YPSILOM

SUSTAINABLE DEVELOPMENT &
CORPORATE RESPONSIBILITY

ESG TRENDS 2024

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2024 Sustainability Trends Readiness Quiz

Required Disclosures

1. **Does your organization have an established system for collecting and reporting data on its environmental impact and sustainability practices?**

☐ Yes ☐ No ☐ In the process of implementation

2. **Are you familiar with current and emerging regulations regarding mandatory sustainability and ESG disclosures?**

☐ Yes ☐ No ☐ Partially

Greater focus on GreenWashing

3. **Have you trained your staff on the identification and prevention of greenwashing?**

☐ Yes ☐ No ☐ Planned but not implemented

4. **Do you conduct regular audits to ensure that all of your company's sustainability claims are accurate and verifiable?**

☐ Yes ☐ No ☐ Occasionally

ESG Integration in Finance

5. **Are ESG metrics integrated into financial decision making and risk assessment in your organization?**

☐ Yes ☐ No ☐ In progress

6. **Do your organization's financial leaders have adequate ESG knowledge and training?**

☐ Yes ☐ No ☐ In training process

Scope 3 Emissions and Supply Chain

7. **Has your organization mapped the scope 3 emissions associated with your supply chain?**

☐ Yes ☐ No ☐ Partially

8. **Are there policies to promote sustainable practices among your suppliers?**

☐ Yes ☐ No ☐ Developing

Expansion of Sustainability in SMEs

9. If your organization is an SME, have you implemented sustainability policies or are you in the process of doing so?

☐ Yes ☐ No ☐ In progress

10. Does your company participate in sustainability initiatives at a local or sector level?

☐ Yes ☐ No ☐ Planned

Interpretation of results:

- **Mostly "Yes" answers:** Your organization is well prepared to address the sustainability trends of 2024.
- **Mixed responses:** Your organization is on its way but needs to strengthen some areas to be fully prepared.
- **Most answers "No" or "In process":** It is recommended that your organization prioritize the development and implementation of sustainability strategies to be aligned with 2024 trends.

Improvement opportunities for 2024:

Increase in mandatory disclosures

Change from Voluntary to Mandatory Reports

- Historically, many companies have chosen to conduct sustainability and ESG reporting voluntarily. These reports have served to demonstrate their commitment to sustainable and responsible practices. However, this voluntary nature has often led to an inconsistent and sometimes superficial approach to the disclosure of relevant information.

- Now, there is a shift toward mandatory reporting. This is driven by greater interest and demand from stakeholders (investors, consumers, regulators, and society in general) to understand not only the financial performance of companies, but also their environmental and social impact.

International Regulations and Directives

- A key example of these new regulations is the European Union's CSRD. This directive expands and strengthens sustainability reporting obligations. By 2024, almost 50,000 companies will be required to submit sustainability reports under this directive, including non-EU companies that operate within it or are listed on its regulated markets.

- The reporting requirements under the CSRD are much more rigorous than those of the current EU Non-Financial Reporting Directive (NFRD). This means that even companies with experience in sustainability reporting will need to incorporate new methods into their ESG data collection and reporting systems.

Implications for Businesses

- Companies need to assess their readiness and maturity to report under the CSRD. This includes identifying key ESG data to report, benchmarking competitors, and creating clear strategies and specific roadmaps for effective compliance.

- Preparing for these new reporting requirements represents both a challenge and an opportunity. Companies must adapt their internal processes for data collection and verification. At the same time, they can use this as an opportunity to review and improve their sustainable practices and public image.

- These changes reflect a broader movement toward a more sustainable and transparent economy, where sustainability practices are deeply integrated into business operations and financial strategies.

New mandates on mandatory disclosures are driving companies toward greater transparency and deeper integration of sustainability and ESG criteria into their strategy and operations.

