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Future-Proof Your ESG Software: 10 Must-Haves to Stay Ahead

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LET'S GO

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Introduction

Environmental, social and governance (ESG) performance is of growing importance to businesses and organizations around the world. Increased regulations and pressure from stakeholders are driving a movement towards more rigorous ESG reporting and disclosure to inform investors', customers' and other stakeholders' investment, partnership and purchasing decisions. Robust ESG performance data is also essential internally to enable organizations to track progress towards and, ultimately, achieve their sustainability goals.

ESG and sustainability reporting are often used interchangeably. Some of the key aspects of sustainability for external reporting include ESG performance, corporate social responsibility (CSR), asset management and analysis and reputational and compliance risk. Both sustainability and ESG reporting require a combination of qualitative and quantitative information.

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Sustainability reporting, including ESG, has shifted from being nice-to-have to must-have. Organizations need to employ technological solutions to fill the gap in their data management practices to maintain pace or get ahead of the increasingly rigorous regulatory requirements. The emergence of mandatory ESG reporting (e.g., the Corporate Sustainability Reporting Directive (CSRD) in the European Union (EU)) and probable adoption of the International Sustainability Standards Board (ISSB)-based reporting mandates mean that organizations must have ESG data that will stand up to similar scrutiny as traditional financial reporting.[1] This higher standard of accuracy and transparency, along with the increased scope and complexity of reporting requirements is forcing organizations to move away from legacy data management methods (e.g., spreadsheets) to robust, automated ESG reporting software.

ESG regulations

European Union (EU) regulations

The European Union (EU) is forging ahead with expanded sustainability goals. ESG reporting mandates are being used to support these expanded goals. In January 2023, the Corporate Sustainability Reporting Directive (CSRD) came into force. This new directive dramatically expanded the scope and requirements of the existing Non-Financial Reporting Directive (NFRD). The CSRD requires that businesses in the EU "disclose information on what they see as the risks and opportunities arising from social and environmental issues, and on the impact of their activities on people and the environment."[2] Large companies subject to NFRD must report in 2025 on data collected in the 2024 financial year, with compliance required from smaller and non-EU companies that do business in the EU phasing in cohorts through the 2028 financial year. It is estimated that the NFRD covered approximately 11,700 companies and the CSRD will cover approximately 50,000 once it is fully implemented (2028).[3] The CSRD also requires that a company's sustainability performance be disclosed alongside its financial performance, reflecting the greater focus of investors and other stakeholders in understanding a company's performance as a combination of financial and non-financial aspects. This requires the ESG data to be accurate, auditable and timely.

The European Sustainability Reporting Standards (ESRS) came into effect in January 2024. One intent of the ESRS is to "provide information for investors to understand the sustainability impact of the companies in which they invest."[4] They are the standards that define the scope of reporting required under CSRD. They cover a broad range of ESG issues, but organizations only need to fulfill the requirements that are material to their business. For CSRD, materiality is determined by double materiality, which means that a topic is material if it either significantly impacts the company's financial performance and outlook or is significantly impacted by the company's operations.[5]

