Nasdaq

The State of Sustainability and ESG in 2023

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Introduction

The state of sustainability and environmental, social, and governance (ESG) in 2023 can be described in two words: progress and confusion. We've gathered that progress and confusion show up in several areas, from different approaches to regulatory standards globally, to the varying degrees of company readiness to meet current and future requirements, and the differences in how companies in each sector are preparing to comply.

To help companies make sense of the progress and avoid confusion, the Nasdaq IR Intelligence team recently leveraged our own, newly-launched Nasdaq Sustainable Lens™, an ESG intelligence platform that harnesses the power of artificial intelligence (AI), to review, analyze, and summarize sustainability and ESG reports, financial filings, and other ESG documents[1] published over the past three years from approximately 7,200 publicly-traded companies across 75 countries and 59 industries. We also leveraged AI and internal subject matter experts to analyze approximately 1,600 pages of regulatory text to surface common disclosure requirements in final and proposed sustainability, ESG, and climate regulations. The goal of our research was to assess the current state of reporting, both in terms of proposed and final requirements and disclosure practices of companies globally.

In using software (specifically, AI) to perform this research, we aimed to get a scaled and consistent picture of the current state of sustainability and ESG reporting and gain insight into what's in store for companies in the years to come. Through this real-world application of AI, we saw first-hand how this transformative technology can help reduce the complexity and resource burdens of some of the background work, specifically regulatory and peer research and analysis, required to perform sustainability and ESG reporting for companies.

[1] Task Force on Climate-Related Financial Disclosures (TCFD) reports, Sustainability Accounting Standards Board (SASB) indices, Global Reporting Initiative (GRI) indices, and policy documents

Key Takeaways from Our Research

1

Global Standards Picture Became Clearer in 2023 (But Confusion Still Remains)

While there remain regional differences in how regulatory bodies approach disclosure standards, we think 2023 will be seen as the year that the disclosure blueprint was drafted. Our analysis of the proposed and final rules and regulations documents suggests that climate is the one area in which regulators are generally aligned—45% of the final and proposed rules and regulations that we reviewed are climate-focused. Climate has emerged as a global priority; however, our research shows that there could be an increased focus on social and non-climate environmental disclosures in the coming years.

2

Climate Reporting Gaps Abound

As of November 2023, our research suggests that only 44% of the 7,200 companies analyzed provide climate-related disclosures aligned with the Corporate Sustainability Reporting Directive (CSRD), International Sustainability Standards Board's (ISSB) sustainability and climate-related standards, and the U.S. Security and Exchange Commission's (SEC) climate-related proposed rules. Companies in certain sectors, such as utilities and energy, provide more disclosures in comparison to other sectors, such as healthcare and technology. Our view is that this could be attributed to the long-standing climate reporting by many companies in the energy and utilities space.

3

Human Capital is a Tale of Two Cities

Our research found that human capital disclosures are an area where companies are both leading and lagging in current disclosures. Overall, our research found that 75% of companies provide disclosures aligned to social-related topics found in the CSRD. Two CSRD topics, employee training and employee engagement, are the top topics disclosed by companies across all metrics. On the other hand, the CSRD's employee turnover rate is the least disclosed metric, with 54% of companies analyzed not disclosing the metric.

4

Governance Through a New Lens Surfaces Gaps

While governance oversight has long been an area of regulatory focus, the recently issued European Sustainability Reporting Standards (ESRS) under the CSRD governance disclosure standards surface gaps for companies. Our research found that the focus on business ethics and business conduct disclosures in the form of policy documents may require certain companies to spend more time drafting this type of content, as only 64% of companies currently provide business ethics and business conduct disclosures aligned with the CSRD.

5

"ESG" Continues to be Widely Used

Our research suggests that "sustainability" is the most used report name globally. "ESG" also doesn't seem to be going away. Interestingly, on a global basis, while "sustainability" is the most common report name across all sectors, the financial and technology sectors use "ESG" in their report names nearly as often.