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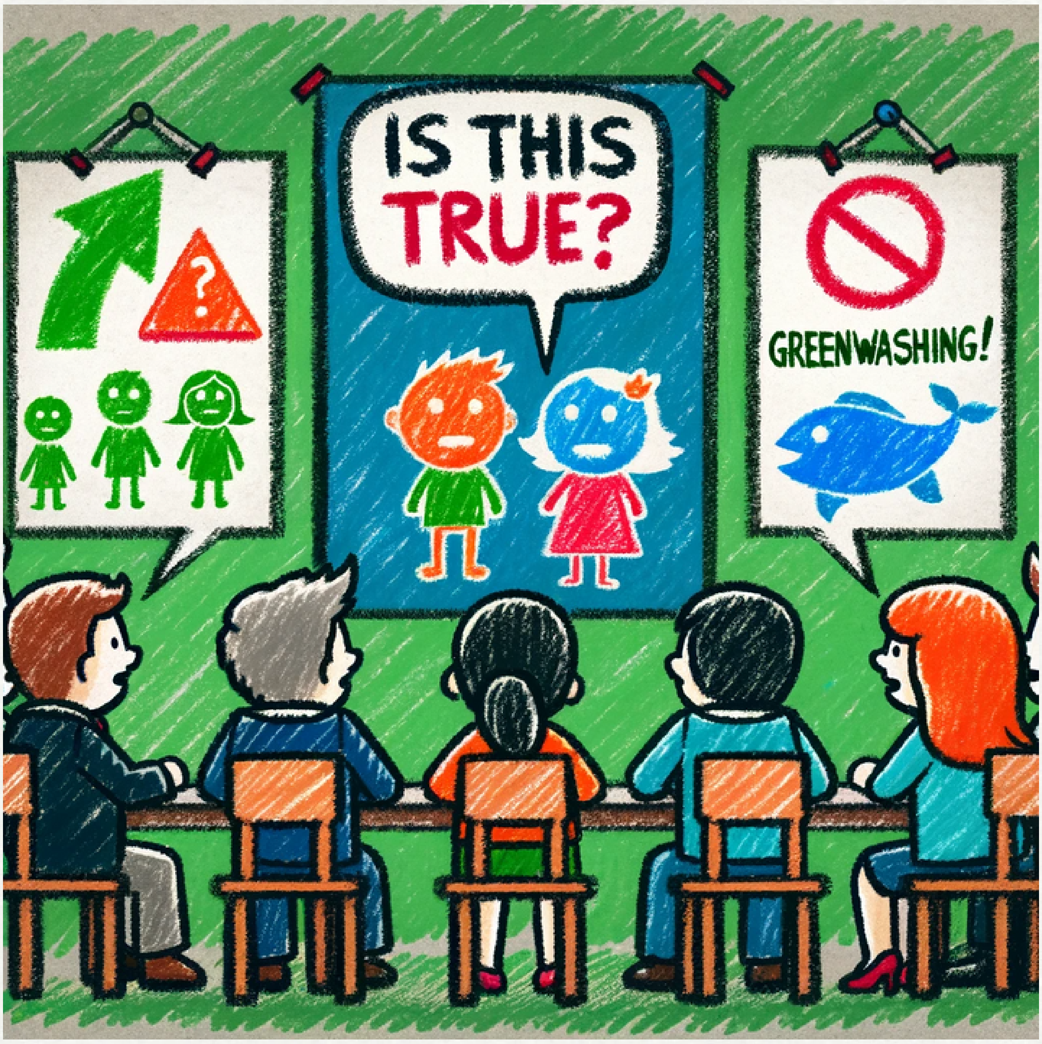
Greater focus on Greenwashing



Definition and context of Greenwashing

- Greenwashing is a practice where companies exaggerate or misrepresent the sustainability or positive environmental impact of their products, services or general activities. This may include misleading advertising, exaggerated reporting on green initiatives, or emphasizing small sustainable actions to divert attention from more harmful practices.

- Greenwashing can lead consumers to make decisions based on false information, affecting market trust and hampering real efforts towards sustainability. Furthermore, it discredits companies genuinely committed to sustainability.

Increased scrutiny and regulatory changes

- Regulatory authorities and watchdogs are paying more attention to greenwashing. This results in the implementation of stronger and clearer legal definitions of what constitutes greenwashing.
- In the European Union, for example, new regulations are being established that clearly define what constitutes misleading advertising in relation to environmental claims (such as the Green Claims Directive). These regulations not only establish clear guidelines, but also impose penalties on non-compliant companies.

