



An Overview of the Sustainability Market

A PERIODIC UPDATE FROM GLYNT



Headlines

Here's the status in this fast-moving market as of July 2023

1. **Regulations are here.** There's little time to waste
2. **Penalties are harsh.** The EU is serious about reporting
3. **Assurance reports are required.** Every company must invest in new processes and methods. And have it reviewed by outsiders
4. **Every regulatory filing will be made public.** The data will be available in an easy-to-analyze format. Disclosure risks are high!
5. **Global harmonization.** The capital markets are demanding it
6. **It's all about a new type of “non-financial data in financial reports.”** Finance teams can leverage their expertise to take on this challenge

What Every Company Needs to Know

The New Sustainability Reporting Standards Are Here

“Forget the SEC, International Climate Reporting Standards Could Become the Global Baseline”*



- First required reporting in 2025 on 2024 data
- 49,000 EU-based companies
- Add'l reporting requirements each year
- Plus 13,000 US companies



- First required reporting in 2025 on 2024 data
- 140 countries
- Integrated with financial reporting
- Audits required



- SEC expected to release final rules in Oct 2023
- EU requirements are more extensive
- Expected first required reporting in 2025 on 2024 data
- Audits required



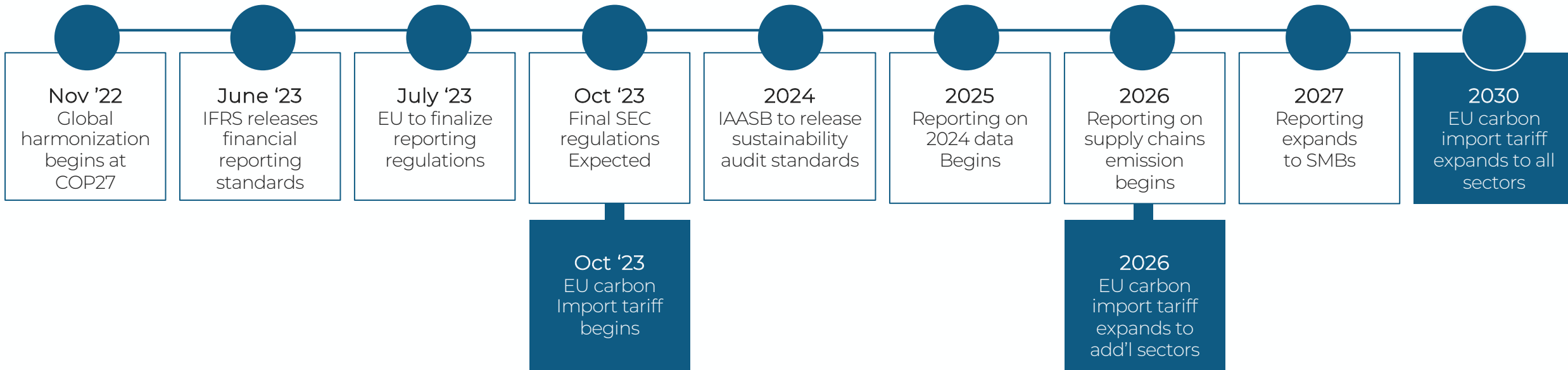
Also following IFRS on climate disclosures*:

- Australia
- Canada
- Japan
- Hong Kong
- Malaysia,
- New Zealand
- Nigeria
- Singapore
- U.K.
- International Organization of Securities Commissions (IOSCO), 135 countries
- Climate Disclosure Project (CDP), 19K companies
- International Auditing and Assurance Standards Board (IAASB), global

The Pace of Regulations for Climate Disclosures is Fast

“We are ushering in a new era of sustainability-related disclosures in capital markets worldwide.”

