GoCodeGreen
Decarbonise Digital®

GCG Insights:
Sustainability Regulation – An Overview

Staying informed about today's sustainability regulations is not just a matter of compliance, but a strategic imperative. For organisations and IT leaders, understanding these regulations is crucial for ensuring that your operations, products, and services align with global sustainability goals. As governments and international bodies continue to tighten the rules around environmental impact, social responsibility, and corporate governance, businesses must navigate these complexities to remain competitive, avoid penalties, and build lasting trust with stakeholders.

The digital and IT sectors in particular play a pivotal role in this transition, as technology underpins many of the solutions and innovations that drive sustainable practices. Whether it's managing data for sustainability reporting, enhancing transparency in supply chains, or developing AI systems with ethical considerations, IT leaders are at the forefront of change. This GoCodeGreen (GCG) Insight paper provides a concise overview and analysis of key sustainability regulations that are shaping the future of business. By understanding these regulations you can ensure that your organisation is not only compliant but also positioned as a leader in sustainability.

"In a world where sustainability is not just an obligation but a competitive advantage, IT leaders must recognise that measurement is the cornerstone of compliance and innovation. By understanding and integrating emerging sustainability standards into your IT strategy, you not only protect your organisation against regulatory risks, but you also position yourself as a forward-thinking leader committed to ethical practices and lasting impact. This GCG Insight paper provides you with an up-to-date analysis of the emerging regulations and standards that will impact how you manage your technology in the near future."

- Eric Zie, CEO & Founder of GoCodeGreen

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EU Corporate Sustainability Reporting Directive (CSRD)

Overview:

The Corporate Sustainability Reporting Directive (CSRD) aims to enhance and standardise sustainability reporting across the EU, with varying deadlines based on factors such as company size and listing status[1]. Companies must implement robust and affordable reporting systems and IT infrastructure to gather, analyse, and report sustainability data. This framework should be accompanied by effective auditing practices to ensure the reliability of data and avoid greenwashing and double counting[2]. The CSRD outlines that users of sustainability information increasingly expect such information to be findable, comparable and machine-readable in digital formats[3]. Digitalisation creates opportunities to exploit information more efficiently and holds the potential for significant cost savings for both users and undertakings. Digitalisation also enables the centralisation at Union and Member State level of data in an open and accessible format that facilitates reading and allows the comparison of data.

Based on these new IT-focused requirements, we expect an increased demand for comprehensive digital solutions that ensure accurate and efficient sustainability data management. GCG can support you by providing advanced tools and expertise to measure, analyse, and report your digital carbon emissions in compliance with CSRD standards, ensuring your data is reliable, comparable and readily accessible in machine-readable digital formats.

Corporate Sustainability Due Diligence Directive (CSDDD)

Overview:

The Directive on Corporate Sustainability Due Diligence (CSDDD) (2024/1760) entered into force on 25th July 2024. The Directive aims to foster sustainable and responsible corporate behaviour in companies' operations and across their global value chains. The new rules will ensure that companies in scope identify and address adverse human rights and environmental impacts of their actions inside and outside Europe[4].

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[1] Source: Understanding the Scope of the CSRD, Sweep 2024.
[2] Source: Directive (EU) 2022/2464 – European Union Law,, European Commission 2024.
[3] Source: Corporate Sustainability Reporting, European Commission 2024.
[4] Source: Corporate Sustainability Due Diligence, European Commission 2024.

We expect companies will need to implement due diligence software and tracking systems to monitor, address, and mitigate human rights and environmental impacts across their global value chains. To support companies affected by the Directive on CSDDD, GCG offers tailored tools and expertise to align due diligence software and tracking systems with their low carbon emission targets and broader sustainability objectives, ensuring full compliance with the regulatory requirements.

Eco-design for Sustainable Products Regulation (ESPR)

Overview:

The Eco-design for Sustainable Products and Regulation (ESPR) came into force on 18th July 2024 and aims to improve the environmental sustainability and circularity of products throughout their lifecycle[5]. Eco-design is a sustainable design approach which targets the life-cycle environmental impacts of a product through design solutions in its product development and lifecycle management systems. These decisions are driven by environmental data, ideally measured with Life Cycle Assessment (LCA). The electronic products featured on the ESPR product list include televisions and electronic displays, external power supplies, computers and small servers, servers and data storage products, mobile phones, cordless phones, tablets, and off mode, standby, and networked standby.

