

Sustainability in a New Era: Challenges and Tips for the Ethicsverse

By Douglas Hileman, FSA, CRMA, CPEA
Douglas Hileman Consulting LLC
In Support of
Ethico's Weekly "Virtual Rumble"
May 15, 2025



5/15/2025

©2025 Douglas Hileman Consulting, LLC

1

1

DHC Modules for the Ethicsverse

Objectives

- Provide supplemental resources on Sustainability compliance, risk and reporting to attendees of Ethico's successful virtual sessions.
- Tailor messages to the Ethicuties, their bosses and their key stakeholders.

Modules

- COSO: what it is; applicability to Sustainability; COSO ICSR document
- Sustainability: recap and reset
- Compliance: it creeps in on little cat feet
- Reporting: What's going on?
- Climate: With no more SEC rule, we can stop – right?

5/15/2025

©2025 Douglas Hileman Consulting, LLC

2

2



ACHIEVING EFFECTIVE INTERNAL CONTROL OVER SUSTAINABILITY REPORTING (ICSR):
Building Trust and Confidence through the COSO Internal Control—Integrated Framework



MODULE





COSO: Achieving Effective Internal Controls over Sustainability Reporting (ICSR)

5/15/2025 ©2025 Douglas Hileman Consulting, LLC 3

3

COSO ICIF: 5 Components, 17 Principles

FIGURE B-4: COMPONENTS, PRINCIPLES, AND POINTS OF FOCUS

Components	Principles	No. of Points of Focus
	1. Commitment to integrity and ethical values	4
	2. Independent board of directors oversight	4
	3. Structures, reporting lines, authorities, responsibilities	3
	4. Attract, develop, and retain competent people	4
	5. People held accountable for internal control	5
	6. Clear objectives specified	15
	7. Risks identified to achievement of objectives	5
	8. Potential for fraud considered	4
	9. Significant changes identified and assessed	3
	10. Control activities selected and developed	6
	11. General IT controls selected and developed	4
	12. Controls deployed through policies and procedures	6
	13. Quality information obtained, generated, and used	5
	14. Internal control information internally communicated	4
	15. Internal control information externally communicated	5
	16. Ongoing and/or separate evaluations conducted	7
	17. Internal control deficiencies evaluated and communicated	3

Source: Provititi



5/15/2025

©2025 Douglas Hileman Consulting, LLC

4

4

COSO Internal Controls over Sustainability Reporting (ICSR)

Launch Date	March 2023
Objectives	Encourage parties to leverage COSO ICIF for Sustainability reporting.
Intended Users	Parties who know "internal controls" (Acct'g., Audit, Finance) Parties who don't (Environmental, Ops, Procurement, Sustainability, etc.)
Summary	Supplemental guidance is approachable for all. Helps companies develop or enhance processes, procedures, data management. See "3 Attributes" section and DHC white paper.
Where/ How Used Now	In-house: companies building or improving controls for content that will be externally reporting. Also to improve effectiveness and efficiencies. External: basis for assurance criteria.
Website	www.coso.org www.douglashileman.com

Douglas Hileman is an author of the COSO ICSR document.

5/15/2025

©2025 Douglas Hileman Consulting, LLC

5

5

Observations on Sustainability Reporting

- Demand for reporting has outpaced the ability to report.
- Growing calls for assurance.

Sustainability reporting differs from financial reporting:
3 attributes

Original white paper at
www.douglashileman.com

3 Attributes of ESG Reporting / Sustainability Reporting



© 2022 Douglas Hileman Consulting LLC

5/15/2025

©2025 Douglas Hileman Consulting, LLC

6

6

Sustainability Reporting

Different Channels → Different Data Needs

Data Needs : Examples

- How much water do we use? Where does it come from? Do our operations (or supply chain) impact scarce water resources?
- How much waste from our operations is recycled?
- How much of our raw materials has been recycled?
- What is the GHG emissions (in CO₂e) inventory of the company?
- How much CO₂e in the products you sell to Customer X?
- How much CO₂e at the location in [country, state, or location]?
- What % of suppliers have code of ethics that meet or exceed our requirements? By number? By spend?
- Do suppliers pay fair wages?
- What is our progress towards goals?
- How can we improve ratings with analysts?
- How many customer requests do we get? Do we respond in time?
- What are safeguards to preserve IP?
- How do we know data is accurate and supportable?
- Is data reported via different channels the same? If not, why not?