IFRS, June 2023



EU Penalties Are Harsh

These were approved in May 2023

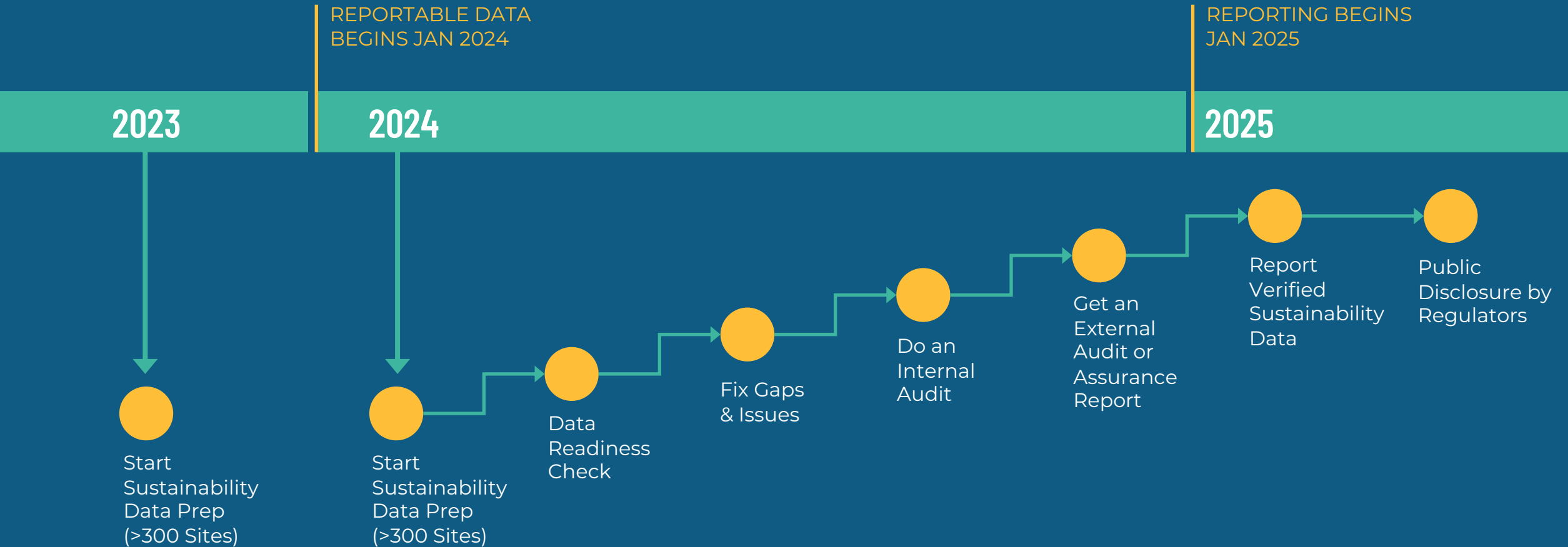
“The Company’s reporting obligations span its operations, subsidiaries and value chains.

Sanctions and penalties for failure to report and comply with the sustainability disclosure regulations include:

- Company’s goods could be taken off the market*
- Fines as high as 5% of the company’s global revenues,*
- Non-EU companies can be banned from certain types of business in the EU”*

More than 50,000 Companies Face a Pressing Timeline

First reports are due in 2025 (on 2024 data) and an outside review is needed before reporting



Methods and Data Will be Scrutinized

The EU and IFRS have harmonized requirements

Regulators Require an Assurance Report

- The focus is on how the disclosure is prepared
- Use of estimated data must be called out, line by line
- The Assurance Report focuses on:
 - Objective/Strategy
 - Targets/Metrics
 - Processes & Controls
 - Narrative & Forward Statements

The IFRS Treats Sustainability Data as “Non-Financial Data in Financial Reports”

- The focus is on integrated financial-sustainability reporting

**The expectation is that non-financial data will follow a similar process as financial data*

- The IFRS standards focus on:
 - Objective/Strategy
 - Targets/Metrics
 - Governance & Controls
 - Risk Management

The Data Reported to the EU Will Become Public

Just as with financial statements, climate disclosure reports will be coded and categorized for rapid analysis

Public and Non-Public Companies in the EU Must File a CSRD Over 10,000 Non-EU Companies Must File in the EU

