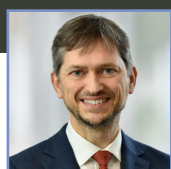


ESG disclosures and due diligence

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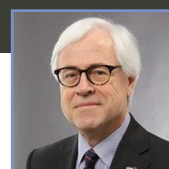
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Introduction

As the UK prepares to adopt the UK Sustainability Reporting Standards (UK SRS) based on the International Sustainability Standards Board's (ISSB) work, the Policy Liaison Group on ESG took the opportunity to explore disclosure frameworks, including the EU's Corporate Sustainability Reporting Directive (CSRD), alongside due diligence frameworks such as the OECD Guidelines and the Corporate Sustainability Due Diligence Directive (CSDDD).

Disclosure and due diligence together underpin how businesses demonstrate and deliver sustainability. Due diligence represents the doing: the process through which companies identify, prevent and respond to environmental, human-rights and governance risks across their operations and value chains. Disclosure provides the evidence for the doing, what gets measured gets managed, by setting expectations for transparency, comparability and accountability.

Viewed together, they form the measurement and action sides of responsible business, driving both credibility and impact. Set against the backdrop of the EU's ongoing efforts to simplify CSRD and CSDDD, among other corporate sustainability policies, participants discussed key issues shaping the evolution of these frameworks, including materiality, interoperability, assurance and accountability, SME proportionality, value creation, risk, and investor confidence.



Overview of the frameworks:

Disclosures

ISSB – investor-focused baseline for financial reporting

- The ISSB's S1 and S2 standards extend IFRS accounting principles into sustainability. They are designed primarily to inform investors about sustainability-related risks and opportunities that are financially material to a company's performance.
- ISSB's lens is narrower than other frameworks, such as GRI, in focusing only on information relevant to enterprise value and risk-adjusted financial returns.
- IFRS S1 (general sustainability disclosures) and IFRS S2 (climate-specific disclosures), representing a "light-touch" extension of existing TCFD-aligned reporting that is practical, market-friendly, and easily adoptable for most large firms.
- High-quality, comparable sustainability disclosures help investors make better-informed decisions and enable companies to access capital more efficiently, supporting the UK's ambition to grow as a green finance hub.

GRI – an impact-oriented set of standards

- GRI is an independent, international standard-setter providing a global language for sustainability reporting, established more than 25 years ago. It focuses on how businesses impact people, the planet and the economy. It is the most widely used standard globally, adopted by around 70% of the world's largest 250 companies.
- GRI reporting is aimed at a wider range of stakeholders, including investors, compared to ISSB's Standard, and are addressing issues like pollution, human rights, and social impact, regardless of financial implications to a company.
- GRI and ISSB work closely together and are interoperable, building a global "comprehensive reporting system". ISSB covers financial materiality – i.e. how sustainability-related issues like climate change affect a company – while GRI covers impact materiality, the company's impact on the environment, society, and the economy.
- Together, they represent a "double materiality" approach, now being adopted by the EU. Only when ISSB and GRI standards are combined can stakeholders gain a comprehensive understanding of sustainability risks, opportunities and impacts.

CSRD – double materiality and regulatory coherence

- The EU's CSRD formalises double materiality, requiring firms to disclose both financially material and impact-related information.

- It represents a step toward harmonised, mandatory sustainability reporting across Europe, but implementation remains uncertain amid ongoing attempts to simplify the Directive under the omnibus simplification package – recently rejected by the European Parliament to be debated again.
- EFRAG, the body developing the European Sustainability Reporting Standards (ESRS) has proposed simplifications to make the framework more practical. These include reducing the number of data points, streamlining the double materiality assessment, clarifying whether it is a fair presentation framework, and simplifying structure and presentation requirements.
- CSRD represents a broader shift toward an integrated model that combines financial and impact perspectives which is increasingly seen as the future of global sustainability reporting.

Due Diligence

Evolution of frameworks and OECD guidelines

- Modern due diligence stems from the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, which established expectations for companies to assess, prevent, and mitigate adverse impacts throughout their value chains.
- Over time, the scope of due diligence has broadened to cover entire supply chains, reflecting “an ongoing effort by business and regulators to make markets fit for purpose”.
- Proportionality remains key. Obligations depend on company size, risk, and sector.

CSDDD – from voluntary to mandatory corporate action

- The CSDDD translates long-standing voluntary principles into binding legal duties, requiring companies to identify, address, and report human rights and environmental risks.
- CSDDD represents a shift “from voluntary frameworks to enforceable obligations,” marking a significant evolution in corporate accountability.
- Although direct applicability is limited to larger companies, indirect effects will cascade through supply chains, shaping procurement and reporting expectations for smaller firms.
- The directive challenges companies to move beyond compliance and embed sustainability within decision-making, requiring “real action, not just reporting”.
- Given the persistence of global labour exploitation and environmental degradation, mandatory due diligence is an increasingly essential policy instrument.

