating ESG due diligence into their decision-making and requiring portfolio companies to measure, manage, and disclose progress.

## From Compliance To Competitive Advantage

# Key Principles for Ensuring Compliance and a Competitive Advantage

Embracing ESG principles has become a proactive strategy in which sustainability acts a platform for innovation, resilience, and enhanced stakeholder relations, positioning companies as industry leaders committed to responsible practices.

### 1. Materiality Matters

Prioritize issues that pose direct risks and opportunities to your business and key stakeholders. Focus on issues of greatest consensus across stakeholder groups.

### 2. Future-Proof the Business

Meet emerging needs, expectations, and opportunities in the global transition to a Net Zero economy. Enhance organizational resilience and adaptability amongst ESG risks and geopolitical instability.

### 3. Reporting, Reputation, and Valuation

Disclosure transparency drives third-party rating scores. Quality of communications supports positive perceptions of management effectiveness and stakeholder “license to operate”.

### 4. Integration into Company Culture and Daily Operations

Embed ESG into company culture efforts to strengthen employee buy-in and engagement. Integrate ESG into daily operations to maximize commercial value of efforts.





## From Compliance To Competitive Advantage

# Four Key Principles



### ➤ **Materiality Matters**

Determining materiality involves identifying and prioritizing the most significant ESG issues that impact your company's performance and the welfare of your key stakeholders. Incorporating materiality into compliance efforts ensures that a company focuses on issues that truly matter, aligning its sustainability initiatives with the concerns of investors, customers, employees and the broader community. Determining materiality also aids effective resource allocation, enabling companies to direct their efforts and investments towards initiatives that generate the most substantial returns on both ESG and financial performance.

### ➤ **Future-Proof the Business**

The global transition to a Net Zero economy will pose a range of risks and opportunities across industries. Developing an ESG strategy that accounts for compliance and future business plans, such as market entry, new product lines, and growth planning, ensures adequate preparation for this global transition. Consistently responding to the needs of your stakeholders will support organizational resilience and risk management as their needs change and circumstances evolve in the future.

### ➤ **Reporting, Reputation, and Valuation**

Effective and transparent ESG reporting builds stakeholder trust, strengthens corporate reputation, and ultimately enhances company valuations. ESG performance has become the ultimate litmus test of management effectiveness, and the quality and comprehensiveness of your ESG reporting directly impacts perceptions of your ESG maturity. From third-party ESG rating and ranking systems to institutional shareholder services, ESG reporting has become a core component of corporate reputation management and valuations.

### ➤ **Integration into Company Culture & Daily Operations**

Embedding ESG into company culture efforts strengthens employee engagement, adoption, and overall buy-in. Benefits range from employee retention to better customer service to stronger implementation of the enterprise ESG strategy.

“Moving from ESG compliance to gaining a competitive advantage signifies a strategic shift where companies go beyond regulatory obligations.”

#### **Noah Miller**

Co-Founder and Chief Advisory Officer,  
Rho Impact

“Greenwashing incidents up 70% globally in 2023”

Trade Finance Global 2023 Report

“Banks behind 70% jump in greenwashing incidents in 2023”

Reuters



## Greenwashing: Risks & Mitigation Tactics

# Greenwashing Risks

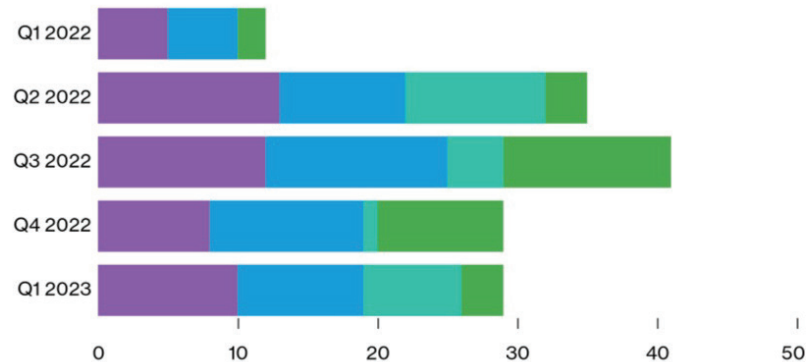
Compliance & Reporting Requirements Create Greater Risks (and Implications) for Greenwashing

### What is Greenwashing?

Greenwashing is any false representation of your ESG performance. Be specific with every type of claim, including company, product, and the claims of key partners, industry initiatives, and trade associations (like suppliers).