- The CSRD is being set up with a standard structure
 - Categories of data, including progress towards goals, are defined in the EU Taxonomy
 - An 'XRBL' type format will be used*
- The disclosures will be rapidly and extensively scrutinized by the capital markets
- Heavy use of estimates, qualified assurance reports and weak climate disclosure reports will hurt valuations and the personal reputations of the C-Suite and Board

**XRBL is the structured data format used by large filers with the US SEC.*

It's a Significant Undertaking for Every Company

The EU regulators and the US SEC have estimated costs per reporting company based on additional hours of work and data from similar regulations

EU Regulatory Compliance Cost (per company, in 000s USD*)

	LISTED	NON-LISTED
One-Off	\$700,000	\$300,000
Recurring	\$1,500,000	\$700,000
Audit/Assurance Cost as Percent of the Total	18%	24%

**As of June 2023*

US Regulatory Compliance Cost (per company, in 000s USD)

	LISTED
First Year	\$400,000
Recurring	\$375,000
Audit/Assurance Cost as Percent of the Total	13%

The First Challenges

These are the common starting points for every company

1

Understanding the Requirements

It's a complicated fast-moving space. And here to stay.
Time to get smart

2

Finding Primary Data

The key source data is buried in siloed and scattered enterprise systems.
Use a comprehensive method of discovery

3

Preparing Assurance-Ready Data

The days of spreadsheets and *ad hoc* methods are over.
They don't pass external reviews. Time to build out a new workflow

The Fast-Follow Challenges

The regulations require investment in these areas too

4

Reduction Plans

What is the plan for emissions reductions? How will it be tracked?
Regulators want to know

5

Climate Risk Management

How will climate risks be identified and mitigated?
At what cost?

6

Supply Chain Emissions

The first report on supply chain emissions is not due until 2026, but the current method – based on estimates – won't do. How will you get actual data?

For Partners

Explosive Growth Ahead Growth

There are just no other words to describe it

Number of Companies Required to Report by Reg and Year

Note: the number of reporting entities under known EU, UK, Canadian and US regulation are shown below. Additional regulations are planned that will increase the number of reporting entities.

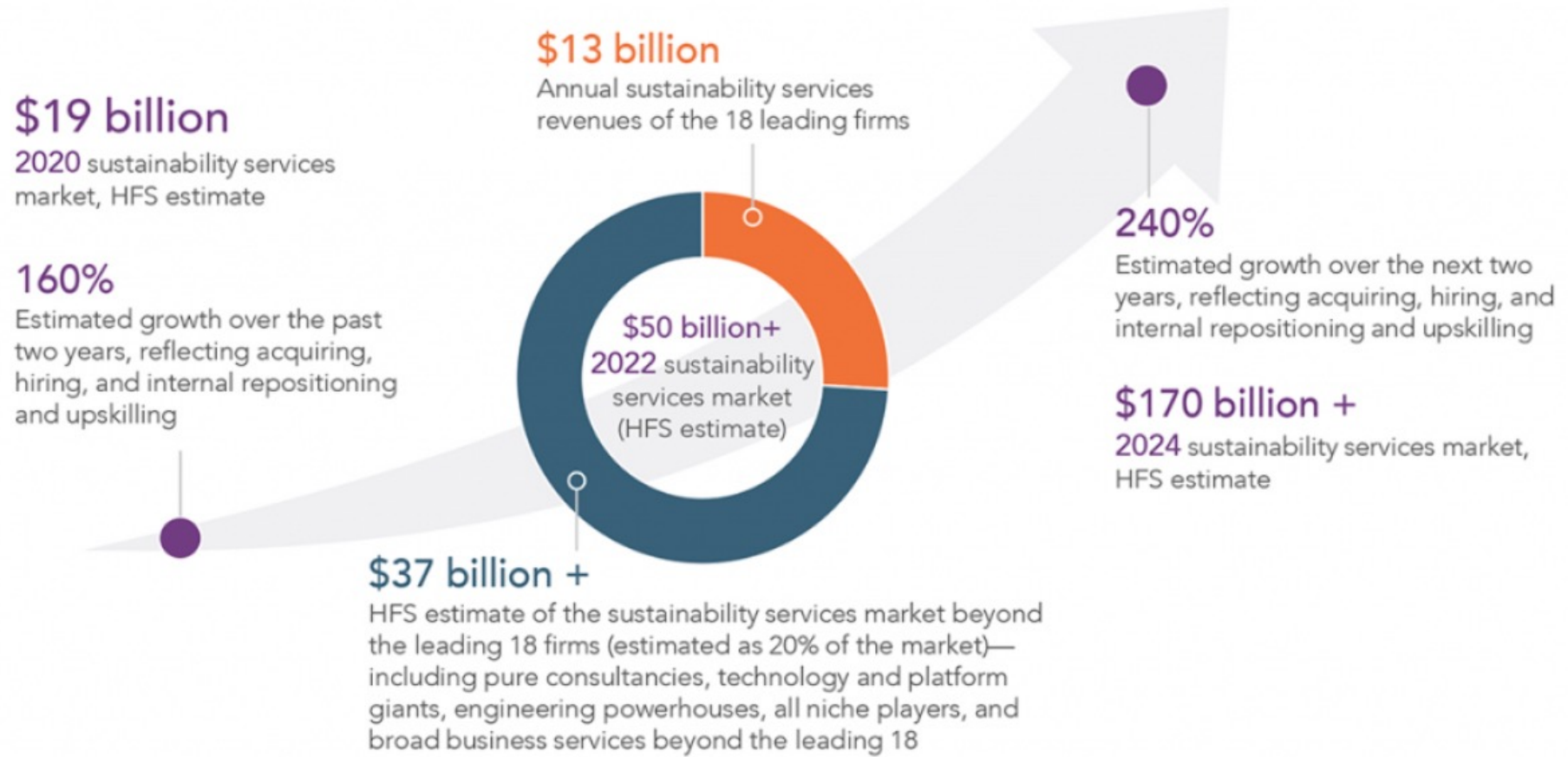
Further, EU, UK and Canada are less than 20% of global GDP. With a single set of standards emerging for global capital markets, the market for sustainability data will more than double in size from what is shown here.