Methodology:

Leveraging AI to Assess Global ESG Trends

To understand the current state of sustainability and ESG, we leveraged Nasdaq Sustainable Lens to review approximately 7,200 companies across 75 countries with a public, English-based sustainability, ESG, or financial report. Documents and financial reports included standalone sustainability and ESG reports, 10-K and annual reports, proxy statements, Task Force on Climate-Related Financial Disclosures (TCFD) reports, Sustainability Accounting Standards Board (SASB) indices, Global Reporting Initiative (GRI) indices, and policy documents. Nasdaq Sustainable Lens also processed the metadata (e.g., publish date and report name) and was used to help us evaluate the level to which company sustainability and ESG disclosures align to global proposed and final rules and regulations.

We deconstructed key regulatory documents from global regulatory standards, including the mandatory CSRD disclosures, voluntary ISSB standards, and the SEC's proposed mandatory climate-related rules to surface the core sector agnostic disclosures that companies may need to navigate in the years to come. While certain jurisdictions' standards are narrower than others (e.g., U.S. proposed rules are climate focused vs. Europe's CSRD covers all ESG), this report looked at company disclosures on an aggregated global standards basis rather than at the jurisdictional level to provide for a holistic climate, social, and governance view. This approach also allowed us to compare and analyze company disclosures from geographic and sector perspectives.

1.5K
Metrics analyzed to identify routine and baseline metrics

1.6K
Pages of regulatory standard text analyzed

CSRD

- E1 Climate Change
- S1 Own Workforce
- G1 Business Conduct

ISSB S1

- Environment
- Human Capital
- Leadership and Governance

ISSB S2

- Governance
- Strategy
- Risk Management
- Metrics and Targets

SEC Climate-Related Proposed Rules

- Strategy, Business Model, and Outlook
- Governance
- Risk Management
- GHG Emissions Metrics
- Targets and Goals

330+
in Middle East and Africa

1.3K
in Asia-Pacific

3.1K
in North America

2.2K
in Europe

170+
in Latin America

7.2K
Publicly-traded companies

75
Countries

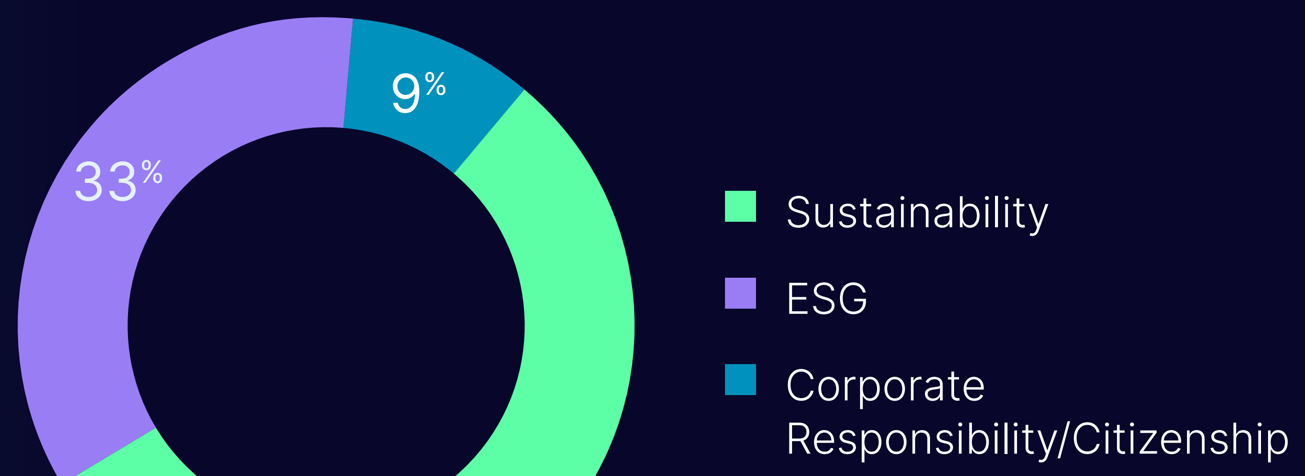
59
Industries

Report Naming Conventions

Is the future of ESG in question?

One area that we can comfortably place in the confusion camp is how companies name their initiatives. Is it ESG, sustainability, impact, or corporate social responsibility? We analyzed the company dataset to isolate standalone company reports and understand the trends in report naming. “Sustainability” remains the most common report name globally with 52% of reports reviewed titled “Sustainability Report.” When looking at sector-level basis, our research suggests that while “sustainability” is the most used report name across all sectors, financials and technology sectors use “ESG” in their report names most frequently.