Key takeaways

ISSB establishes a global financial baseline

The ISSB represents a turning point in how sustainability is embedded in global capital markets. It seeks to make sustainability data as decision-useful and comparable as financial accounts, thereby positioning financially-material ESG information as integral to how markets price risk. Created under UK leadership at COP26, ISSB aligns with the UK's ambition to act as a global leader for sustainable finance. It is not about new reporting burdens but about enabling "high-quality, comparable" data, serving as a prerequisite for market credibility, investor confidence, and access to capital.

Accounting for risk is essential

Effective ESG reporting is "just good, sound risk management and opportunity seeking". Company boards should account for these risks as part of standard business management. "There's an inevitability because of the nature of sustainability, we are facing climate and other transitions, and that means the future is different from the past." Businesses that anticipate these shifts will be better prepared and more resilient than those that "pretend nothing's happening."

Compliance should be framed as value creation

Boards need to recognise sustainability as a source of long-term value, not a compliance burden. Integrating ESG into business strategy can strengthen resilience, enhance reputation, and open new markets. Recasting the Chief Financial Officer as a "Chief Value Officer" would help boards and executives view sustainability as an opportunity rather than a cost, managing multiple aspects of value creation: financial, social, and environmental. The wider adoption of disclosure and due diligence frameworks marks a significant cultural change for boards, auditors, accountants, and compliance professionals. While the legacy of CSR has sometimes made sustainability seem peripheral, many executives now recognise it as central to performance and governance. To re-engage effectively, companies should view sustainability through three lenses: operational efficiency and risk, reputation and stakeholder relationships, and societal contribution, forming a framework that unites business purpose with long-term value creation.

Issues raised

SME participation and proportionality

While many SMEs are willing to engage in sustainability practices, they are often “caught in the headlights of what’s become a very complicated sustainability landscape.” Most smaller firms lack the internal capacity to interpret multiple reporting standards designed for large corporations. Without practical guidance or simplified disclosure templates, SMEs risk being excluded from sustainable supply chains as larger companies cascade their due diligence requirements downstream. Several participants called for proportionality measures, such as the forthcoming EU VSME standard, to ensure smaller firms are supported rather than penalised.

Interoperability and fragmentation

Although there is progress toward aligning definitions across ISSB, CSRD, and GRI, the ISSB and GRI address a different set of “readers” and different information is reported. UK companies would be well placed to implement ISSB (due to TCFD experience) and, in the future, report on impact with GRI (as they will have to report in the EU). Inconsistent terminology and overlapping requirements continue to cause duplication, higher costs, and reduced comparability. The concept of interoperability is often misunderstood. It does not mean identical or equivalent standards, but compatibility that enables consistent and efficient reporting across jurisdictions such as Europe, the UK, and Canada. Meanwhile, not all companies face the same sustainability risks or data demands, and disclosures reflect that because only “material”, i.e. significant data is to be disclosed. The user side is often neglected too. If reports are too complex or inconsistent, investors may assume the worst. Clearer structures and concise summaries are essential to keeping disclosures practical and decision-useful for investors and boards.

Implementation delays and omnibus uncertainty

Significant uncertainty remains around the final form and timeline of the CSRD and CSDDD due to ongoing omnibus negotiations in Brussels. Participants noted that potential shifts in compliance dates, from 2025 to as late as 2027, complicate corporate planning and investment in internal reporting systems. There is “a lot of activity but not a lot of decisions,” highlighting the difficulty companies face in preparing for obligations whose scope may still change. The possible removal of civil liability provisions under the CSDDD was also seen as a step that would “eliminate the teeth” of the directive, undermining its effectiveness. The group agreed that policymakers must provide greater certainty, recognise the value of reporting for competitiveness and transition, clearer transitional arrangements, and maintain momentum among businesses.

AI and the limits of automation

“You can have the best IT system in the world, but if you put rubbish into it, rubbish will still come out.” Automated systems were seen as useful for improving efficiency, but they remain only as effective as

the data and governance that underpin them. Companies must retain internal expertise capable of interpreting outputs critically and ensuring that data integrity, context, and accountability remain intact.

Communication gap between policymakers and businesses

There is a persistent disconnect between the policy intent behind ESG regulations and how they are perceived by businesses, particularly outside large corporates – “opposition to ESG isn’t ideology, it’s confusion”. Meanwhile, the public debate often “exaggerates the level of compliance for larger firms” while missing the long-term value of sustainability reporting. Participants stressed the need for better communication and practical education, especially for SMEs, to rebuild trust. Policymakers should “make ESG about competitiveness and innovation, not compliance,” ensuring regulation translates into genuine, widespread adoption.

Links

Policy Liaison Group roundtable on the [EU Omnibus](#)

[ISSB roundtable, July 2023](#)

OECD, ‘[Global Corporate Sustainability Report, 2025](#)’

Transition Finance Council, ‘[Consultation on entity level guidelines](#)’

We would like to thank the members of our Advisory Board for their contributions and continuing support.

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