

Sustainability Reporting and Disclosures Introduction for Finance Students and Professionals



Presented by
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 at
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 By Invitation of Professor Lawrence Kalbers
 April 2, 2025

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Objectives & Agenda

Objectives

- Demonstrate relevance of Sustainability reporting and disclosures for Finance and Accounting professionals
- Share reference to enhance quality reporting

Agenda

- 1) Recap of Fundamentals
- 2) Sustainability Reporting and Disclosure
 - Climate
 - Everything Else
- 3) The Right Info to the Right Parties

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The presenter is not a CPA.



I. RECAP OF FUNDAMENTALS





UN Sustainable Development Goals



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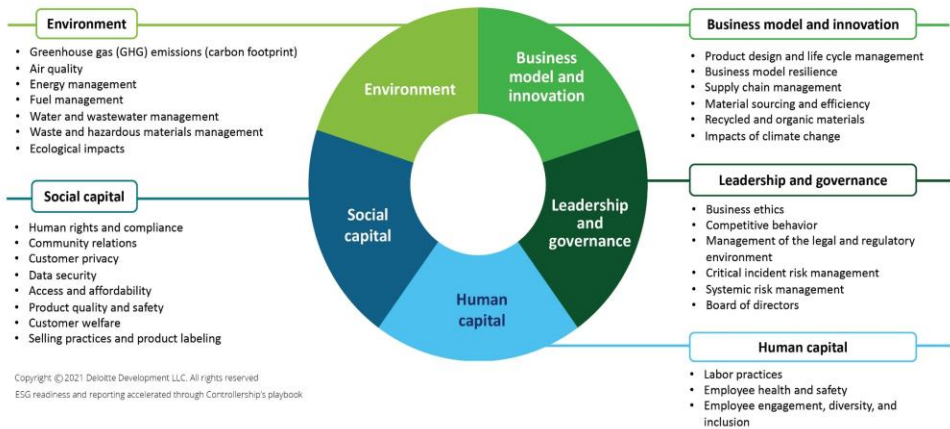
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ESG: Deloitte Model (2021)



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ESG: Another Model



- “Sustainability” encompasses ‘all things non-financial’.
- “ESG” is one way to begin organizing a wide array of non-financial issues in a taxonomy that enables meaningful strategy, program development, performance measurement, communications, and reporting.
- Aspects of Sustainability may pose financial risk; they may have financial impact. Either/ both may be “significant” or “material” (both terms are defined).
- This depends on sector/ industry, organizational strategy, and other factors.

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Sustainability: Some Perspectives

- Sustainability is a state; a desired condition.
- “ESG” is a taxonomy.
- Sustainability is no one thing. It differs by sector, geography, organization, and objectives.
- There’s Climate, and there’s everything else.
- Sustainability poses risks and opportunities. To whom/ for whom?
- Demand for reporting has outpaced the development of systems & controls to produce content for reporting.
- Sustainability is dynamic – always has been. Hang on!

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Other Drivers: B2B

- Contractual requirements
- Supply chain due diligence
- Verification / audits
- Commitment for future improvements
- Periodic [B2B] reporting



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Sustainability Compliance: Channels

- Legal and regulatory
 - Enforceable by sovereign entity
 - Legal/ contractual
 - Enforceable by business partner
- Industry standards, frameworks, codes of conduct
- Voluntary obligations



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Sustainability Compliance: Voluntary Obligations

Traditional

- ISO certifications (9001, 14001)
- Energy Star
- Code of Conduct, general company commitments



More Recent

- B Corp; other credentials and certificates
- Best Places (to work, gender equity, most energy efficient, etc.)
- Sector/ Industry standards, frameworks
- Paris Climate Accords (2016)
- Goals and targets



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Observations on Sustainability Reporting

- Demand for reporting has outpaced the ability to report.
- Growing calls for assurance.

