INTEGRATED RISKS

SUSTAINABILITY AND INTEGRATED RISK COMMITTEE

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INTEGRATED RISKS

From the AGERS Sustainability and Integrated Risk Committee, comprised of risk managers from large companies, we have set ourselves the goal of promoting real integration between risk management and sustainability functions within the business sector. Our aim is to develop a practical framework that enables organizations to anticipate regulatory, environmental, social, and governance challenges. With this work, we seek to provide a useful guide that combines strategic vision with operational tools, fostering more resilient, ethical, and sustainable governance.

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PROLOGUE

We are living through an unprecedented time of transformation, in which traditional risks are no longer the sole focus of organizational analysis. Sustainability is no longer just a reputational add-on; it has become a strategic pillar that is redefining how companies create value and engage with their environment. In this new landscape, integrating risk management and sustainability functions is no longer optional, it is a necessity.

This work is intended to support organizations in that integration process. Throughout its chapters, it presents a structured approach based on best practices, regulatory references, and real-life case studies. It enables readers to understand the synergies between increasingly demanding regulatory frameworks and the operational requirements of day-to-day business. Double materiality, ESG risk maps, governance models, and the value chain are analyzed from a holistic perspective, with a clear focus on action.

One of the key strengths of this guide lies in the collective knowledge behind it. Throughout its development, we have benefited from the generous contributions of speakers who have participated in our sessions, working groups, and events. Their input has been essential in capturing the diversity of perspectives that characterize sustainability and in enriching the content with real cases and practical insights.

Equally, we must acknowledge the dedication and commitment of the members of the AGERS Sustainability Committee. Their active involvement in both the conceptualization and drafting of the content has made it possible to create a rigorous document, aligned with current regulatory developments and focused on delivering real value to organizations.

This manual reflects a shared conviction: sustainability and risk management must move forward together if we are to build more resilient, ethical organizations that are prepared to face the challenges of both the present and the future. It is not only about meeting regulatory requirements, but about transforming the way we understand risk, strategy, and decision-making.

We hope this work will serve not only as a reference guide, but also as a source of inspiration for all professionals committed to transforming their organizations. May it act as a bridge between theory and practice, between obligation and opportunity, between risk and sustainability.

1. EVOLUTION AND CURRENT SITUATION

The increasing exposure of companies to systemic risks—such as climate change, resource scarcity, social inequalities, and regulatory disruptions—has driven a profound transformation in traditional corporate management models. In this context, the integration between risk management and sustainability functions has shifted from being an aspiration to becoming a strategic necessity. This evolution reflects a growing recognition that environmental, social, and governance (ESG) risks not only carry ethical or reputational implications but also directly and materially impact the economic, operational, and financial viability of organizations.

Historically, sustainability and risk management functions have operated in parallel, each with distinct frameworks, objectives, and technical languages. While risk management focused on identifying and mitigating financial and operational risks, sustainability was often seen as an additional function primarily oriented toward corporate social responsibility and reputation. However, the increasing interdependence between financial and non-financial risks, combined with pressure from investors, regulators, and stakeholders, has triggered a convergence process that is redefining corporate governance practices.

In this context, key regulations have been decisive in accelerating this process. The European Union's 2022 Corporate Sustainability Reporting Directive (CSRD)[1], along with the European Sustainability Reporting Standards (ESRS), has compelled companies to adopt a more holistic approach to risk. These regulatory frameworks require organizations not only to report on their economic activities but also to assess the environmental, social, and governance (ESG)

1 European Union, Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022, amending Regulation (EU) 537/2014, Directive 2004/109/EC, Directive 2006/43/EC, and Directive 2013/34/EU regarding the disclosure of sustainability information by companies..

impacts of their operations. Globally, the International Sustainability Standards Board (ISSB) and the Task Force on Climate-related Financial Disclosures (TCFD) have developed guidelines that explicitly incorporate climate risks within financial reporting systems.