Based on the ESPR requirements, there is a need for redesigning products and investing in sustainable materials and technologies. We are seeing an increased emphasis on integrating life-cycle environmental data into product development, particularly ICT and other electronics products prioritised under ESPR. In regards to ICT, GCG measures and optimises the environmental impact of your digital products throughout their lifecycle through our CEDAR™ lifecycle assessment. For example, the most recent implementing act concerning mobile phones and tablets, adopted in June 2023 and will take effect in June 2025, requires durable design, longer-lasting batteries, and prolonged availability of software updates and spare parts.

Carbon Border Adjustment Mechanism (CBAM)

Overview:

The Carbon Border Adjustment Mechanism (CBAM) is the EU's tool to put a fair price on the carbon emitted during the production of carbon-intensive goods that are entering the EU and to encourage cleaner industrial production in non-EU countries. By imposing a carbon price on imports of certain goods, the mechanism aims to prevent carbon leakage

[5] Source: Regulation (EU) 2024/1781 – European Union Law, European Commission 2024.

and the EU's climate objectives from being undermined[6]. From 1st October 2023 to 31st December 2025 companies impacted by this regulation are required to meet reporting obligations. During this period, importers are expected to identify and document direct and indirect emissions generated throughout the production process of the imported goods. This is likely to pose challenges for many companies as necessary IT solutions for tracking and calculating CO_2e emissions are often inadequate. This requires the adoption of systems to track and report the carbon content of imports.

The CBAM requires upstream and downstream carbon accounting and tracking solutions for companies importing goods into the EU. In the cases of software and ICT-related goods and their value chains, GCG can assist in carrying out the carbon impact measurements and provide tailored solutions to reducing the direct and indirect CO_2e emissions contained in the products in preparation for the submission of an annual CBAM declaration.

Sustainable Finance Disclosure Regulation (SFDR)

Overview:
The Sustainable Finance Disclosure Regulation (SFDR) is a pivotal European regulation designed to bolster transparency in the sustainable investment sector[7]. The SFDR introduces a framework that requires financial market participants and advisors to disclose how they integrate sustainability risks into their investment decisions and advice. Its primary objective is to make the sustainability profiles of various funds more comparable and easily understood by end investors. By addressing the risk of greenwashing, SFDR promotes the allocation of capital towards genuinely sustainable firms, thus playing a significant role in driving the transition to a low-carbon economy[8]. This regulation seeks to ensure that investment products accurately reflect their sustainability claims, providing investors with clear and reliable information.

Compliance with SFDR became mandatory on January 1, 2023, with the regulation now requiring detailed reporting on sustainability KPIs, adherence to sustainable investment principles, and alignment with EU Taxonomy. With GCG's specialised tools and knowledge, we offer ICT carbon impact reporting, Scope 3 emissions disclosure, and help align your sustainability strategies with the SFDR requirements.

[6] Source: Carbon Border Adjustment Mechanism, Taxation and Customs Union, European Commission 2024.
[7] Source: Sustainability-related disclosure in the financial services sector, Finance, European Commission 2024.
[8] Source: Sustainable Finance Disclosure Regulation (SFDR), Plan A 2024.

EU Taxonomy

Overview:
The EU Taxonomy on Sustainable Activities is a critical classification system within the European Union that defines what economic activities can be considered environmentally sustainable[9]. It serves as a cornerstone for the EU's strategy to channel investments towards activities that are essential for a sustainable transition, in alignment with the European Green Deal[10]. By providing clear definitions, the EU Taxonomy aims to combat greenwashing and help investors make informed decisions about environmentally conscious investments. This framework is closely linked with both the SFDR and the CSRD, ensuring that financial and corporate investments are consistently aligned with sustainability goals across the EU.

