Hey! What’s New? 2024-110

Navigating The Future of ESG Reporting: A Significant Opportunity For The Accounting Profession

An article on the CPA.com webpage, written by Andries Verschelden, notes that, until recently, environmental, social and governance (ESG) reporting has been primarily market-driven by large, multinational companies looking to respond to consumer expectations. Around 98% of the 500 largest U.S. companies disclose ESG metrics.

However, Verschelden adds, “we’ve now entered an era where the emergence of sustainability regulations and standards at international, federal and state levels has made transparent and reliable, quantitative reporting an essential part of doing business today. This requirement extends beyond just the largest organizations and is increasingly impacting thousands of middle market companies that make up their supply chains – potentially including many of your clients. This presents an enormous opportunity as they look to your firm for guidance as their trusted advisor.”

Today, he says, “there are new and proposed regulations emerging from multiple fronts, most notably from California and other states, and Europe, that will have far-reaching implications, albeit to differing degrees. The various regulations being at different stages of enactment and adoption adds even more complexity for impacted companies trying to navigate this evolving landscape.” They include:

- ***The SEC Climate Disclosure Rule:*** The SEC Climate Disclosure rule, which focuses on the reporting of Scope 1 and 2 greenhouse gas (GHG) emissions and climate risk, will likely impact around 7,000 U.S. public companies. However, within days of the SEC adopting the new climate rule in March, multiple lawsuits were filed; there is currently a stay on the rule pending judicial review. There could be a verdict later this year, but the upcoming elections add further uncertainty. Despite this, most public companies are already preparing for it and leveraging ESG reporting frameworks.
- ***California Climate Accountability Package:*** Meanwhile, California State Bills SB 261 and SB 253 have been signed into law and will require reporting in 2026, with 2025 data. They also include the more comprehensive Scope 3, requiring disclosure of indirect value chain emissions, in addition to climate risk. Companies doing business in California will require emissions data from their supply chain partners, regardless of which state their suppliers are located in. The two state bills are expected to create a downstream impact of around 15,000 companies.
- ***EU Corporate Sustainability Reporting Directive (CRSD):*** Additionally, Europe’s CSRD will directly affect roughly 3,000 U.S. businesses with large European operations or subsidiaries when it goes live in 2029. However, there will be a much larger indirect impact on American business from the 50,000 European businesses that will need to collect data all the way down their supply chain starting in 2025. Given that the CSRD requires companies to report on 1,144 data points across all factors of ESG, this will put immense pressure on companies that do business in the EU and want to continue doing so to expand their data collection

and improve data accuracy. The AICPA has an upcoming webinar aimed at providing practitioners with guidance on how to navigate these complex requirements.

All these regulations have an assurance component, believes Verschelden, "creating a significant opportunity for CPAs. According to a from The Center for Audit Quality, 70% of S&P 500 companies that reported ESG information in 2022 obtained assurance over it, but only 21% of those companies used public company auditors. CPAs are uniquely positioned to provide the level of quality and trust required for this assurance, and if they're already auditing the financial statement, they understand the processes and controls that the company has in place."

Despite continued uncertainties, he concludes, "ESG reporting is here to stay and is becoming a critical component of business strategy. Firms that proactively establish strong ESG practices today are positioning themselves for significant growth and competitive advantage tomorrow. This trend is evident as top firms build out ESG services lines and forward-thinking clients increasingly turn to CPAs for expertise in ESG reporting and assurance."