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ESG disclosures and the supply chain

By Karen Kroll

With growing numbers of investors and customers incorporating environmental, social and governance (ESG) factors into their decision-making, many organizations will want to ensure they are, as well. That includes monitoring for issues within their supply chains, such as vendors skimping on safety standards.

Several examples show the growing interest in ESG. In a July 2020 report by the U.S. Government Accountability Office,[1] 12 of 14 institutional investors said they seek information on companies' ESG performance "to better understand risks that could affect company financial performance." For instance, vendors that cut corners on safety might prompt worker unrest.

While the U.S. Securities and Exchange Commission (SEC) doesn't currently require wholesale ESG disclosures, it does require public companies to disclose information on material risks, said Betty Moy Huber, co-head of the Environmental, Social and Corporate Governance Group with the law firm Davis Polk. Often, this includes risks that fall under the ESG umbrella, such as the availability of different resources.

The intensity of the focus on ESG tends to vary with world events, Huber said, adding that world events increasingly point to a greater need for companies to pay attention to ESG risks in the supply chain that affect companies' operations. For instance, the COVID-19 pandemic has limited the ability of some companies to obtain the raw materials they need to make their products, she said. "While there's no bright-line prescriptive requirement to disclose supply chain risks, they're instead picked up through the overall disclosure regulations, if material," she added.