5/15/2025

©2025 Douglas Hileman Consulting, LLC

7

7

Component I: Control Environment



Principles	Examples of Risks
<ol style="list-style-type: none"> 1. Commitment to integrity and ethical values 2. Independent Board of Directors oversight 3. Structure, reporting lines, authorities, responsibilities. 4. Attract, develop and retain competent people. 5. People held accountable for internal control. 	<ul style="list-style-type: none"> • Employees interpret weaker Code of Conduct/ commitments as increased opportunity and rationalization to commit fraud. • Sustainability programs are abruptly eliminated, leaving employees, customers unserved. • Reduced efforts on non-financial topics known to be material to the industry reduces financial prospects, increases capital costs. • Downsized Sustainability programs are assigned to individuals without competencies to fulfill obligations. • Board and Management assume each other has non-financial issues under control. • Employees, contractors, business partners fear calling hotlines. Open season for waste, fraud, and abuse.

5/15/2025

©2025 Douglas Hileman Consulting, LLC

8

8

Sustainability Controls: Examples

- Policy(ies): climate; water; human rights
- RACI Matrix assigning roles, responsibilities
- Sustainability provisions in supplier contracts
- Forms to collect electricity use
- Meters to measure water use
- Excel files used to perform calculations
- Commercial solutions for data collection, analysis, compilation
- Cross-functional teams
- Quality control, “four eyes” principle
- Second line audits



5/15/2025

©2025 Douglas Hileman Consulting, LLC

9

9

COSO ICSR: Suggested Takeaways

- COSO internal controls framework is a “topic-neutral” framework.
- COSO ICIF is the go-to standard for financial reporting and is used by financial auditors.
- Completeness, accuracy, verifiability are essential parameters to achieve confidence in Sustainability programs – and the effectiveness of the efforts that support them.
- Anyone involved in non-financial areas would do well to “learn the language of the suits.” This is it.
- COSO ICSR is designed to help everyone on this journey: those who already know “internal controls” – and those who don’t.
- COSO ICSR is free. At www.douglashileman.com and on COSO website.
- Douglas Hileman is an author.

5/15/2025

©2025 Douglas Hileman Consulting, LLC

10

10



MODULE

Compliance: It Creeps in on Little Cat Feet (Thank you, Robert Frost.)

5/15/2025

©2025 Douglas Hileman Consulting, LLC

11

11

Sustainability Compliance: Channels

- Legal and regulatory
 - Enforceable by sovereign entity
 - Legal/ contractual
 - Enforceable by business partner
- Industry standards, frameworks, codes of conduct
- Voluntary obligations



© 2016 Douglas Hileman Consulting LLC

5/15/2025

©2025 Douglas Hileman Consulting, LLC

12

12

Laws, Regulations, Standards, Drivers US – Federal (partial)

- Traditional: environmental (EPA); safety (OSHA); wages (Dept. of Labor)
- SEC: disclosures on material topics in Form 10-K
- Consumer Product Safety Commission
- Federal Acquisition Regulation (includes question on greenhouse gas (GHG) emissions inventory)
- Uyghur Forced Labor Protection Act

5/15/2025

©2025 Douglas Hileman Consulting, LLC

13

13

Laws, Regulations, Standards, Drivers: European Union

Corporate Sustainability Reporting Directive/ EU Sustainability Reporting Standard

- Mandatory reporting and disclosures concurrent with financials
- Applies double materiality
- First reporting period is CY 2025 (“Wave 1”)
- Will require [limited] assurance

Also:

- Green Taxonomy
- Green Finance
- Sustainability Due Diligence (supply chain)
- Cross-Border Adjustment Mechanism (CBAM)

Omnibus Proposals
on 2/26/2025 likely
to bring changes
(stay tuned!)