### Quarterly Totals for ESG-Related Lawsuits

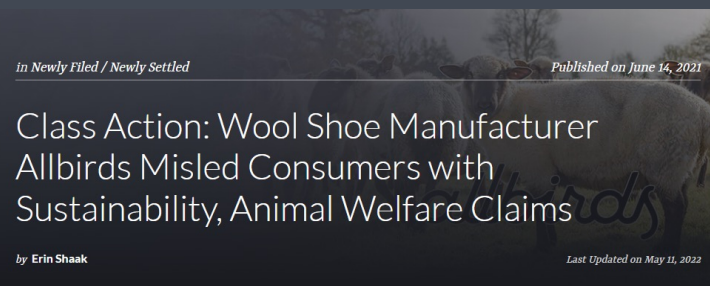
Environmental Justice   Product Advertising   Employment & DEI  
Corporate Representations



Source: Bloomberg Law docket search of complaints filed in federal district courts, Q1 2022–Q1 2023.

## 'Sustainable' pension funds accused of greenwashing over billions held in oil and gas firms

Warning comes as UK watchdog set to tighten rules for asset managers given short-term targets



FOOD & BEVERAGE

## Oatly accused of overstating revenue and greenwashing by activist short Spruce Point

PUBLISHED WED, JUL 14 2021-9:00 AM EDT | UPDATED WED, JUL 14 2021-12:58 PM EDT

Amelia Lucas @THXAMELIAN SHARE f t in e

The New York Times

## California Sues Giant Oil Companies, Citing Decades of Deception

Launching one of the most prominent climate lawsuits in the nation, the state claims Exxon, Shell, BP and others misled the public and seeks creation of a special fund to pay for recovery.



## Greenwashing: Risks & Mitigation Tactics

### Greenwashing Risks

#### > Product Claims

Example:

A single-use product claims to be 100% compostable - but only compostable in markets with access to industrial composting.

#### > Company Claims

Example:

A company's "responsible sourcing" practices only account for a small percent of their procurement needs.

#### > Partner Claims

Example:

A supply chain partner claims that a material is organic but cannot provide evidence or data to substantiate the claim.

#### > Broader Industry Claims

Example:

A non-profit unearths that a particular industry coalition's ESG commitments are baseless and proven otherwise.

## Greenwashing: Risks & Mitigation Tactics

# Tactics to Mitigate Greenwashing

A company's actions and communications, and those of internal and external stakeholders, can result in greenwashing accusations. Here are a few concepts and associated tactics for mitigating greenwashing risks.



### 1. Data Management, Transparency, and Accountability

Ensure every ESG claim can be supported by the data, methodologies, and assumptions used to arrive at that claim.

Implement procedures and controls for data management, engage in third-party audits to verify and validate major claims, and establish traceability requirements for both up-stream and down-stream partners.

### 2. Aligned SAY-DO Ratio

In the past, companies could publish ESG commitments without any real accountability measures or consequences. That is not the case today - companies suffer real-world, financial consequences when they don't do what management says they will do.

Identify gaps between your public ESG commitments and your current efforts to address them. If you find a major gap, develop a near-term plan to address it or adjust the commitment accordingly. Any public commitment must be followed by swift company actions.

### 3. Third-Party Assurance and Internal Verification Protocols

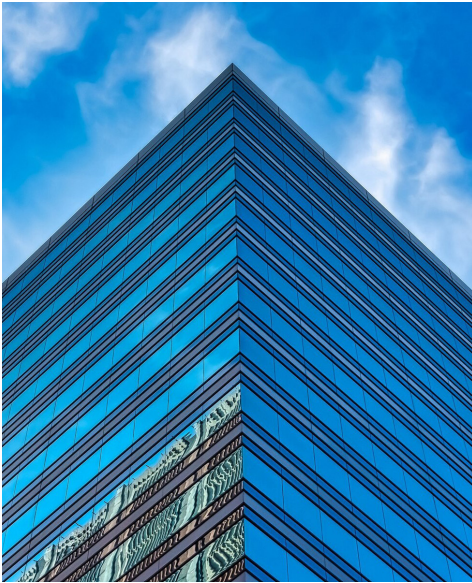
Certain regulations require third-party assurance for all reported data. Even when not required, third-party verification of your company's disclosed impact mitigates any greenwashing risks and liabilities.

Set verification protocols, standardize, and scale them across the company.