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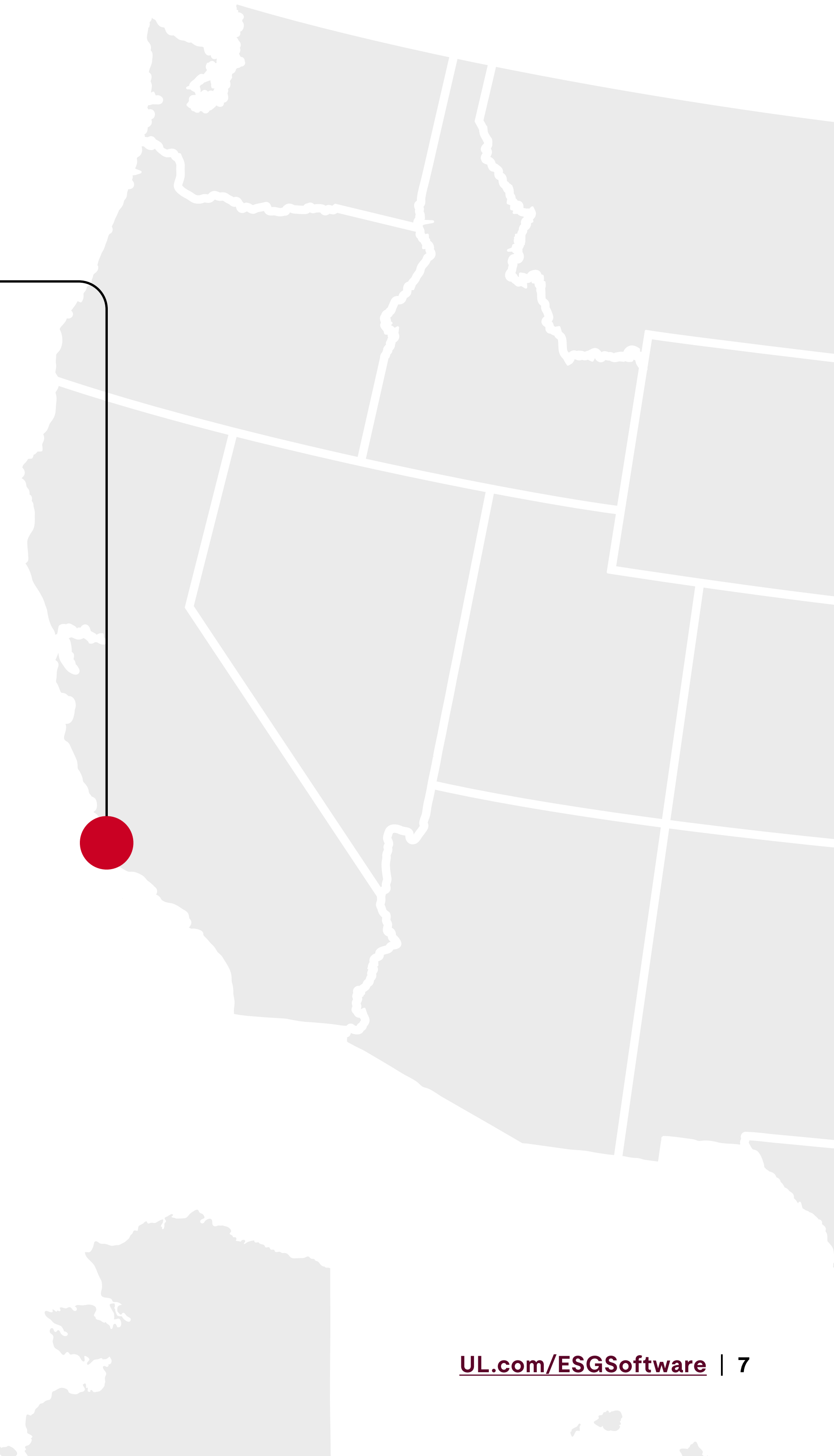
United States federal regulations

Companies are also facing increased interest in their ESG performance in the United States (U.S.). In 2024, the Securities and Exchange Commission (SEC) adopted new climate disclosure rules "to enhance public company disclosures related to the risks and impacts of climate-related matters,"[6] though they subsequently paused their implementation while legal challenges are considered.[7] Like the CSRD, the SEC climate disclosure rules mandate the integration of sustainability data, including ESG data, into their financial reports and thus make this reporting subject to a similarly high standard as financial reporting. Despite the SEC pausing the implementation of their climate disclosure rules, now is the time for organizations to proactively implement ESG reporting and data management software.

U.S. state regulations

Select states in the U.S. are taking the lead on ESG reporting and disclosure, ahead of the pace set by the federal government. Multiple states have introduced and/or enacted disclosure bills with the aim of "holding corporations more accountable for their impacts by requiring them to report on them."[8]

California



In 2023, the state of California enacted two landmark climate disclosure and financial reporting laws.

- Senate Bill (SB-253) – Climate Corporate Data Accountability Act
- Senate Bill (SB-261) – Greenhouse Gases: Climate-Related Financial Risk Act

Under SB-253, the California Air Resources Board (CARB) is responsible for developing and adopting new regulations by Jan. 1, 2025, with Scope 1 and 2 emissions reporting to start in 2026 and Scope 3 emissions reporting to start in 2027. A similar reporting timeframe is slated for Bill SB-261.