5/15/2025

©2025 Douglas Hileman Consulting, LLC

14

14

EU's Corp. Sustainability Reporting Directive

Launch Date	1/5/2023
Objectives	Require companies to report on Sustainability performance, risk, impacts. Consider risks & key interests of the company <u>and those of key stakeholders.</u>
Intended Users	Capital markets. Broad array of stakeholders.
Summary	EU Sustainability Reporting Standards (ESRS) [published 12/22/2023] set forth parameters and topics. Go beyond traditional "materiality" to "double materiality." 50,000 EU companies and non-EU business operating in EU are required to make sustainability disclosures. They begin to take effect for CY 2025. Limited assurance required.
Where/ How Used Now	Companies doing readiness, addressing gaps (develop, deploy or improve processes). Companies engaging with value chain where data or info is required. Assurance readiness.
Website	https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

5/15/2025

©2025 Douglas Hileman Consulting, LLC

15

15

EU Omnibus

Two proposals released 2/26/2025

1) "Stop the Clock"

- Delays effective dates for "Wave 2" and "Wave 3" [medium- and smaller entities]
- "Wave 1" still begins after FY 2024

2) Content; relief includes (*but not limited to*):

- Scope: >1,000 employees
- Value chain: what companies must ask of value chain
- Assurance: Limited only [no more Reasonable]
- Standards: Fewer disclosure topics

5/15/2025

©2025 Douglas Hileman Consulting, LLC

16

16

Sustainability Compliance: Voluntary Obligations

Traditional

- ISO certifications (9001, 14001)
- Energy Star
- Code of Conduct, general company commitments



More Recent

- B Corp; other credentials and certificates
- Best Places (to work, gender equity, most energy efficient, etc.)
- Sector/ Industry standards, frameworks
- Paris Climate Accords (2016)
- Goals and targets (SBTi, voluntary)



5/15/2025

©2025 Douglas Hileman Consulting, LLC

17

17

Compliance via Industry and Topical Standards and Frameworks



Each one establishes parameters and criteria for policy, procedures, and reporting. These obligations become compliance criteria.

5/15/2025

©2025 Douglas Hileman Consulting, LLC

18

18

Other Drivers: B2B

- Contractual requirements
- Supply chain due diligence
- Verification / audits
- Commitment for future improvements
- Periodic [B2B] reporting



5/15/2025

©2025 Douglas Hileman Consulting, LLC

19

19

Sustainability and Compliance: Suggested Takeaways

- Statutes and regulations impose many enforceable compliance requirements for Sustainability topics. These include some “old” (occupational safety) and some newer (cybersecurity, privacy).
- Organizations enter into contracts that create compliance obligations: energy sources; product content or quality; human rights. These are enforceable via contract, tort, etc.
- Voluntary obligations create compliance obligations. Non-compliance poses risk of loss of customers, finance arrangements, or the ability to attract and retain talent.
- Compliance obligations extend up and down the value chain – including provisions imposed on customers.
- Roles for Compliance, Hot Line, investigators are likely broader than they think.

5/15/2025

©2025 Douglas Hileman Consulting, LLC

20

20



MODULE

Sustainability: Recap and Reset

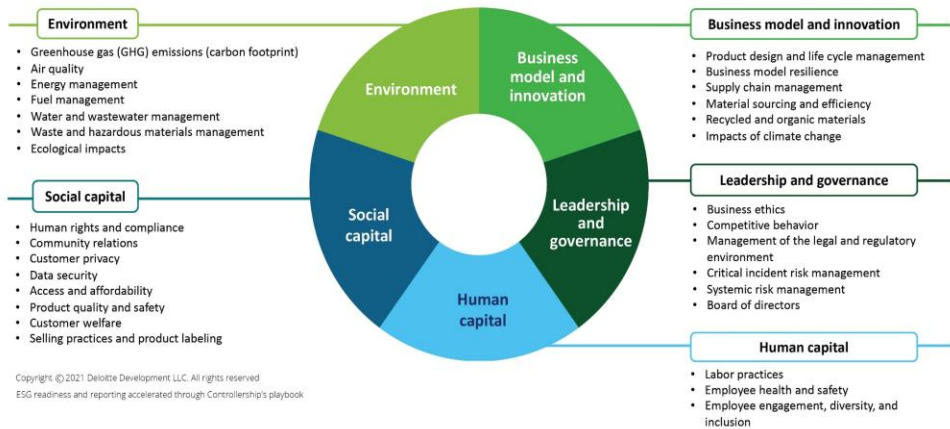
5/15/2025

©2025 Douglas Hileman Consulting, LLC

21

21

ESG: Deloitte Model (2021)