To assist companies in complying with the EU Taxonomy, GCG's services support businesses in evaluating and reporting the sustainability of the IT estates that maintain their economic activities. This enables your organisation to accurately assess the taxonomy alignment of your activities, particularly focusing on areas such as climate change mitigation, transition to a circular economy, and pollution prevention. By leveraging GCG's expertise, companies can effectively disclose their green revenue and green expenditure, ensuring that their investments meet the stringent criteria set out by the EU Taxonomy, and are transparently communicated to investors and stakeholders.

The German Supply Chain Due Diligence Act (the LkSG)

Overview:
The German Supply Chain Due Diligence Act (LkSG), effective from January 1, 2023, requires that large companies operating in Germany, both domestic and foreign, adhere to stringent social and environmental standards across their entire supply chain[11]. Initially applicable to companies with more than 3,000 employees, the Act will expand its scope this year to include businesses with over 1,000 employees[12]. This legislation is designed to ensure that companies monitor and address the environmental and social impacts of their operations, as well as those of their direct suppliers globally, with the aim of mitigating human rights abuses and environmental harm in international supply chains.

GCG is well-positioned to assist companies in meeting the complex requirements of the LkSG. Our offering of advanced software and IT assessments for supply chain monitoring

[9] Source: EU Taxonomy for Sustainable activities, Finance, European Commission 2024.
[10] Source: Delivering the European Green Deal, European Commission 2024.
[11] Source: Germany's Supply Chain Due Diligence Act, Brightest 2024.
[12] Source: ESG Regulation in 2024, Policy and Regulation, Sustainability News 2024.

of CO_2e emissions works to identify and manage environmental impacts within your organisation's IT value chain. Additionally, we provide comprehensive benchmarking and reporting solutions that ensure compliance with LkSG's documentation requirements, thereby minimising the risk of fines, sanctions, and reputational damage. Whether you are preparing for the 2024 expansion or seeking to enhance your current due diligence processes, GCG can support you in maintaining compliance and upholding responsible business practices.

US SEC's Climate Disclosure Rules

Overview:
The US Securities and Exchange Commission (SEC) introduced a proposed rule in March 2022 requiring public companies to provide standardised and enhanced disclosures on climate-related risks and opportunities[13]. This rule aims to improve transparency, enabling investors to make more informed financial decisions by understanding how climate-related risks may impact a company's business. By requiring detailed climate disclosures, the SEC seeks to ensure investors have access to reliable information, thus supporting more responsible investment practices aligned with the growing focus on sustainability[14].

Based on this, we can help your organisation navigate the SEC's Climate Disclosure Rules through our measuring and reporting of greenhouse gas (GHG) emissions, particularly Scope 1 and Scope 2, as required by the new regulations. GCG also assists in integrating climate-related information into financial statements, ensuring that your company meets the SEC's stringent requirements. Additionally, GCG can guide your company in articulating its governance strategies for managing climate risks and identifying climate-related opportunities in a client-specific Digital Carbon Reduction Plan™, thereby enhancing your overall compliance and competitiveness.

EU Artificial Intelligence Act

Overview:
The EU Artificial Intelligence (AI) Act introduces a comprehensive regulatory framework for AI systems within the EU, with the primary aim of mitigating risks associated with AI deployment[15]. The Act categorises AI systems based on their risk levels, ranging from

[13] Source: SEC Adopts Rules to Enhance and Standardize Climate-Related Disclosures for Investors, U.S. Securities and Exchange Commission 2024.
[14] Source: ESG Regulation in 2024, Policy and Regulation, Sustainability News 2024.
[15] Source: High-Level summary of the AI Act, EU Artificial Intelligence Act 2024.

unacceptable (prohibited) to minimal risk (unregulated). The focus is largely on high-risk AI systems, which are subject to stringent regulations to ensure they are safe and trustworthy. The Act also requires transparency for limited-risk AI systems, meaning that end-users are informed when they are interacting with AI. The Act is expected to significantly impact AI developers, especially those dealing with high-risk AI systems, by imposing obligations such as technical documentation, compliance with copyright laws, and robust risk management practices.