Implications for companies

- Companies must ensure that their sustainability claims are backed by verifiable actions and data. This implies authenticity and transparency in the communication of your environmental efforts and achievements.
- Companies that engage in greenwashing face not only potential legal penalties, but also significant damage to their reputation, which can have a long-term negative impact on customer trust and brand perception.
- To avoid accusations of greenwashing, companies should conduct internal audits and seek verification of their sustainability claims by independent and credible third parties.

Long term consequences

- This increase in scrutiny of greenwashing is driving a shift in corporate culture toward greater accountability and transparency in sustainability practices.
- As consumers become more aware of these practices, their purchasing decisions are increasingly influenced by the authenticity of companies' sustainability credentials.

The growing attention to Greenwashing drives companies towards more responsible and authentic sustainability practices, emphasizing the need for genuine transparency and accuracy in their sustainability communication.

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Deep integration into the company's financial statements

Change in the Role of CFOs and Financial Controllers

- Traditionally, CFOs and financial controllers have focused on the financial and operational aspects of a company. With this trend, they are now expected to play a more active role in integrating ESG considerations into the company's financial strategy and decision-making.

- Financial leaders are expected to assess how climate-related risks, such as extreme weather events or climate change policies, may impact the company's short- and long-term financial viability.

Integration of ESG in Financial Reporting

- Companies will begin to more prominently include information about how climate change and other ESG factors affect their operations and financial results. This could include exposure to climate risks and how sustainability strategies contribute to the company's resilience and profitability.
- The integration of ESG into financial reporting will be carried out following recognized standards, such as those proposed by the Task Force on Climate-related Financial Disclosures (TCFD) and other international frameworks.

Implications for Business Decision Making

- CFOs and financial controllers will use ESG information to make more informed decisions about investments, financing and resource allocation, considering both financial returns and environmental and social impacts.
- ESG information will be incorporated into asset valuation and risk management, recognizing that environmental and social factors can significantly influence asset value and the company's risk profile

Challenges and Opportunities

- Finance leaders will need to develop competencies on ESG and sustainability issues, which could involve additional training and collaboration with sustainability experts.
- This trend provides the opportunity to innovate sustainable products and services and take leadership in responsible business practices, which can improve the company's reputation and competitiveness.

The deep fusion of ESG criteria into financial statements signals a crucial shift in the corporate approach to sustainability, demonstrating its intrinsic connection to financial viability and long-term business success.

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Transparency in Scope 3 Emissions and the Supply Chain

Definition of Scope 3 emissions

- Scope 3 emissions are indirect emissions that are not produced directly by a company's activities, but rather along its supply chain. This includes emissions associated with the production of purchased materials and services, the transportation of products, the use of sold products, and the treatment of sold products at the end of their useful life.

- Companies are recognizing that a large portion of their total carbon footprint comes from indirect emissions. Therefore, to achieve meaningful carbon reduction targets, it is essential to address these emissions.

- Measuring and managing Scope 3 emissions can be complex due to the lack of direct visibility and control over supplier and partner operations. However, this difficulty does not diminish its importance.

Initiatives for Transparency in the Supply Chain

- Companies are establishing procurement policies that prioritize sustainability. This may include selecting suppliers based on their environmental performance and including sustainability criteria in contracts.

- To encourage more sustainable practices, companies are offering incentives to suppliers that reduce their environmental impact. This may include better contract terms, collaboration on sustainability projects and technical support.

- Encouraging collaboration and transparency throughout the supply chain is crucial. This may involve sharing best practices, collaborating on emissions reduction initiatives, and using technology platforms to improve the visibility of scope 3 emissions.

- Adoption of tools and technologies to measure and manage scope 3 emissions is increasing. This can include sustainability management software and analytical tools to evaluate supplier performance and the carbon footprint of products.

Impact on business strategy

- Extended Responsibility: Companies are adopting an extended responsibility approach that goes beyond their immediate operations to include environmental impacts throughout their value chain.