In autumn 2024, proposed amendments to SB-253 and SB-261 passed the California legislature as SB-219. Within SB-219, the amendments related to SB-253 and SB-261 include an extended timeline for CARB to develop and adopt regulations for governing SB-253.[9] Additionally, the reporting timing on Scope 3 (i.e., indirect) emissions is eased slightly but still set to start in 2027, as originally proposed.[10]

Implementation delays at the federal level and uncertainty at the state level give organizations an opportunity to act swiftly to set up and launch ESG data management solutions so that they are ready to report when the requirements come into effect.

Committing to voluntary standards and frameworks

While sustainability standards and frameworks are different, they are complementary and often designed to be used together. A sustainability standard will "provide specific, detailed and replicable requirements for what should be reported for each topic, including metrics" and a sustainability framework will "provide principles-based guidance on how information is structured, how it is prepared and what broad topics are covered."[11]

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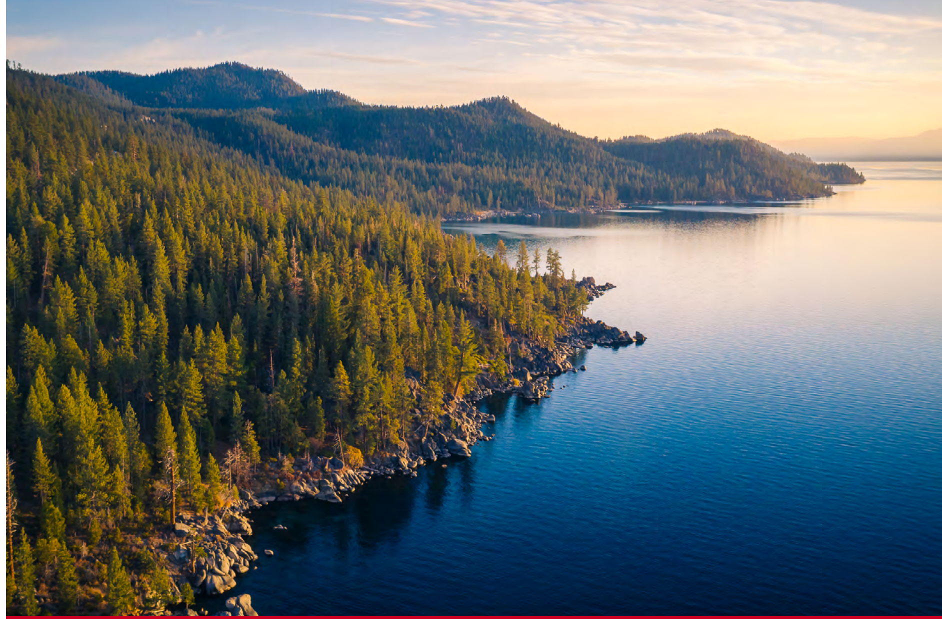
Examples of organizations that have voluntary sustainability standards and frameworks:

- International Financial Reporting Standards (IFRS) International Sustainability Standards Board (ISSB) (IFRS ISSB)
- CDP (formerly Carbon Disclosure Project)
- Science Based Targets initiative (SBTi)
- Global Reporting Initiative (GRI)
- Sustainability Accountability Standards Board (SASB)
- United Nations Sustainable Development Goals (U.N. SDGs)

Despite these standards being voluntary, there continues to be increased uptake with more and more organizations reporting based on these voluntary sustainability disclosure standards and many jurisdictions are using them as the basis for mandatory reporting legislation. Companies that participate in disclosure reporting guided by sustainability standards and frameworks are well-prepared for any upcoming reporting requirements that are passed into law.

Note: While the IFRS ISSB is a voluntary framework, it has been flagged to be used as the basis for or aligned with local standards in several countries (e.g., the United Kingdom (U.K.), Canada, Japan, Australia, Brazil, China, Singapore, Hong Kong, Korea, etc.).[12]



The more than 20 jurisdictions that have already started to use or are preparing to introduce the ISSB standards into their legal and/or regulatory frameworks account for nearly

55%

of the total global gross domestic product (GDP).[13]

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Reporting on Scope 1, 2 and 3 emissions

Historically, standards and frameworks focused reporting on Scope 1 and Scope 2 emissions, which represent emissions sources under a company's direct control. Recently, however, Scope 3 emissions are receiving increased focus. For instance, Scope 3 emissions reporting is mandatory within the CSRD and slated to come into force in the next few years under the ISSB-IFRS S2 and California climate rules.