Year	Description	Total Number of Reporting Entities	Size of Reporting Company
2023	Banks, Voluntary Reporting, Mandatory Reporting (UK)	39,457	Enterprise
2025	+ EU & SEC Regs	95,537	Enterprise
2027	+ Expanded EU & US Regs	409,037	Midmarket/SMB
2030	+ EU SMBs & EU Importers	3,819,637	Midmarket/SMB

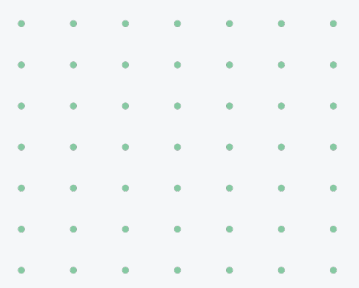
Source: GLYNT calculations from regulatory announcements

Enterprise Solutions: From \$19B to \$170B in Four Years

HFS Research, did a bottom-up analysis of leading sustainability and enterprise service firms



ESG Software Solutions: From \$905M to \$4.34B in 6 Years



verdantix

Verdantix is a leading EHS and ESG research provider.

Their market analysis shows the ESG software market at \$905 million in 2021, growing at 30% CAGR to \$4.34B in 2026.



The Regulators are Also Sizing Up a Large Market

Both regulators are required to estimate the cost of compliance as part of the regulatory process

The New Climate Disclosure Market

EU:	\$7.8B USD*
+ US SEC:	\$10.4B USD
<hr/>	
TOTAL:	\$18.2B USD

**As of June 2023*

Additional Materials

The EU's Carbon Import Tariff is a Game Changer

This is one ruling dictates the key standard for every global company: Audit-ready emissions data

The EU's Challenge

- EU companies have limited rights to pollute (emit CO₂e). Heavy polluters buy credits from businesses who are not using their full allocation.
- The EU Commission wants importers to face the same extra cost, starting in 2023 with six sectors: cement, iron & steel, aluminum, fertilizers, electricity, hydrogen. This will expand to chemicals, plastics and autos. Then to all products by 2030.