Global Report Naming Trends



As of November 2023.

Regional Report Naming Nuances[2]

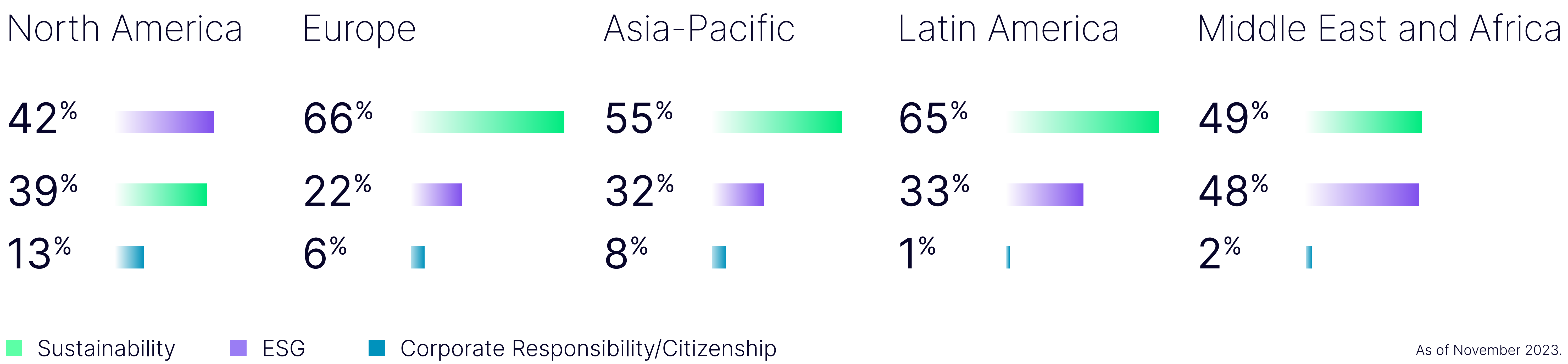
While our research suggests that “sustainability” is the most common report name globally, “ESG” is a close second in report naming. ESG as a term gained wider adoption in 2020, and during that time, companies renamed their “sustainability” or “corporate social responsibility” reports to “ESG” reports. If companies issued inaugural reports in 2020, they likely started with “ESG.”

In North America, ESG is the top report name with 42% of the companies in the dataset using “ESG” to name their standalone reports. In the U.S., we observed a 5% increase in the use of “ESG” from 2022 to 2023.

In Europe, our research indicates 66% of companies reviewed use “sustainability” in naming their reports. Interestingly, research also suggests the ESG trend appears to have hit Europe in 2023, given the 12% increase in reports using “ESG” in the title.

In the Asia-Pacific region, our research shows more than half of companies in the dataset use “sustainability” in their reports. This is followed by one-third of companies in the Asia-Pacific region using “ESG.”

Moreover, our research shows companies in Latin America, the Middle East, and Africa primarily use the “sustainability” report naming convention. And, like the global view, “ESG” is the second most common naming in the regions.



As of November 2023.

[2] Totals do not equal 100% as this research only lists the top three report titles per region.