Scope 1 emissions are "direct greenhouse gas (GHG) emissions that occur from sources that are controlled or owned by an organization (e.g., emissions associated with fuel combustion in boilers, furnaces, vehicles)."[14]

Scope 2 emissions are "indirect GHG emissions associated with the purchase of electricity, steam, heat or cooling."[15]

Scope 3 emissions are "the result of activities from assets not owned or controlled by the reporting organization, but that the organization indirectly affects its value chain" (upstream and downstream activities).[16]

Scope 3 emissions, or value chain emissions, often constitute the majority of an organization's GHG emissions.

In general, Scope 3 emissions account for the majority (more than 70%) of an organization's total carbon footprint.[17]

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ESG data management and reporting software

As a result of increased pressure from internal and external stakeholders and an increasingly complex regulatory landscape, ESG reporting and data management software has been forced to rapidly evolve to:

- Collect and manage large amounts of data
- Support the auditing of collected data
- Enable reporting across a variety of voluntary and mandatory frameworks
- Help drive business decisions[18]

Data management for mandatory ESG reporting has become more complex. By using an ESG data management software solution, you can save your organization's sustainability team time, which allows them to spend more time making your organization more sustainable. ESG data management software can also help your team increase performance, reduce the chance of errors and increase the auditability of your data. The improved efficiency from using an ESG software solution may allow you to report on metrics that would be more challenging with legacy data collection and management methods.

Ten must-haves in an ESG software platform

1. Flexible software

ESG data management and reporting is complex and needs to be tailored to each organization's operational and sustainability footprint. To account for these complexities, check that a software solution can support your organization's structure and reporting requirements, particularly beyond the core metrics of ESG standards. This will often require configuration beyond an out-of-the-box solution. Flexible software also accounts for any upcoming internal or external changes that may occur within your organization, allowing your organization to pivot quickly and stay on pace with ever-evolving reporting requirements.

2. Integration into third-party capabilities

When seeking out a software solution to meet your organization's ESG needs, find a solution that integrates easily with your organization's existing platforms (e.g., enterprise resource planning (ERP) or human resources (HR)). Easy, seamless integration with existing platforms and systems allows your organization to minimize the work of data collection and focus your time on the content of your reports and the sustainability performance of your organization.

3. Service and support

Look for an ESG data management and reporting software provider that has a longstanding history in the field and has been recognized for its capabilities and leadership. Research the types and levels of support provided by the software company and consider their professional and implementation services, as well as their advisory services. It is useful to have a software provider that has a dedicated professional and implementation services team to assist with any issues that may arise with your software. A strong advisory team can assist you with accelerating your ESG reporting programs and provide personalized guidance and support to make sure you get the most out of your software.

4. ESG disclosure preparation

As ESG frameworks mature and come into effect around the world, ESG disclosure reporting will become more complex. A software solution must be compatible with multiple reporting frameworks (e.g., CSRD, IFRS ISSB, CDP, etc.). Because there are so many potential frameworks to report to, find a software solution that allows your organization to collect the data required for the multiple reporting frameworks all at once. The data should be stored centrally, be easy to access and tagged against the various frameworks that require it. These streamlining features will save time both for your sustainability team and throughout your organization, as there will be no repeat data collection and management for the different frameworks.

5. Assurance-ready data

A comprehensive audit trail is necessary to keep pace with mandatory audits of your data. Currently, the CSRD requires data to be audited and the list of requirements across jurisdictions is expected to grow. An increasing number of organizations are using third-party data verification beyond the requirements of legislation to bolster their credibility and demonstrate their commitment to sustainable practices and increased transparency within their organizations.

When considering data auditability and accuracy, confirm that the software solution you choose can produce third-party audit-ready data (i.e., that provides easy-to-access audit trails). This feature will save your organization time and reduce compliance risk. Further, you need to be able to trust that your software provider can deliver accurate data. Having audit-ready and accurate data reduces costs to your organization and makes it easier for the auditors.

6. Scope 3 reporting

Scope 3 reporting is data-heavy. With multiple impending reporting regulations coming into effect, finding a software solution that accounts for Scope 3 emissions is imperative. Scope 3 emissions are divided into 15 categories (e.g., business travel, waste generated in operations), with Category 1 (Purchased Goods and Services (PG and S)) being the largest in terms of size for most organizations. Most reporting standards only require organizations to report on the applicable categories for their business. To stay on pace with upcoming reporting requirements, to have an accurate understanding of your company's emissions and to set credible sustainability targets, your ESG reporting solution must be capable of capturing Scope 3 data across the applicable categories and the provider should have strong support for the categories most relevant to your business.