The European Commission's 2025 Omnibus Package[2], which amends several key directives in Europe, marks a milestone by requiring the explicit integration of ESG risks into corporate management systems. Through this package, companies are not only required to report on the risks they face but also to demonstrate how their strategies and decisions align with sustainability objectives. This approach reinforces the need to clearly articulate the relationship between risk management and sustainability policies, driving a profound reconfiguration of corporate governance structures.

In this regulatory change context, the current situation is characterized by a series of converging trends that reflect increasing corporate maturity in articulating and integrating risk management and sustainability functions: integrated governance is being promoted, with companies institutionalizing governance models that combine sustainability and risk at the highest level, encouraging joint oversight by the board of directors and specialized committees; integrated risk maps are being sought, so that ESG risks are beginning to form part of corporate risk maps, evaluated according to criteria of financial materiality and strategic impact.

This inclusion allows for the detection of non-traditional vulnerabilities and the anticipation of emerging disruptions; a significant advancement in digitalization is taking place, driving the use of digital tools, climate modeling, artificial intelligence, and big data, which facilitates operational integration by enabling the analysis of complex scenarios and continuous monitoring of key indicators. The regulatory and standards convergence we have discussed promotes technical and semantic alignment between functions, requiring companies to articulate a coherent narrative between financial and sustainability reports. Lastly, a forward-looking approach is beginning to spread, shifting the focus from mere risk mitigation to building resilience

2 Unión Europea, Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directives (EU) 2022/2464 and (EU) 2024/1760 as regards the dates from which Member States are to apply certain corporate sustainability reporting and due diligence requirements.

through long-term planning, impact analysis, and the identification of opportunities in the ecological, social, and corporate governance transition.

The convergence of both functions has enabled non-financial risks, which were previously considered peripheral, to become key factors in strategic decision-making. In practice, this has led many companies to adopt the double materiality methodology, which evaluates both financial risks arising from environmental and social impacts and non-financial risks that the company's activities may pose to the environment and society.

Despite these advances, many organizations still face significant obstacles that limit the consolidation of this integrative process, such as the development and operation of these functions in

functional silos that hinder information exchange and coordinated decision-making between departments; the absence of common methodological frameworks, which complicates data integration and shared evaluation of ESG risks; insufficient technical capabilities, particularly at the intersection of sustainability and risk; regulatory fragmentation resulting from the coexistence of diverse standards and constant regulatory changes; and a lack of strategic leadership when senior management does not explicitly commit to sustainability as part of the business model.

In response to these challenges, organizations that have successfully progressed toward effective integration share a set of critical success factors that serve as a beacon for other companies and represent "best practices" to be further developed in the future. Among these factors are a strong leadership commitment that aligns sustainability with corporate strategy and provides institutional support for integrated management; the establishment of collaborative organizational structures, such as cross-functional committees or hybrid roles, that facilitate coordination across departments; the development of shared methodologies—such as double materiality—that enable a balanced analysis of risks and impacts; the promotion of training and organizational culture that embeds sustainability across all hierarchical levels; the use of technology as an enabler of this transformation process for risk and sustainability functions, facilitating traceability, measurement, and real-time control of ESG risks; and the implementation of continuous improvement cycles through internal audits, joint indicators, and adaptive learning mechanisms.

This entire evolution toward real integration between sustainability and risk management represents a paradigm shift—a transformation in the context and reality of how companies understand their environment, assess their exposure to threats, and plan for the future. This transition is driven not only by regulatory requirements but also by a business development approach focused on resilience, innovation, and the creation of sustainable value. In an increasingly interdependent, uncertain, and demanding context, collaboration between the risk and sustainability functions emerges as a fundamental pillar for competitiveness, transparency, and organizational growth.

2. INTEGRATION AND COLLABORATION BETWEEN RISK MANAGEMENT AND SUSTAINABILITY FUNCTIONS

RELEVANCE OF THE TOPIC

Integrated management of ESG risks (environmental, social, and governance) has become a strategic priority for companies and organizations of all types, in response to the increasing complexity of the regulatory landscape and the growing, tangible impacts of climate change and other global social and corporate governance challenges. In this context, the risk management function plays a key role by contributing to the identification, assessment, and mitigation of all types of risks that could compromise both the operational sustainability and financial viability of companies.