Sustainability reporting differs from financial reporting: 3 attributes

Original white paper at www.douglashileman.com

3 Attributes of ESG Reporting / Sustainability Reporting



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2. Sustainability Standards and Frameworks Whirlwind Tour



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Selected Standards, Frameworks and References

Global Reporting Initiative (GRI)	SEC Regulation S-K Guidance	Science-Based Targets Initiative (SBTi)	COSO Internal Controls over Sustainability Reporting (ICSR)
Greenhouse Gas (GHG) Protocol	Sustainability Accounting Standards Board (SASB)	Task Force for Nature-Related Financial Disclosures (TNFD)	Calif. Climate Disclosure Laws (SB 253, SB 261)
Carbon Disclosure Project (CDP) – Climate	Task Force for Climate-Related Financial Disclosures (TCFD)	International Sustainability Standards Board (ISSB)	Canadian Sustainability Disclosure standards (CSDS)
Carbon Disclosure Project (CDP) - Water	UN Sustainable Development Goals	EU’s Corp. Sustainability Reporting Directive (CSRD)	SEC Climate Disclosure Rule

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UN Sustainable Development Goals

Launch Date	9/1/2015
Objectives	Set the course for countries to reduce poverty, fight inequalities and tackle climate change and environmental issues.
Intended Users	Countries for planning regs and emphasis. Companies for tailoring voluntary efforts to strategy and risk. NGOs and other stakeholders for analysis and actions.
Summary	17 Sustainable Development Goals. Env.: water, sustainable cities, climate, life below water, land. Clean energy and responsible consumption.
Where/ How Used Now	Government entities: guide priorities, regulations. Standard-setters: align reporting and disclosure topics. Companies: align efforts. Stakeholders: research, hold stakeholders accountable.
Website	https://www.un.org/sustainabledevelopment/

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2.1 Sustainability Standards and Frameworks: Climate



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Climate: Carbon Disclosure Project (CDP)

Launch Date	2000
Objectives	Encourage companies to voluntarily calculate and disclose Greenhouse Gas (GHG) emissions, using standard format.
Intended Users	External: stakeholders interested in GHG/ climate profile to inform their decisions. Internal: Management, to understand profile and prioritize efforts.
Summary	Now "CDP. Annual reporting. Template on website. More requirements each year. CDP reviews and grades submittals. All types of entities: companies (public and private), governments. Disclosures and CDP grades are publicly available. Templates and access to website is free. Primary globally-accepted portal for public disclosure of climate-related data and information. Aligns with TCFD and other leading standards. Likely to be the portal for Calif. Climate disclosure laws.
Where/ How Used Now	"First stop" for financial analysts, researchers, customers, suppliers, companies doing benchmarking. Can be used by enforcement entities, to compare disclosures to those made elsewhere. Aligned with ISSB.
Website	www.cdp.net/en

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Climate: Greenhouse Gas (GHG) Protocol

Launch Date	1998
Objectives	Established by World Resources Institute and World Business Council for Sustainable Development. Create standardized framework for measuring, managing and reducing GHG emissions.
Intended Users	Preparers, users, and auditors/ assurance providers for GHG emissions calculations and inventories.
Summary	De facto statutory; referenced in all major laws/ regs. Family of guidance docs: Corporate Standard; Scope 2 Guidelines; Scope 3 Guidelines; Project Guidelines. An accounting protocol built for technical topics.
Where/ How Used Now	Basis for calculations, documentation, records of GHG emissions inventories. Basis for audit/ assurance protocols. Help Management evaluate and prioritize projects and decisions.
Website	www.ghgprotocol.org

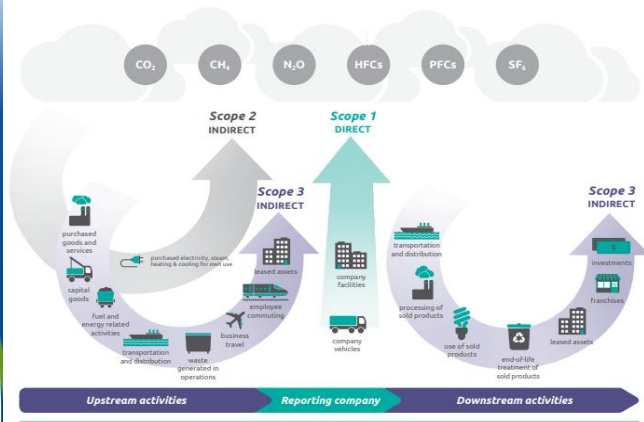
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GHG Protocol