### 4. Minimize Jargon, General Terms, and Ambiguities

Any "insider" or "expert" language, as well as vague generalities, can result in greenwashing accusations due to potential misunderstandings of the concepts or misinterpretations of the company's intent.

Provide both the 'narrative and numbers' to ensure your reporting is contextualized, comprehensive, and clear.



## Building a Company Culture of ESG Compliance

### Do's & Don'ts

#### DO'S

As the saying goes, “the fish rots from the head.” In business, a company’s corporate culture and overall success depends on the behavior of its leadership. Your board of directors and management team should be fully aware of ESG compliance requirements and the associated risks and benefits. Once leadership understands the “why,” it will be easier to garner support and resources for the “how.” Fully integrating ESG compliance into daily operations, as well as engaging and educating employees throughout the process, is critical to building a company culture of ESG compliance.

- ✔ **Do** integrate ESG issues into current risk management and compliance practices.
- ✔ **Do** engage, educate, and empower employees to contribute to ESG efforts.
- ✔ **Do** leverage free and open-source standards, frameworks, and methodologies.
- ✔ **Do** incorporate ESG topics into management training and leadership development.
- ✔ **Do** integrate ESG compliance requirements into contracts when relevant.





## Building a Company Culture of ESG Compliance

### Do's & Don'ts

#### DON'TS

Don't underestimate the financial and reputational implications for noncompliance. Although regulator fines may pale in comparison to company revenues, the risks to stock prices, capital terms, and stakeholder confidence could ruin a company in the long-run. Treating ESG compliance like a PR exercise or one-off initiative can also result in potential greenwashing accusations and even lawsuits. Given the number of external stakeholders required for ESG data collection, don't assume your stakeholders are prepared with that data or know exactly what you're asking for.

- ⊗ **Don't** treat ESG compliance like a PR exercise or one-off initiative.
- ⊗ **Don't** underestimate the consequences for inaction or a lax response.
- ⊗ **Don't** assume everyone is familiar with or excited about ESG.
- ⊗ **Don't** take a vendor's 'word for it' on ESG claims, performance measures, and data quality.
- ⊗ **Don't** wait until the last minute to begin the compliance process - it always takes longer than one thinks it will.





## Building a Company Culture of ESG Compliance

# Best Practices for Doing the “Do’s” and Avoiding the “Don’ts”

### 1. Codify, Standardize, and Scale the Process

- Given the amount of information and data required from internal and external stakeholders to ensure compliance, developing a standardized and scalable process with explicit expectations and guidance for your stakeholders will ensure a repeatable annual process that can grow alongside a company.
- In addition, a standardized process will ensure the ESG compliance process is fully embedded in daily operations as more employees, vendors, and others become company stakeholders.

### 2. Determine and Align with Stakeholder ESG Objectives

- Your stakeholders will likely be responsible for their organization’s ESG compliance requirements, especially B2B customers and investors.
- Determine their core ESG objectives and identify potential areas of alignment with your ESG objectives.
- Explicit alignment will accelerate organizational information sharing, coordination, and pooling of resources, knowledge, and networks.

### 3. Find ESG-Centric Partners

- Building a long-term company culture of ESG compliance is easier with the right partners.
- Find organizational partners that share your ESG commitments and who are versed in ESG compliance.
- Whether seeking new investors, insurers, buyers, vendors, or specialized consultants, ESG-centric partners will make the ESG compliance effort faster, stronger, and more effective.