In particular, climate-related risks—such as extreme weather events, natural resource scarcity, or rising sea levels—represent a systemic threat that demands a cross-cutting response from the entire corporate structure. Scientific evidence and empirical data strongly support this need and urgency. According to the World Meteorological Organization[3] ((WMO), climate-related disasters have increased fivefold over the past 50 years. Between 2006 and 2016, the rate of sea level rise was 2.5 times higher than the 20th-century average, highlighting the acceleration of environmental impacts with direct consequences for infrastructure, communities, and economic stability.

3 United Nations (UN) (2022). Atlas of Mortality and Economic Losses from Weather, Climate and Water Extremes (1970–2019)). https://public.wmo.int

Social risks stemming from climate change are also deeply concerning. According to Oxfam[4] (2023), more than 20 million people are forced to leave their homes each year due to the effects of climate change, including prolonged droughts, floods, and extreme weather events. In 2017 alone, weather-related disasters caused global economic losses amounting to €283 billion, highlighting the enormous financial cost of failing to properly address ESG risks. It is estimated that by 2100, up to two-thirds of Europe's population could be exposed to extreme climate events—compared to just 5% today.

A recent example illustrating the growing vulnerability of societies and businesses to physical risks is the disaster caused by the Depresión Aislada en Niveles Altos (DANA), which severely impacted Spain on October 29, 2024. According to data from the Spanish State Meteorological Agency (AEMET)[5], torrential rainfall in the province of Valencia exceeded 700 liters per square meter in some areas, causing catastrophic flooding and significant human, material, and economic losses.

In response to these challenges, the international regulatory framework has been significantly strengthened. The adoption of the Paris Agreement[6] in 2015, the United Nations Sustainable Development Goals[7] (SDGs)—also from 2015—and the growing momentum around sustainable finance led by multilateral organizations have created new obligations for companies in terms of reporting governance, and climate action. As stated by the United Nations[8], these commitments aim not only to reduce greenhouse gas emissions, but also to eradicate extreme poverty,

4 Oxfam. (2023). *Climate, Displacement and Inequality: A Global Perspective on Climate Justice.* https://www.oxfam.org/es/informes

5 Agencia Estatal de Meteorología. (2024). Informe sobre la DANA de octubre de 2024. https://www.aemet.es

6 Paris Agreement. (2015). Paris Agreement under the United Nations Framework Convention on Climate Change. United Nations https://unfccc.int/sites/default/files/spanish_paris_agreement.pdf

7 United Nations. (2015). Transforming our world: the 2030 Agenda for Sustainable Development. https://www.un.org/sustainabledevelopment/es/agenda-2030/

8 United Nations (2015). Sustainable Development Goals. https://sdgs.un.org/ es/goals

combat inequality, and promote a resilient and inclusive global economy.

The seventeen United Nations Sustainable Development Goals, established in 2015, are the result of a commitment by 193 countries to achieve ambitious targets:

a) Eradicate extreme poverty

b) Combat inequality and injustice

c) Address climate change.

The reduction of greenhouse gas emissions requires sustainable investments. As a result, the UN set the goal of promoting sustainable finance by publishing the Principles for Responsible Investment[9] (PRI) in 2006, the Principles for Sustainable Insurance[10] (PSI) in 2012, and the Principles for Responsible Banking[11] (PRB) in 2019.

The Paris Agreement, adopted by 195 countries on December 12, 2015, set the objective of keeping the global average temperature increase well below 2˚C—preferably to 1.5˚C—above pre-industrial levels. This goal requires a transition to a low-emission economy and highlights the essential role of the financial sector in making it possible.