Scope 1 = Direct emissions, from combustion
 Scope 2 = Indirect emissions from purchase of energy
 Scope 3 = All other indirect

Scope 3: Value Chain
 Upstream: 8 categories
 Downstream: 7 categories

GHG Protocol Corporate Standard
 GHG Protocol Scope 2 Guidance
 GHG Protocol Scope 3 Guidance
 These and more at www.ghgprotocol.org

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Climate: Task Force for Climate-Related Financial Disclosures (TCFD)

Launch Date	2015
Objectives	Help investors assess potential bottom-line impacts of climate related matters.
Intended Users	Investors, capital markets, analysts.
Summary	Founded by Financial Stability Board (not an environmental group!). Draft framework in 2017. Introduced "four pillars": 1) governance; 2) strategy; 3) risk; 4) metrics an targets.
Where/ How Used Now	The TCFD framework has become embedded into global standards. TCFD merged into the ISSB. It has fulfilled its mission and is now defunct. TCFD website remains, but only as a repository for materials developed by the Task Force.
Website	https://www.fsb-tcfd.org/

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Climate: International Sustainability Standards Board (ISSB) S-2

Launch Date	11/3/2021
Objectives	Establish global guidelines for disclosure regarding Climate risks and opportunities.
Intended Users	Primary users of general purpose financial statements.
Summary	ISSB is part of IFRS Foundation. Merger of SASB, IIRC. Continues approach of legacy SASB. "Single" materiality. S-1 (General) and S-2 (Climate) published 6/26/2023.
Where/ How Used Now	Adoption in EU for disclosure in financial filings. Incorporated TCFD, adding more: granularity, disclosures. Requires disclosure of Scope 3 GHG emissions.
Website	https://www.ifrs.org/groups/international-sustainability-standards-board/

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Climate: SEC Climate Disclosure Rule

Launch Date	3/6/2024
Objectives	Establish disclosure parameters for climate-related reporting and risk. Meet demands of investors and stakeholders. Align w climate disclosure requirements of global capital markets.
Intended Users	Providers of capital. Other stakeholders.
Summary	Regulation S-K requirements (Form 10-K disclosures) interoperable with ISSB S-2, TCFD, other disclosures. Reg. S-X requirements (financial statement footnotes) unique to SEC rule; would be subject to internal controls over financial reporting (ICFR) and auditor procedures.
Where/ How Used Now	SEC initiated a voluntary stay; rule could be cancelled w new Administration. S-K requirements likely to be imposed via other means [ISSB, California, CDP, capital markets, B2B, proxy initiatives]. S-X requirements or practices: TBD.
Website	https://www.sec.gov/newsroom/press-releases/2024-31 Webinar at www.douglashileman.com

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Climate: California Climate Disclosure Laws (SB 253 and SB 261)

Launch Date	10/9/2023
Objectives	If "doing business in California"; reference to tax code (likely). SB 253: Report GHG <u>emissions</u> for companies >\$1 billion in revenues. [quantitative] SB 261: Report material climate-related financial risk aligned with TCFD. >\$500 million in revenues. [narrative]
Intended Users	Broad range of stakeholders.
Summary	Requirements align with TCFD. CARB must develop regs; could be delayed. Also applies to private companies. CDP could be disclosure portal.
Where/ How Used Now	Motivation for companies to begin or improve climate-related efforts, regardless of SEC action/ inaction. Non-public entities are paying more attention. New York, Illinois considering similar state laws.
Website	https://leginfo.legislature.ca.gov/

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Science-Based Targets Initiative (SBTi)

Launch Date	2015
Objectives	Collaboration w CDP, UNGC, WRI, and Worldwide Fund for Nature. Independent validation that (self-declared) targets are sufficient to achieve goal in Paris Accord.
Intended Users	Entities developing targets to meet commitment to targets/ goals. Stakeholders assessing entity performance against targets.
Summary	Paris Agreements established global targets for reductions in GHG emissions to slow/ cap global temp rise. Company submittal, SBTi review and approval. Entities report progress towards (self-declared) targets.
Where/ How Used Now	Provides rigor for the "TCFD four pillars". Begin with #4 Metrics & Targets. Circle back to Governance, Strategy, Risk. Cap. Markets and B2B beginning to use this for decisions.
Website	www.sciencebasedtargets.org/