If you are a provider of high-risk AI systems we are able to assist your organisation in achieving compliance with the EU AI Act using ACACIA™, our AI Deep Learning Training Impact Estimation analysis. Using ACACIA™, we can provide the required transparency measures, helping you prepare and publish summaries of training data while ensuring compliance with copyright directives. Our measurement tools offer expertise in developing the necessary technical documentation, conducting model evaluations, and performing carbon impact testing to ensure your AI systems meet regulatory standards. By leveraging GCG's services, your organisation can navigate the complex regulatory landscape of the AI Act, ensuring that your AI systems are not only compliant but also secure and trustworthy in the EU market.

The EU Deforestation Law (EUDR)

Overview:
The EU Deforestation Law (EUDR) is a landmark regulation aimed at curbing deforestation and forest degradation associated with the production of key commodities, such as soy, palm oil, beef, wood, coffee, and cocoa, which are linked to deforestation[16]. The law requires companies operating within the EU market to ensure that their products do not contribute to deforestation or forest degradation. This is achieved by requiring due diligence measures, where companies must trace the origin of their commodities and verify that they are not sourced from recently deforested land[17]. The EUDR represents a significant step in the EU's efforts to promote sustainable supply chains and reduce the environmental impact of deforestation.

To comply with the requirements of the EU Deforestation Law organisations must map out their supply chain to ensure that all commodities are sourced responsibly, adhering to the EUDR's standards. By documenting and verifying the sustainability of their sourcing practices, companies are to ensure that their products meet the EU's deforestation-free criteria.

[16] Source: Regulation on Deforestation-free products, Environment, European Commission 2024.
[17] Source: Regulation (EU) 2023/1115, European Union Law, European Commission 2023.

EU Green Claims Directive

Overview:

The EU Green Claims Directive aims to tackle misleading environmental claims, referred to as greenwashing, by establishing clear rules and standards for how companies communicate the environmental benefits of their products and services[18][19]. The Directive requires businesses to substantiate any green claims they make with scientific evidence and ensure that these claims are clear, accurate, and verifiable. The goal is to protect consumers from false or exaggerated environmental claims and to create a level playing field where genuinely sustainable products can be identified and rewarded by the market[20].

From a technology perspective, we expect increased scrutiny of the validity of environmental claims in IT product descriptions and software services. GCG's measurement tools and carbon accounting can support your company in validating and verifying your environmental claims, ensuring they meet the Directive's standards for accuracy and transparency. This will help you communicate your environmental credentials effectively and in full compliance with EU regulations, avoiding potential penalties and boosting trust.

EU Emissions Trading System (EU ETS)

Overview:

The EU Emissions Trading System (EU ETS) is a critical component of the EU's strategy to mitigate climate change by placing a cap on greenhouse gas emissions from key sectors, including energy, manufacturing, aviation, and soon maritime transport[21]. Covering approximately 40% of the EU's total greenhouse gas emissions, the EU ETS operates on a cap-and-trade principle, where a limit is set on the total emissions allowed, and this cap is reduced over time to ensure gradual emission reductions. Companies within the system must hold enough emission allowances to cover their emissions or face significant fines. The system also allows for trading of allowances, creating a market-driven incentive for companies to reduce their emissions and invest in low-carbon technologies.

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[18] Source: 'Green claims' directive: Protecting consumers from greenwashing, European Parliament 2024.

[19] Source: How the EU greenwashing regulations will impact your business, Plan A 2023.

[20] Source: Green Claims, Environment, European Commission 2023.

[21] Source: EU Emissions Trading System, Energy, Climate Change, Environment, European Commission 2024.

With the expansion of the EU ETS, companies in affected sectors will face increased regulatory pressure to monitor and manage their emissions. At GCG we assist in navigating emission allowances, emission reductions, and low-carbon technologies by offering tools and strategies to track, report, and optimise your carbon footprint within the EU ETS framework. This will ensure your company remains compliant while reducing operational emissions and costs, thereby reinforcing your commitment to environmental stewardship.