5/15/2025

©2025 Douglas Hileman Consulting, LLC

22

22

ESG: Another Model



- “Sustainability” encompasses ‘all things non-financial’.
- “ESG” is one way to begin organizing a wide array of non-financial issues in a taxonomy that enables meaningful strategy, program development, performance measurement, communications, and reporting.
- Aspects of Sustainability may pose financial risk; they may have financial impact. Either/ both may be “significant” or “material” (both terms are defined).
- This depends on sector/ industry, organizational strategy, and other factors.

5/15/2025

©2025 Douglas Hileman Consulting, LLC

23

23

Sustainability: What's Out, What Hasn't Changed

What's Out	What Hasn't Changed
Diversity, Equity and Inclusion	The need to attract and retain talent.
Extent of emphasis on Sustainability topics in investment decisions	Identifying and meeting compliance requirements Identifying and mitigating significant risks Leveraging opportunities Monitoring effectiveness and efficiencies of actions taken
Exclusive focus on financial materiality Ignoring stakeholder input regarding non-financial impacts. (EU)	Continued focus on financial materiality, for primary users of general-purpose financial statements. Mechanisms to engage with stakeholders (hot lines, etc.)

5/15/2025

©2025 Douglas Hileman Consulting, LLC

24

24

Sustainability Recap and Reset: Suggested Takeaways

- Sustainability is a state; a desired condition.
- “ESG” is a taxonomy.
- Sustainability is no one thing. It differs by sector, geography, organization, and objectives.
- Non-financial issues will continue to affect companies, including their financial performance and prospects.
- There’s Climate, and there’s everything else.
- Sustainability poses risks and opportunities. To whom/ for whom?
- A reset may offer the opportunity to do fewer things, and to do them better.

5/15/2025

©2025 Douglas Hileman Consulting, LLC

25

25



MODULE

Reporting: What's Going On?

5/15/2025

©2025 Douglas Hileman Consulting, LLC

26

26

Selected Standards, Frameworks and References

Global Reporting Initiative (GRI)	SEC Regulation S-K Guidance	Science-Based Targets Initiative (SBTi)	COSO Internal Controls over Sustainability Reporting (ICSR)
Greenhouse Gas (GHG) Protocol	Sustainability Accounting Standards Board (SASB)	Task Force for Nature-Related Financial Disclosures (TNFD)	Calif. Climate Disclosure Laws (SB 253, SB 261)
Carbon Disclosure Project (CDP) – Climate	Task Force for Climate-Related Financial Disclosures (TCFD)	International Sustainability Standards Board (ISSB)	Canadian Sustainability Disclosure standards (CSDS)
Carbon Disclosure Project (CDP) - Water	UN Sustainable Development Goals	EU's Corp. Sustainability Reporting Directive (CSRD)	SEC Climate Disclosure Rule

5/15/2025

©2025 Douglas Hileman Consulting, LLC

27

27

Sustainability Reporting: What's Going On? Suggested Takeaways

- Sustainability reporting will continue via several avenues:
 - Public and mandatory
 - Public and voluntary
 - External, not public (B2B)
 - Internal – for management.
- Standards and frameworks continue to proliferate, although there are gains in interoperability.
- Demands for reporting have (and continue to) outpaced organizations' ability to obtain reliable, useful information.
- Direct feedback from users remains in short supply.
- You're probably doing something that will roll into a Sustainability report. Do you know what, why, and how it is measured and reported (and to whom)?

5/15/2025

©2025 Douglas Hileman Consulting, LLC

28

28



MODULE

Climate: With no more SEC rule, we can stop – right?