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7.

Supply chain

Multiple jurisdictions have either enacted or introduced supply chain transparency disclosure bills. Supply chain data is linked to Scope 3 data collection, as the supply chain, including manufacturers, producers and suppliers, is part of Scope 3 data. Supply chain data goes beyond emissions tracking to other environmental impacts, such as waste or water, social impacts and governance concerns. Scope 3 data collection can be used as a starting point for your organization's supply chain engagement, but to surpass that, you must also reach out to your supply chain and collect primary data directly from your suppliers on additional topics. Your organization runs a social and reputational risk by not collecting data from its supply chain as customers often hold brands accountable when poor performance in their supply chains comes to light. Your software solution must be able to gather and manage comprehensive supplier information and environmental data to be able to meet regulatory and public expectations for a complete view of a company's supply chain ESG impact (i.e., human rights, labor practices, sustainability, etc.). Additionally, make sure the software solution has features that streamline and support vendor tasks and activities and accounts for supplier relationship management.

8.

Emission factors library

Emission factors have long been used to develop emissions inventories. Emission factors allow you to understand what associated emissions were generated from your organization's activity data. For the calculated emissions data to be accurate, the emission factor needs to match the activity and where it occurred as closely as possible. As a result, there are many extensive emission factors libraries that cover different activities around the world. For larger organizations looking for a software solution, seek out a solution that can access all the emission factors that you need for your organization's geographies and activities. For those migrating from calculating emissions using spreadsheets, there is a huge time-saving advantage to finding a solution with access to the factor libraries you require. This will make it easy to select the correct factor for each activity and site and keep your emission factors up to date. Transitioning from spreadsheets to software eliminates the manual process of maintaining factors, reducing the administrative burden required to maintain your calculations and mitigating the risk of errors. Software that keeps your emission factors up to date also helps keep your data accurate and audit-ready.

9.

ESG program management

ESG program management considers an organization's business strategies of setting and tracking ESG goals and key performance indicator (KPI) management to drive business decisions or ESG impact management. Seek out a solution that goes beyond data collection and includes program management tools to help organize and handle datasets to track targets and drive ESG performance. A provider with an advisory and verification team can also help your organization improve its performance and transparency, which, in turn, can reduce risks, provide improved access to capital and improve profitability.

10.

Moving beyond an ESG reporting solution

While an ESG reporting software solution is a great starting point for organizations to focus on, it is prudent to think beyond the scope of ESG reporting and consider your organization's overall sustainability journey. Find a provider that extends past ESG to include other sustainability metrics, such as environmental product declaration (EPD), product carbon footprint (PCF) verification, decarbonization services and energy transition. Consider software suites that help you make your products safer and more sustainable and that extend to your supply chain impact, environmental health and safety (EHS) and other areas of your organization.

Why UL Solutions for ESG software and services

UL Solutions is a recognized industry leader in the ESG management and sustainability software marketplace.[19] With its longstanding tenure of over 20 years as an ESG software provider, UL Solutions is in a strong position to help any organization that is ready to start ESG data collection, streamline their data collection and management requirements and/or stay on pace with accelerating ESG reporting and regulatory demands. Through its ESG advisory services, UL Solutions offers companies a pragmatic standards-driven approach to accelerate their ESG performance. Additionally, there are independent third-party verification* services of your ESG and greenhouse gas (GHG) data available to fulfill disclosure requirements in certain jurisdictions.

UL 360 ESG and Sustainability software is a customizable ESG performance management and reporting software platform that helps organizations collect and manage data required for reporting and disclosure activities. It has been designed to meet organizations where they are in their sustainability journey and support their progress toward a more sustainable and efficient future. UL 360 ESG and Sustainability software is part of the ULTRUS™ platform, which helps organizations work smarter and win more through various modalities. This powerful platform helps organizations manage rapidly evolving regulatory, supply chain and sustainability challenges.

For more information on how UL Solutions can help with your ESG software needs and beyond, visit **UL.com/ESGsoftware**

*Verification and pre-verification engagements are conducted independently from advisory services.

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