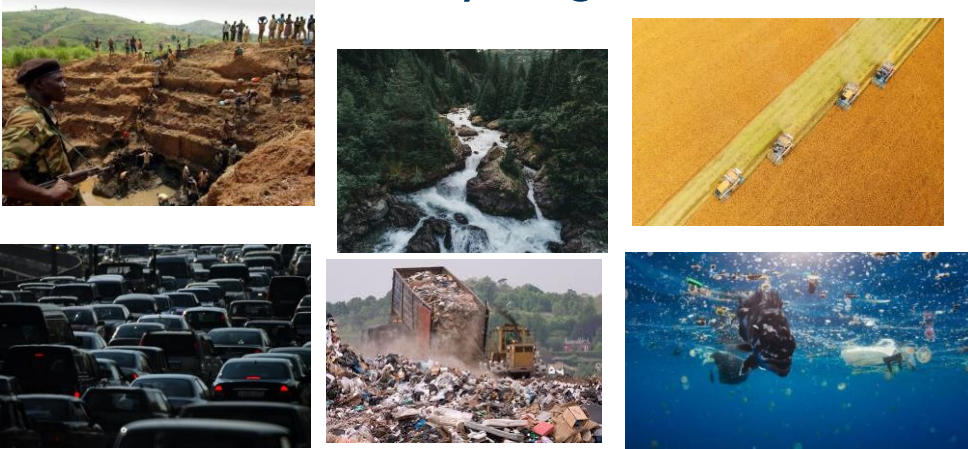
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2.2 Sustainability Standards and Frameworks: Everything Else



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Global Reporting Initiative (GRI)

Launch Date	1997
Objectives	Founders: UN Env. Program; CERES; Tellus Inst. Establish comprehensive roster of Sustainability disclosure topics, in taxonomy to enable consistent and comparable Sustainability reports.
Intended Users	Preparers and users of voluntary Sustainability reports.
Summary	Framework to establish common format for voluntary Sustainability reporting. Included "mandatory" topics, sector-specific suggestions, other suggestions. >4 revisions since initial standards.
Where/ How Used Now	Remains a resource for voluntary Sust. Reporting and disclosures. Includes narrative and quantitative parameters. Partners with ISSB for interoperability of disclosure topics (as voluntary migrates to mandatory). NOT among entities now in ISSB.
Website	www.globalreporting.org

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Carbon Disclosure Project (CDP): Water

Launch Date	2009
Objectives	Encourage companies to voluntarily calculate and disclose data and information on water use and water risk.
Intended Users	External: stakeholders interested in water resource/ usage profile to inform their decisions. Internal: Management, to understand profile and prioritize efforts.
Summary	Building on the widespread adoption and use of the climate-related disclosures. Recognizes risks arising from water scarcity, quality, demands, costs, and impacts. Getting data is a first step. Water security, water accounting: water withdrawals, uses, recycled, dependences, changes, forecasts, value chain, verification, targets, progress.
Where/ How Used Now	Similar uses as for CDP Climate disclosures, for stakeholders interested in risk and/or performance profile for water. Water questionnaire combined with climate & water into one in CY 2024.
Website	https://www.cdp.net/en/water

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SEC Regulation S-K; Guidance

Launch Date	2/2/2010
Objectives	Convey that Regulation S-K requires including all "material risks" in Management Discussion & Analysis (MD&A) in Form 10-K. Climate is not expressly excluded.
Intended Users	Publicly traded companies and preparers of financial disclosures.
Summary	Stakeholders seeking climate-related disclosures had been frustrated at finding few/ none. Guidance did not <u>require</u> climate-related disclosures but reiterated that it if was "material" (per standard definition), it is by no means exempt.
Where/ How Used Now	SASB applied standard "materiality" definition to identify applicable sectors for climate disclosures. Backstop to possible cancellation of SEC climate disclosure rule.
Website	https://www.sec.gov/files/rules/interp/2010/33-9106.pdf