Disclosure Trends by Geography

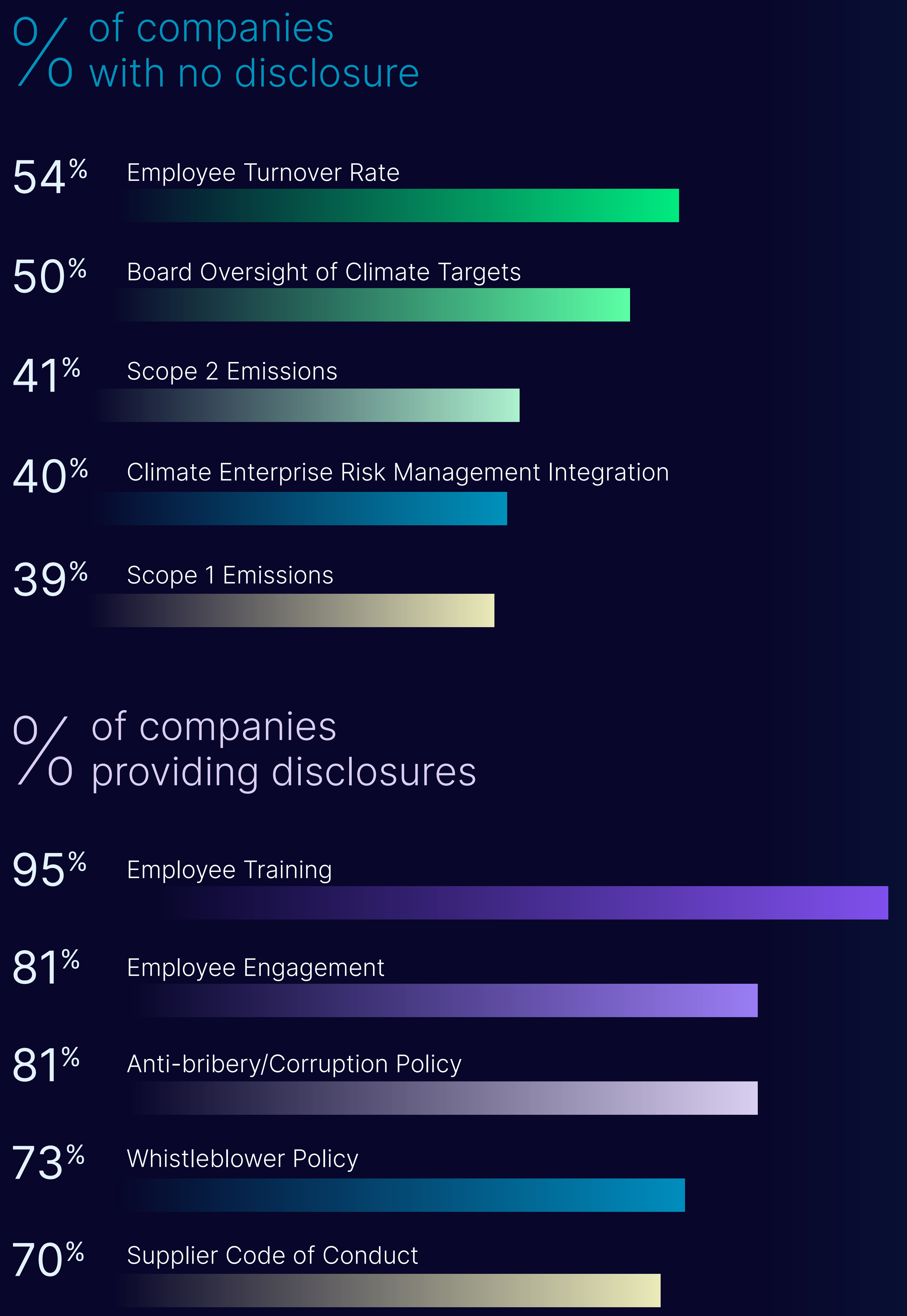
Climate Disclosures Top the Global List of Gaps

While not all companies will be required to provide the broad set of climate, social, and governance disclosures discussed in this report, using this broader view helps us understand the current state of disclosures globally and regionally among companies. In reviewing disclosure trends across the 7,200-company landscape, our research found that climate disclosure stands out with only 44% of companies providing disclosure aligned to climate reporting standards across proposed and final rules and regulations. This compares to 64% of companies providing disclosures aligned to governance-related topics in the CSRD standard and 75% of companies providing disclosures aligned to social-related topics in the CSRD standard.

Digging deeper to understand what is driving this lack of disclosure in climate, companies are less frequently describing board oversight of climate targets, disclosing their scope 1 and 2 emissions, and describing their processes to integrate climate into enterprise risk management.

While certain jurisdictions have not yet established regulatory guidance in social and governance disciplines, these two areas stand out with companies providing the most disclosure. As part of the CSRD standards, disclosure in metrics such as employee training and employee engagement, as well as publishing policies in anti-bribery and corruption, will be focal points. Companies are currently providing disclosures on these fronts.

44% of companies providing disclosure aligned to climate reporting standards across proposed and final rules and regulations



Regional Disclosure Differences Exist

While there are differences across the regions, there are also similarities—one being that climate disclosures are consistently low.

Regionally, companies in North America face climate disclosure gaps across areas such as board oversight of climate targets and scope 1 and 2 emissions, which could be mandatory if the SEC finalizes its proposed rules. When it comes to the materiality based and voluntary climate disclosure areas, internal carbon price, net zero targets, scope 3 emissions, and climate scenario analysis are areas that over 70% of North American companies have yet to disclose.