Source: [CNN](#); [European Commission](#)

The Importer's Challenge



EU importers of goods covered by the CBAM registers with national authorities where they can also buy **CBAM certificates**. Certificates are priced based on **weekly ETS allowances**.

EU importer **declares the emissions** embedded in its imports and **surrenders** the corresponding number of certificates each year.

If importers can prove that a **carbon price has already been paid** during the production of the imported goods, the corresponding amount **can be deducted**.

#EUGreenDeal



The importer will need audited emissions data at the product level

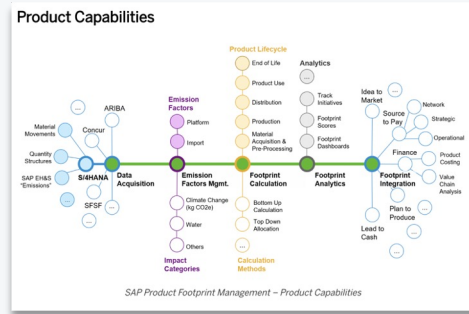
Established Software Vendors Are Already Expanding into Sustainability

They are getting ready to use sustainability data, but do not produce sustainability data

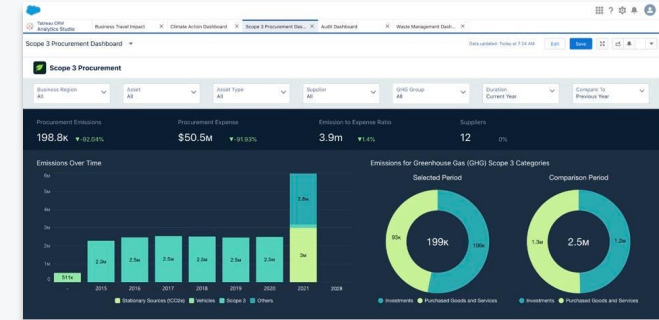
ANAPLAN
1700 customers



SAP
300K customers



SALESFORCE
150K customers



IBM
17K customers



ORACLE
430K customers

The Oracle screenshot shows 'Sources & Factors - Work With Environmental Sources & Factors'. It contains two tables: 'Sources' and 'Energy Factors for TFE3D'.
Sources Table:

Source	Source Description	Date To Apply	Date Des	Invol
TFE3D	TRANSPORT FUEL EURO III DI...	ID	Invol	
AREA	AREA	ID	Invol	
BLCL	COAL	ID	Invol	
ELEC	ELECTRICITY	ID	Invol	
ELNW	ELECTRICITY - NSW	ID	Invol	
GSAT	GASOLINE (AIR TRANSPORT)	ID	Invol	
KMTV	KILOMETERS TRAVELLED (BU...	ID	Invol	
NEMP	NO. OF EMPLOYEES	ID	Invol	
NTFO	NON-TRANSPORT FUEL OIL	ID	Invol	
TFDO	TRANSPORT FUEL - GENERA...	ID	Invol	
TFE1D	TRANSPORT FUEL EURO I DI...	ID	Invol	
TFE4D	TRANSPORT FUEL EURO IV DI...	ID	Invol	

Energy Factors for TFE3D Table:

Emission Scope	Emission Description	Calc Method	Calc Method Description
1	Scope 1 (Direct)	1	Method 1
1	Scope 1 (Direct)		CH4
1	Scope 1 (Direct)		N2O
1	Scope 1 (Direct)		CO2

Sustainability Data Preparation is Neglected

We surveyed sustainability and carbon accounting software vendors in 2022 and in 2023. Nothing changed