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Sustainability Accounting Standards Board (SASB)

Launch Date	7/31/2011
Objectives	Provide material sector-specific Sustainability disclosure topics to enable relevant, consistent, decision-useful disclosures in Form 10-K.
Intended Users	Preparers of financial filings. Users of financial filings, notably investors and analysts.
Summary	Began with def'n. of "materiality" consistent with U.S. Supreme Court decision; no new law or reg required. SASB developed "Sustainable Industry Codes" to get meaningful disclosure topics useful to investors. Disclosure topics for 77 industries completed in 2018.
Where/ How Used Now	Merged with Int'l Integrated Reporting Council to create Value Reporting Foundation Nov. 2020. VRF merged into ISSB (a branch of Int'l Financial Reporting Stds.) in 2021. Updated standards in 2023; updated taxonomy in 2024. Although "SASB Standards" still used as a term, SASB no longer exists.
Website	https://sasb.ifrs.org/

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International Sustainability Standards Board (ISSB): S-1 General Disclosures

Launch Date	11/3/2021
Objectives	Establish global guidelines for disclosure regarding Sustainability-related risks and opportunities.
Intended Users	Primary users of general purpose financial statements.
Summary	ISSB is part of IFRS Foundation. Merger of SASB, IIRC. Continues approach of legacy SASB. "Single" materiality. S-1 (General) and S-2 (Climate) published 6/26/2023.
Where/ How Used Now	Adoption in EU for disclosure in financial filings. Embraced globally for adoption, sometimes w modifications/ enhancements (Canada).
Website	https://www.ifrs.org/groups/international-sustainability-standards-board/

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Sustainability Compliance: Legal/Regulatory: About IFRS



- DH Views
- Capital markets are “driving the bus.”
 - SASB built disclosure standards on U.S. Supreme Court definition of “materiality”; no new law or regulation was required. [SASB now part of IFRS.]
 - Whatever SEC does (or does not) do, the trend globally is towards more Sustainability disclosures in financial filings.
 - There are general standards. And climate standards.
 - More may be coming. Human capital? Nature?
 - Disclosures include data and information along supply chain/ value chain.

Why should U.S. companies be concerned with laws passed elsewhere?
If you source outside US, or if you sell outside the US, some aspects of these will apply to you.

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Task Force for Nature-Related Financial Disclosures (TNFD)

Launch Date	6/1/2021
Objectives	Provide decision makers in business and capital markets with better quality info via corp. reporting on nature to improve enterprise and portfolio risk management.
Intended Users	Same as TCFD: capital markets, investors, analysts & related. Internal: Strategic planning, risk management, Compliance, Opns.
Summary	Issues, dependencies and impacts, risks & opportunities, financial effects. Additional sector guidance. Core metrics: nature use; pollution & removal; resource use & replenishment; risk; opportunities.
Where/ How Used Now	Capital markets. Internal: strategic planning, risk management. B2B: mitigate risk and leverage opp'ys throughout value chain.
Website	https://tnfd.global/

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Canadian Sustainability Disclosure Standards (CSDS)

Launch Date	3/1/2024
Objectives	Leverage ISSB disclosure standards, with enhancements to serve the Canadian public interest.
Intended Users	Capital markets and broad array of stakeholders.
Summary	Adopts ISSB standards (S-1 and S-2) for Canada. Some enhancements, including consideration of first nations.
Where/ How Used Now	Evolving.
Website	https://www.frascanada.ca/en

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EU's Corp. Sustainability Reporting Directive

Launch Date	1/5/2023
Objectives	Require companies to report on Sustainability performance, risk, impacts. Consider risks & key interests of the company <u>and those of key stakeholders</u> .
Intended Users	Capital markets. Broad array of stakeholders.
Summary	EU Sustainability Reporting Standards (ESRS) [published 12/22/2023] set forth parameters and topics. Go beyond traditional "materiality" to "double materiality." 50,000 EU companies and non-EU business operating in EU are required to make sustainability disclosures. They begin to take effect for CY 2025. Limited assurance required.
Where/ How Used Now	Companies doing readiness, addressing gaps (develop, deploy or improve processes). Companies engaging with value chain where data or info is required. Assurance readiness.
Website	https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