## Building a Company Culture of ESG Compliance

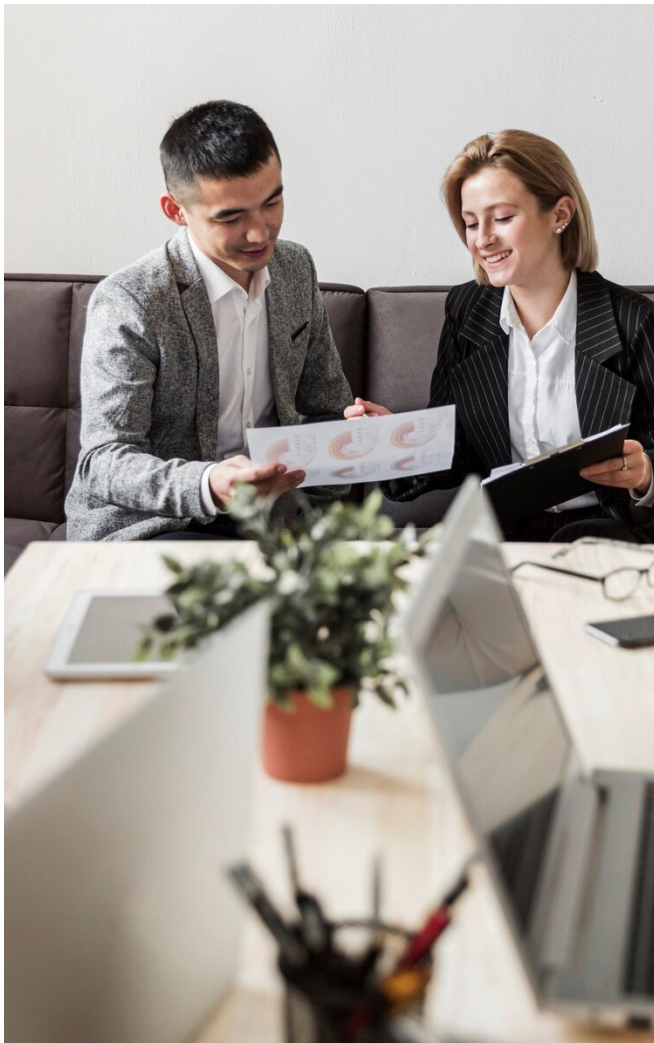
# Best Practices for Doing the “Do’s” and Avoiding the “Don’ts”

### 4. Make ESG a Leadership Priority

- Make ESG an explicit element of leadership roles, responsibilities, and accountability measures to ensure compliance is a priority.
- When ESG is not a leadership priority, it becomes peripheral to the core of the business. Without resourcing, guidance, and support from senior leadership, ESG compliance will become a ‘last-minute’ effort versus a core component of company culture and operating procedures.

### 5. Ensure Clarity and Consistency

- ESG touches many different topics and can mean different things depending on context and familiarity with the subject matter.
- Avoid buzzwords and jargon. Instead, use simple, clear, and consistent terminology to help mitigate any errors or misunderstandings across internal and external stakeholder groups.
- Clear and consistent language will also minimize greenwashing risks for misspeaking or misusing a specific term unintentionally.



## Key Takeaways & Additional Resources

As ESG compliance becomes a new norm for companies around the world, finance teams must embed and integrate ESG compliance practices into their daily operating procedures and long-term planning.

Finance teams have a unique and critical role to play in ensuring ESG compliance and connecting a company's ESG performance to its financial stability and longevity. ESG will become a core element of all finance jobs as the world transitions to a Net Zero economy.

This guide outlines best practices and key concepts to help finance professionals understand ESG compliance, associated risks and benefits, and creating a competitive advantage.

“Finance teams have a unique and critical role to play in ensuring ESG compliance and connecting a company's ESG performance to its financial stability and longevity.”

**Gal Shargil-Yaari**  
Senior ESG Advisor,  
Rho Impact

## Key Takeaways & Additional Resources

The practices and concepts covered in this guide include:

### 1. Accounting for Big C Compliance and little c compliance.

**Including laws, regulations, and stakeholder requirements**

This section covers how to address all expectations and pressures that influence a company's financial risks and revenues.

### 2. Understand greenwashing and plan accordingly.

**Including any misrepresentation, miscommunication, or misunderstanding of your company ESG performance**

How to ensure ESG compliance gets the resourcing, time, and energy it deserves to mitigate potential fraud allegations.

### 3. Integrate and embed ESG compliance in daily operations.

**Including finance team risk management, budgeting, and long-term planning efforts**

This section covers why ESG compliance is a daily role and responsibility requiring advance planning and preparation.

### 4. Management must embrace ESG and lead the charge.

**Including management's role in engaging, educating, and empowering employees to contribute to a culture of ESG**

This section covers the importance of dedicated resources, time, and organizational energy for ESG compliance and creating a competitive advantage.

### 5. Check the rules, check your stakeholders, then check again.

**Including evolving ESG regulations and associated compliance requirements from your stakeholders**

This will ensure you're current on both legal requirements and stakeholder expectations across company operations.

#### Additional Resources

<https://corporatefinanceinstitute.com/resources/esg/esg-in-2023/>

<https://corporatefinanceinstitute.com/resources/esg/esg-disclosure/>

<https://corporatefinanceinstitute.com/resources/esg/esg-environmental-social-governance/>