European companies, long viewed as early adopters in sustainability and ESG efforts, provide the most disclosures of the different regions. On the mandatory disclosures side, 30% to 40% of companies analyzed are not disclosing board oversight of climate targets, climate integration into enterprise risk management processes, and the process to inform the board on climate. Conversely, most European companies analyzed disclose scope 1 and 2 emissions, at 76% and 74% of companies, respectively. Internal carbon price disclosure remains a gap for European companies as 85% of companies are not disclosing.

Asia-Pacific companies provide the least climate-related disclosures. Our research showed that more than half of the companies in the region are not disclosing internal carbon price, scope 3 emissions, or net zero targets.

In Latin America, gaps exist in scope 1 and 2 emissions with just one in four companies disclosing, while board oversight of climate targets is the largest gap in the region with 55% of companies analyzed with no disclosure.

In the Middle East and Africa, the gaps mirror those of the global picture, with one noticeable difference in limited human rights policy disclosures by companies in the region.

Within social disclosures, employee training and employee engagement disclosures are consistently disclosed across all regions. More broadly, social disclosures are the most disclosed metrics across all regions, except for employee turnover, which is a common gap across regions.

Governance disclosures in the form of business ethics and business conduct are also consistently disclosed across all regions, as companies are publishing anti-bribery and corruption and whistleblower policies, particularly in Europe, Asia-Pacific, and Latin America.

% of companies with no disclosure

North America
64% Employee Turnover Rate
58% Board Oversight of Climate Targets
56% Scope 2 Emissions
53% Scope 1 Emissions

Europe
45% Employee Turnover Rate
41% Board Oversight of Climate Targets
36% Climate Enterprise Risk Management Integration
32% Processes to Inform Board on Climate

Asia-Pacific
45% Employee Turnover Rate
43% Board Oversight of Climate Targets
32% Climate Enterprise Risk Management Integration
31% Scope 2 Emissions

Latin America
55% Board Oversight of Climate Targets
51% Employee Turnover Rate
44% Scope 2 Emissions
41% Scope 1 Emissions

Middle East and Africa
61% Board Oversight of Climate Targets
52% Employee Turnover Rate
48% Human Rights Policy
48% Climate Enterprise Risk Management Integration

% of companies providing disclosures

North America
97% Employee Training
82% Employee Engagement
76% Anti-bribery/Corruption Policy
76% Females in Workforce

Europe
93% Employee Training
86% Anti-bribery/Corruption Policy
83% Employee Engagement
82% Females in Workforce

Asia-Pacific
92% Employee Training
83% Anti-bribery/Corruption Policy
82% Whistleblower Policy
80% Employee Engagement

Latin America
89% Employee Training
82% Anti-bribery/Corruption Policy
74% Whistleblower Policy
73% Employee Engagement

Middle East and Africa
95% Employee Training
77% Employee Engagement
73% Female in Workforce
73% Anti-bribery/Corruption Policy

Disclosure Trends by Sector

Companies in the utilities, basic materials, and energy sectors are currently providing the most disclosures under global climate, social, and governance standards. Our research found that 69% of utilities companies reviewed provide disclosures, followed by energy companies at 63% and basic materials companies at 62%. Whereas companies reviewed in the healthcare (41%) and technology (51%) sectors provide the lowest levels of disclosure.

Climate

Unsurprisingly, due to their business activities, companies reviewed in the utilities (65%) and energy (58%) sectors provide the most climate-related disclosures. More than one in three companies reviewed across these two sectors have yet to disclose board oversight of climate targets, scope 2 emissions, and climate enterprise risk management integration.

Those disclosing the least in climate disclosures are companies reviewed in the healthcare (25%) and technology (39%) sectors. Disclosure gaps for these two sectors also include board oversight of climate targets, climate enterprise risk management integration, and scope 1 and 2 emissions. Our research showed that more than half of companies in these two sectors are not disclosing in these areas.