REGULATORS

CAPITAL MARKETS

CUSTOMERS



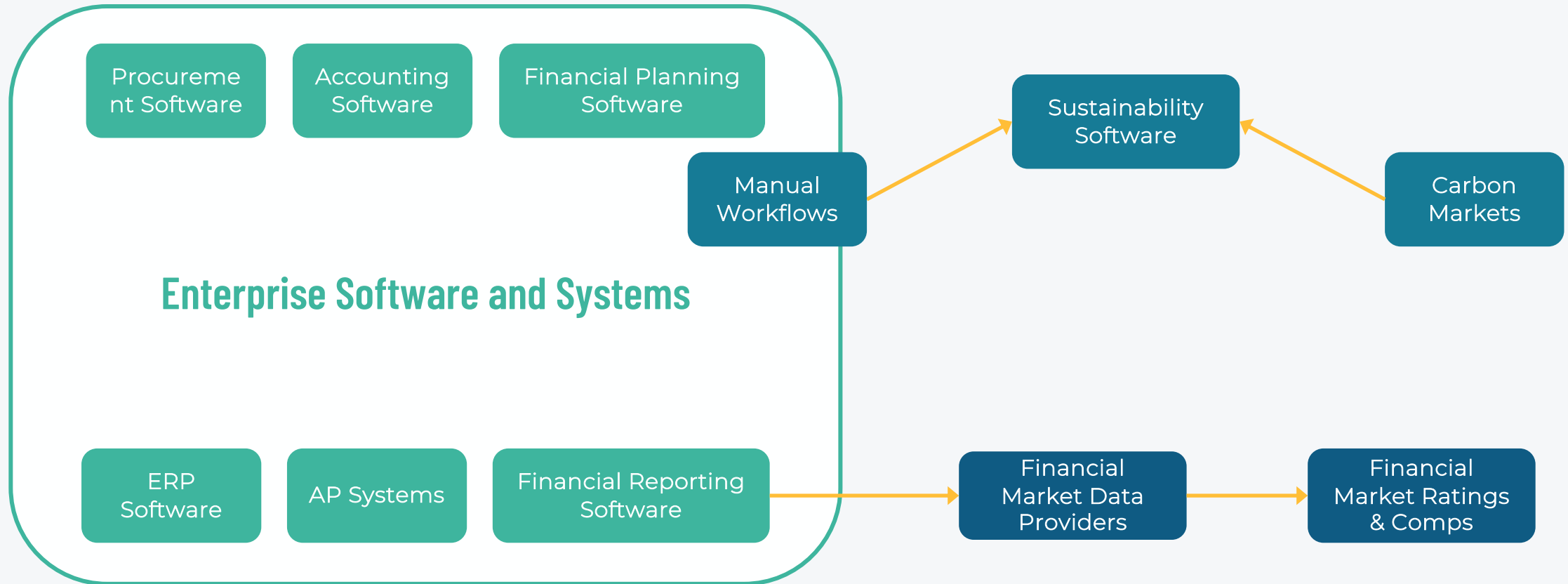
Everyone Says "Upload your CSV"
Including SAP & Oracle