UK Sustainability Reporting Standards (SRS)

Overview:

The UK Sustainability Reporting Standard (SRS) is set to establish a unified framework for sustainability reporting across the UK, with full implementation anticipated in early 2025[22]. This initiative aims to create a package of consistent and comparable sustainability reporting standards in alignment with international best practices, specifically those outlined by the International Sustainability Standards Board (ISSB) and the International Financial Reporting Standards (IFRS)[23]. The SRS will ensure that UK reporting is consistent with global sustainability frameworks to facilitate international comparability and adherence to a globally recognised set of criteria. This includes reducing greenwashing, incorporating sustainable investment labels, disclosure requirements, and restrictions on the use of sustainability-related terms in product naming and marketing.

Based on the new reporting-focused requirements, we expect companies will need to optimise and streamline their software and IT systems to ensure accurate and efficient data collection and sustainability reporting while keeping carbon impact down. Therefore, GCG can provide the tailored solutions that enhance your digital infrastructure and enable precise measurement and reporting of sustainability data in compliance with the UK SRS.

UK Sustainability Disclosure Requirements (SDR)

Overview:

The UK Sustainability Disclosure Requirements (SDR) is a comprehensive regulatory framework that requires companies and financial institutions to disclose their impacts, both positive and negative, on the environment and society[24]. Companies are expected to have detailed reporting on Scope 3 emissions, with a focus on their value chain impacts to enhance transparency and accountability which may involve technology investment to

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[22] Source: Policy paper - Framework and Terms of Reference for the Development of UK Sustainability Reporting Standards, Department for Business & Trade, Gov.uk 2024.

[23] Source: UK Sustainability Reporting Requirements in 2024, Brightest 2024.

[24] Source: Policy paper – Sustainability Disclosure Requirements: Implementation Update 2024, Climate Change and Energy, Gov.uk 224.

manage data[25]. This is because the SDR encourages the adoption of advanced data management and reporting systems, although the report does not anticipate any IT changes would be required to comply.

Given the detailed reporting demands of the UK SDR, companies and financial institutions will need to use advanced data management systems to accurately track and report their environmental and societal impacts. GCG provides comprehensive software solutions and specialised IT carbon calculations tailored to streamline data collection, benchmarking, and reporting processes. Our services not only ensure full compliance with the UK SDR but also enhance transparency and accountability across the entire value chain, empowering businesses to meet their sustainability goals effectively and efficiently.

UK Corporate Governance Code

Overview:

The UK Corporate Governance Code outlines key principles for ensuring effective corporate governance practices[26]. From a technology perspective, the implementation of governance, risk, and compliance (GRC) software is essential for adhering to these principles. Such technology assists in analysing, interpreting, and presenting crucial information, thereby enhancing decision-making processes. Additionally, the Corporate Governance Code emphasises the importance of managing information and technology risks, including cybersecurity, data protection, and the challenges posed by emerging technologies[27].

Due to the need for GRC software, we expect heightened scrutiny of the carbon footprint of digital operations. As a result, we are equipped to support clients by providing specialised tools to measure, manage, and reduce the carbon impact of software and ICT infrastructure. This ensures that your organisation not only meets sustainability targets but aligns with the UK Corporate Governance Code's emphasis on responsible technology risk management, enhancing both operational efficiency and corporate responsibility.

[25] Source: Policy Statement PS23/16 Sustainability Disclosure Requirements (SDR) and investment labels, Financial Conduct Authority 2023.
[26] Source: UK Corporate Governance Code, Financial Reporting Council 2024.
[27] Source: Corporate Governance Code Guidance, Financial Reporting Council 2024.

Next steps

Navigating the complex web of sustainability regulations can be daunting, but it also presents a significant opportunity to differentiate your business and lead the market in sustainable practices. Now is the time to act to ensure your organisation is prepared to meet these challenges and capitalise on the opportunities they present.

At GoCodeGreen, we specialise in helping businesses like yours stay ahead of the curve. Our expertise in sustainability compliance and IT solutions means we can support you in meeting these regulatory demands efficiently and effectively. If you're ready to take the next step in your sustainability journey, get in touch with us today.

Contact us

Visit our website here to learn more or if you'd like to get connected today, inquire here.

Author:

Karina Dennis
karina.sjdennis@gocode.green

CEO & Founder:

Eric Zie
eric.zie@gocode.green

Chief Client Officer:

Gareth Edwards
gareth.edwards@gocode.green