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EU Omnibus

Two proposals released 2/26/2025

1) “Stop the Clock”

- Delays effective dates for “Wave 2” and “Wave 3” [medium- and smaller entities]
- “Wave 1” still begins after FY 2024

2) Content; relief includes (*but not limited to*):

- Scope: >1,000 employees
- Value chain: what companies must ask of value chain
- Assurance: Limited only [no more Reasonable]
- Standards: Fewer disclosure topics

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3. Sustainability Reporting and Disclosures:
Getting the Right Information
to the Right Parties
for the Right Purpose



.... And on a timely basis!

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Sustainability Reporting

Different Channels → Different Data Needs

Data Needs : Examples

- How much water do we use? Where does it come from? Do our operations (or supply chain) impact scarce water resources?
- How much waste from our operations is recycled?
- How much of our raw materials has been recycled?
- What is the GHG emissions (in CO2e) inventory of the company?
- How much CO2e in the products you sell to Customer X?
- How much CO2e at the location in [country, state, or location]?
- What % of suppliers have code of ethics that meet or exceed our requirements? By number? By spend?
- Do suppliers pay fair wages?
- What is our progress towards goals?
- How can we improve ratings with analysts?
- How many customer requests do we get? Do we respond in time?
- What are safeguards to preserve IP?
- How do we know data is accurate and supportable?
- Is data reported via different channels the same? If not, why not?

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13. COSO Internal Controls over Sustainability Reporting (ICSR)

Launch Date	March 2023
Objectives	Encourage parties to leverage COSO ICIF for Sustainability reporting.
Intended Users	Parties who know "internal controls" (Acct'g., Audit, Finance) Parties who don't (Environmental, Ops, Procurement, Sustainability, etc.)
Summary	Supplemental guidance is approachable for all. Helps companies develop or enhance processes, procedures, data management. See "3 Attributes" section and DHC white paper.
Where/ How Used Now	In-house: companies building or improving controls for content that will be externally reporting. Also to improve effectiveness and efficiencies. External: basis for assurance criteria.
Website	www.coso.org www.douglashileman.com

Douglas Hileman is an author of the COSO ICSR document.

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COSO ICSR



- COSO ICIF is standard for internal controls over financial reporting (ICFR).
- "Reporting" isn't limited to financial
- Supplemental guidance released March 2023
- Douglas Hileman is an author



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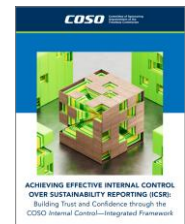
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COSO ICIF: 5 Components, 17 Principles

FIGURE B-4: COMPONENTS, PRINCIPLES, AND POINTS OF FOCUS

Components	Principles	No. of Points of Focus
	1. Commitment to integrity and ethical values	4
	2. Independent board of directors oversight	4
	3. Structures, reporting lines, authorities, responsibilities	3
	4. Attract, develop, and retain competent people	4
	5. People held accountable for internal control	5
Control Environment	6. Clear objectives specified	15
Risk Assessment	7. Risks identified to achievement of objectives	5
Control Activities	8. Potential for fraud considered	4
Information & Communication	9. Significant changes identified and assessed	3
Monitoring Activities	10. Control activities selected and developed	6
	11. General IT controls selected and developed	4
	12. Controls deployed through policies and procedures	6
	13. Quality information obtained, generated, and used	5
	14. Internal control information internally communicated	4
	15. Internal control information externally communicated	5
	16. Ongoing and/or separate evaluations conducted	7
	17. Internal control deficiencies evaluated and communicated	3

Source: PricewaterhouseCoopers



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Doug helps clients with compliance, risk, processes and controls, audits, and assurance readiness in the Sustainability and climate space. He often provides subject matter expertise to law firms, accounting firms, IT and management consultancies. He draws on 40+ years of experience in operations, corporate compliance, management consulting, internal audit and external assurance. He was the senior environmental management and environmental auditing specialist on the Volkswagen Monitor Team.

He is an author of COSO's "Achieving Effective Internal Controls over Sustainability Reporting (ICSR)", released to wide acclaim in March 2023.

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