Some of the 300+ software vendors surveyed by GLYNT



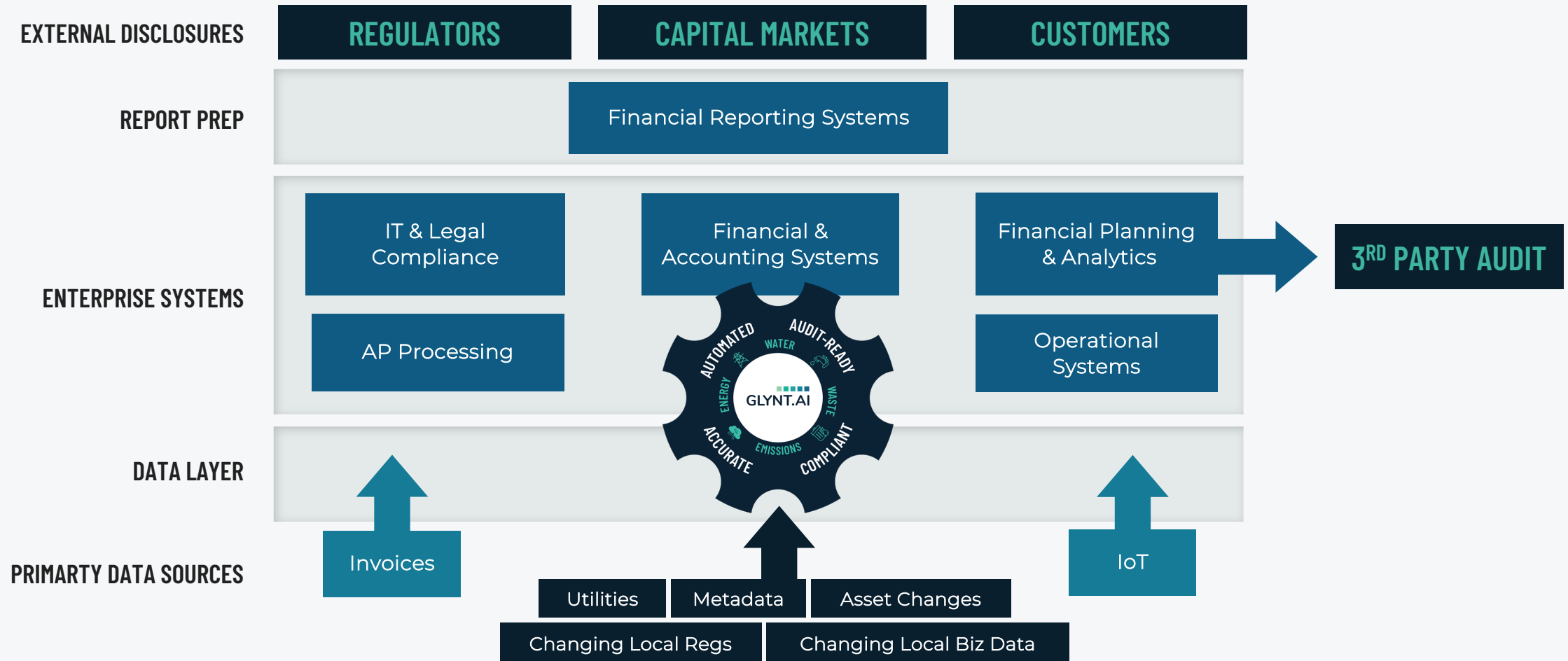
In 2021 the Sustainability Data Ecosystem Was Confusing

A disconnected sideshow, with reporting done once per year



In 2023 Sustainability Data is in the Enterprise Tech Stack

Everyone can leverage familiar systems and their enterprise expertise



Selected Sources

Overviews

- [Navigating the ESG landscape: Comparison of the “Big Three” Disclosure Proposals](#) (Harvard Law School Forum on Corporate Governance)
- [The "Soxification" of ESG](#) (KPMG Advisory)

EU

- [EU's New ESG Reporting Rules Will Apply to Many US Issuers](#) (Harvard Law School Forum on Corporate Governance)
- [EFRAG Approves European Sustainability Reporting Standards](#) (ESG Today)
- [The Age of Sustainability: As New European Disclosure Requirements Take Shape, Here's How Businesses Should Stay Ready](#) (Protiviti)

Canada

- [Climate Risk Management](#) (Office of the Superintendent of Financial Institutions)
- [Canada Introduces Mandatory Climate Disclosures for Banks, Insurance Companies Beginning 2024](#) (ESG Today)

UK

- [Climate disclosure requirements set to take effect in UK](#) (Financial Management)
- [Climate change reporting obligations for UK banks](#) (Farrer & Co)
- [SECR explained: Streamlined Energy & Carbon Reporting framework for UK business](#) (Carbon Trust)

USA

- [SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors](#) (SEC)
- [Federal Reserve Board announces that six of the nation's largest banks will participate in a pilot climate scenario analysis exercise designed to enhance the ability of supervisors and firms to measure and manage climate-related financial risks](#) (Federal Reserve)
- [Climate-Related Macroeconomic Risks and Opportunities](#) (Council of Economic Advisers, Office of Management and Budget)

Accounting & Controls

- [The COSO Internal Control Framework and Sustainability Reporting](#) (The CPA Journal)
- [COSO Framework and Sustainability](#) (IMA)
- [ISSB unanimously confirms Scope 3 GHG emissions disclosure requirements with strong application support, among key decisions](#) (IFRS)
- [Intersection of Environmental, Social, and Governance Matters with Financial Accounting Standards](#) (FASB)

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Thank You!