Social

While social-related disclosures currently only apply under the CSRD standard, analyzing disclosure levels using this standard provides a comparison to evaluate sectors. Sectors reviewed with the highest level of social disclosures are utilities (80%) and consumer non-cyclicals (78%). Across these two sectors, employee turnover rate is the only social metric that about one in two companies do not report. Employee turnover rate is the least disclosed social metric across all sectors reviewed. Over half of the companies analyzed in the healthcare (61%) and technology (56%) sectors have not disclosed employee turnover rate.

Governance

Business ethics and business conduct disclosures are an area of focus for the CSRD. While that standard does not apply equally to all companies, this report uses the CSRD as a general guide to provide a consistent comparison of sectors and companies globally. From this perspective, sectors reviewed with the most disclosure are consumer non-cyclicals (82%) and basic materials (81%).

Sector Reporting

% of companies providing disclosures by sector

Climate	Social	Governance
65% Utilities	80% Utilities	82% Consumer Non-Cyclicals
58% Energy	78% Consumer Non-Cyclicals	81% Basic Materials
55% Basic Materials	76% Industrials	79% Industrials
52% Consumer Non-Cyclicals	76% Real Estate	79% Utilities
50% Real Estate	74% Financials	75% Consumer Cyclicals
48% Industrials	74% Basic Materials	74% Energy
46% Financials	74% Technology	74% Technology
40% Consumer Cyclicals	74% Energy	71% Real Estate
39% Technology	74% Consumer Cyclicals	63% Healthcare
25% Healthcare	71% Healthcare	63% Financials

Looking Ahead

As global sustainability and ESG disclosures evolve, we think companies will need to focus on a core set of sector-agnostic disclosures issued by the CSRD and ISSB and proposed by the SEC. Once past those core set of disclosures, we think regulators may require additional sector-specific disclosures that companies will need to navigate. While the goal of standard setting in 2023 has been to provide consistency, confusion still exists.

How to Prepare for 2024 and Beyond

1 Assess Regulatory Readiness Now

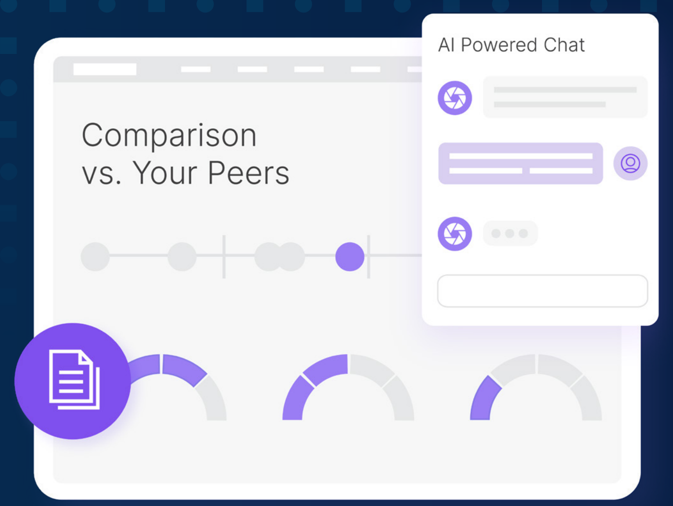
While the house is yet to be built, we think 2023 will go down as the year that the disclosure blueprint was drafted. While some of these standards are (or plan to be) phased in depending on company size, performing a regulatory disclosure gap analysis against the key regulatory standards is one way for companies to prepare. Consider including the CSRD, ISSB S1 and S2, and the SEC's climate-related proposed rules in your company's gap analysis.

2 Learn from Peers and Sector

There are lessons to be learned from companies that have made sustainability and ESG a strategic priority, including how they communicate their strategy and their reporting journey. In many cases, these companies exist outside a core peer set and can be found in their broader sector. Consider looking beyond peers and studying other companies' journeys and narratives.

3 Understand and Leverage AI

AI is here to stay, and leveraging the technology can be a productivity boost for teams working on sustainability and ESG disclosures. We think it can also provide a competitive advantage for companies that decide to be early in understanding the nuances of how AI reads and registers sustainability and ESG disclosure text.



In response to these trends and technology advancements, Nasdaq's IR Intelligence team has developed Nasdaq Sustainable Lens™, an ESG intelligence platform that harnesses the power of AI to help companies make better decisions faster, boost productivity, and enhance credibility.

To learn more, visit nasdaq.com/solutions/corporate-esg-solutions/esg-ai.