5/15/2025

©2025 Douglas Hileman Consulting, LLC

29

29

Climate: What's Out, What Hasn't Changed

What's Out	What Hasn't Changed
<u>U.S. SEC Climate Disclosure Rule</u> Regulation S-K <ul style="list-style-type: none"> Governance, Strategy, Risk Metrics, and Targets (Optional) 	<ul style="list-style-type: none"> ISSB S-2: Global accounting standard TCFD: Voluntary climate disclosure framework California climate laws (SB 253, SB 261) CDP [formerly Carbon Disclosure Project]; portal for climate & other disclosures Science-Based Targets Initiative (SBTi) Use of climate-related disclosures for investments, supplier decisions B2B requests & info exchange
Regulation S-X <ul style="list-style-type: none"> Changes in financials (assets, liabilities, revenues, costs) of >5%, and explanations 	<ul style="list-style-type: none"> Occurrences of "extreme weather events or other natural conditions." Impacts on asset values, revenues, costs – from risks or opportunities

5/15/2025

©2025 Douglas Hileman Consulting, LLC

30

30

Climate: International Sustainability Standards Board (ISSB) S-2

Launch Date	11/3/2021
Objectives	Establish global guidelines for disclosure regarding Climate risks and opportunities.
Intended Users	Primary users of general-purpose financial statements.
Summary	ISSB is part of IFRS Foundation. Merger of SASB, IIRC. Continues approach of legacy SASB. "Single" materiality. S-1 (General) and S-2 (Climate) published 6/26/2023.
Where/ How Used Now	Adoption in EU for disclosure in financial filings. Incorporated TCFD, adding more: granularity, disclosures. Requires disclosure of Scope 3 GHG emissions.
Website	https://www.ifrs.org/groups/international-sustainability-standards-board/

5/15/2025

©2025 Douglas Hileman Consulting, LLC

31

31

Climate: California Climate Disclosure Laws (SB 253 and SB 261)

Launch Date	10/9/2023
Objectives	If "doing business in California"; reference to tax code (likely). SB 253: Report GHG <u>emissions</u> for companies >\$1 billion in revenues. [quantitative] SB 261: Report material climate-related financial risk aligned with TCFD. >\$500 million in revenues. [narrative]
Intended Users	Broad range of stakeholders.
Summary	Requirements align with TCFD. CARB must develop regs; could be delayed. Also applies to private companies. CDP could be disclosure portal.
Where/ How Used Now	Motivation for companies to begin or improve climate-related efforts, regardless of SEC action/ inaction. Non-public entities are paying more attention. New York, Illinois considering similar state laws.
Website	https://leginfo.legislature.ca.gov/

5/15/2025

©2025 Douglas Hileman Consulting, LLC

32

32

Climate: Suggested Takeaways

- Climate change continues to affect our planet.
- Climate change poses risks – and opportunities – for our organizations. They vary by sector and company.
- Reporting and disclosures remain in effect, and are likely to continue to grow.
- If you sell a product or service, you are in someone else's Scope 3. They'll ask about your GHG emissions sooner or later.
- SEC disclosures on actual impacts to line items in financial statements will no longer be required. But shouldn't you know if/where it is happening in your organization?
- Opportunities don't happen by themselves.

5/15/2025

©2025 Douglas Hileman Consulting, LLC

33

33

Contact Information

Douglas Hileman, FSA, CRMA, CPEA
 Douglas Hileman Consulting LLC
www.douglashileman.com
 818.570.0177



Doug helps clients with compliance, risk, processes and controls, audits, and assurance readiness in the ESG and climate space. He often provides ESG subject matter expertise to law firms, accounting firms, IT and management consultancies. He draws on 40+ years of experience in operations, corporate compliance, management consulting, internal audit and external assurance. He was the senior environmental management and environmental auditing specialist on the Volkswagen Monitor Team.

He is an author of COSO's "Achieving Effective Internal Controls over Sustainability Reporting (ICSR)", released to wide acclaim in March 2023.

©2025 Douglas Hileman Consulting, LLC

34