- Investors, customers and regulators are putting increasing pressure on companies to be transparent about their Scope 3 emissions and take steps to reduce them.

- Addressing scope 3 emissions can open opportunities for product and process innovation, as well as the development of new, more sustainable business models.

The growing trend towards transparency and Scope 3 emissions management underlines the importance of a holistic sustainable approach across the supply chain, combining internal policies, collaboration, innovation and advanced technology.

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Expansion beyond Publicly Traded Companies

Expanded scope of sustainability

- Traditionally, sustainability has been a priority primarily for large publicly traded corporations, in part due to pressures from investors and regulators. However, it is now being recognized that businesses of all sizes, including private companies and SMEs, play a crucial role in global sustainability efforts.
- SMEs constitute a large part of the business fabric in many economies and, therefore, their collective impact in terms of sustainability is significant.

Drivers of expansion

- Large corporations are increasingly demanding that their suppliers, who are often SMEs or private companies, adopt sustainable practices.
- Consumers are increasingly interested in the sustainability of the companies they interact with, regardless of their size. This is motivating smaller companies to adopt sustainable practices.
- The development and availability of more affordable and accessible sustainable solutions is making it easier for smaller businesses to implement sustainable practices.
- There is growing recognition that sustainable practices can lead to economic benefits, such as operational efficiency and improved brand image, that are attractive to companies of all sizes.

Challenges and opportunities for SMEs and private companies

- SMEs and private companies often face limitations in terms of resources and sustainability expertise. Overcoming these challenges requires access to adequate education, tools and financing.
- Adopting sustainable practices can be an important point of differentiation, especially in saturated or highly competitive markets.
- The creation of support networks and collaboration platforms can help these companies share best practices and resources for the implementation of sustainability strategies.

Long term implications

- This trend indicates a shift towards a more holistic and responsible corporate landscape, where sustainability is a central pillar, regardless of the size or type of company.
- By including a broader spectrum of companies in the practice of sustainability, the global ability to achieve important environmental and social goals, such as the United Nations Sustainable Development Goals, is improved.

The adoption of sustainable practices by companies of all sizes demonstrates the need for a collective and collaborative effort, beyond traditional business barriers, to achieve sustainable goals.

Recommendations to respond effectively to sustainability trends 2024

- **Count on Ypsilom as your strategic ally:** Our experience is the best guarantee to accompany you on the path to sustainability.

- **Develop and Reinforce Sustainability Strategies:** Develop well-defined sustainability strategies that are aligned with your company's overall objectives. This includes setting clear ESG goals and developing action plans to achieve them.

- **Incorporate Sustainability into Decision Making:** Integrate sustainability and ESG considerations into all levels of decision-making in the company. This ranges from daily operations to high-level strategic decisions.

- **Transparency and Improved Reporting:** Improve transparency and reporting regarding sustainability practices. Use recognized standards for reporting progress and ensure your reports are accessible and understandable to all stakeholders.

- **Encourage Sustainability in the Supply Chain:** Work with your suppliers to encourage sustainable practices throughout the entire supply chain. This could include establishing sustainability criteria for suppliers and collaborating with them to improve their ESG performance.

- **Training and Awareness:** Train your employees on sustainability and ESG issues. Awareness and education are crucial to fostering a corporate culture that values and practices sustainability.

- **Adopt Sustainable Technologies and Innovative Practices:** Invest in technologies and practices that promote efficiency and sustainability, such as renewable energy solutions, resource efficiency and waste reduction.

- **Climate-Related and ESG Risk Management:** Implement risk management practices that consider climate-related risks and other ESG factors. This includes assessing how these risks may impact your business and developing strategies to mitigate them.

- **Collaboration and Strategic Partnerships:** Establish collaborations and partnerships with other organizations, NGOs and industry groups to share best practices and work together on sustainability initiatives.

- **Continuous Adaptation and Learning:** Stay informed about emerging trends in sustainability and ESG and be willing to adapt and evolve your strategies in response to these dynamic changes.

Authors:

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