9 United Nations (2006). Principles for Responsible Investment. UNEP Finance Initiative and United Nations Global Compact. https://www.unpri.org/download?ac=10980

10 United Nations Environment Programme Finance Initiative (UNEP FI). (2012). Principles for Sustainable Insurance. https://www.unepfi.org/psi/wp-content/uploads/2012/06/PSI_document_spa.pdf

11 United Nations Environment Programme Finance Initiative (UNEP FI). (2019). Principles for Responsible Banking. https://www.unepfi.org/banking/ bankingprinciples/

SUSTAINABLE DEVELOPMENT GOALS

Source: Author's own work

In this context, the European Union (EU) positions itself as a global leader. In 2018, it published an Action Plan on Sustainable Finance[12] aimed at redirecting capital flows toward sustainable investments. This action plan is supported by a body of regulation in the field, seeking to establish a common language for sustainable finance and setting reporting obligations for entities to ensure transparency and comparability.

12 European Commission. (2018). Action Plan: Financing Sustainable Growth (COM(2018) 97 final). https://eur-lex.europa.eu/legal-content/ES/TXT/?uri=CELEX%3A52018DC0097

In addition, through the European Green Deal[13], adopted in December 2019, the European Commission introduced a set of proposals to adapt EU policies on climate, energy, transport, and taxation with the goal of reducing net greenhouse gas emissions by at least 55% by 2030, compared to 1990 levels. Furthermore, the EU has set the target of becoming the first climate-neutral continent by 2050.

Although much of the EU's sustainability-related regulation—such as the 2019 Green Deal and the 2018 Action Plan on Financing Sustainable Growth—was initially driven by the urgency of addressing the climate crisis, its scope has progressively expanded to include social and governance issues as well. This expansion reflects a more holistic understanding of sustainability, recognizing that business risks and opportunities arise not only from the climate crisis but also from social factors such as equity, labor rights, inclusion, and human rights, as well as corporate governance, which advocates for transparent, responsible, and ethical business practices.

In this regard, EU regulation has also developed specific guidelines related to corporate social responsibility (CSR), respect for labor rights, and transparency in corporate management—reflecting a shift in the perception of what constitutes sustainable business practice.

In parallel with the evolution of sustainability regulation, the development of the risk function within organizations has been strongly influenced by frameworks such as ISO 31000 and COSO II ERM, which have helped to structure and professionalize risk management at a global level. ISO 31000, as an international standard for risk management, has been a cornerstone in the transformation of the risk function, providing a systematic and structured approach to identifying, assessing, and managing risks across the organization. Since its initial publication in 2009 and the release of the revised

13 European Commission. (2019). The European Green Deal (COM(2019) 640 final). https://eur-lex.europa.eu/ legal-content/ES/TXT/?uri=CELEX%3A52019DC0640

ISO 31000:2018[14], the standard has evolved to focus not only on risk mitigation but also on integrating risk management into organizational strategy and corporate culture. The 2018 version expanded its scope by promoting the need for risk management to be a continuous, flexible, and adaptive process—capable of addressing emerging challenges such as environmental and social risks, which are now critically important for companies seeking alignment with the Sustainable Development Goals (SDGs) and global climate commitments. ISO 31000:2018 highlights the importance of managing risk in a way that leverages sustainability opportunities, addressing both financial and non-financial risks, including those related to climate change, human rights, and governance.

At the same time, the COSO II ERM[15] (Enterprise Risk Management) framework, revised in 2017, has also marked a milestone in the evolution of the risk function. The COSO model promotes a comprehensive view of risk management, where strategic, operational, financial, social, and environmental risks are considered in an interconnected manner. The latest version of COSO II ERM emphasizes that risk management must be aligned with a company's strategic objectives, contributing to long-term sustainable value. This holistic perspective enables companies to manage risks not only to protect themselves from potential threats but also to identify and seize emerging opportunities in sustainability and business ethics.

The evolution of COSO II ERM has underscored the importance of ESG (Environmental, Social, and Governance) factors as an integral part of the risk management process, recognizing that these elements are no longer secondary risks but are crucial to the long-term success and resilience of organizations.

The growing importance of social, environmental, and governance (ESG) factors in the business context has created an increasing need

14 ISO. (2018). ISO 31000:2018 – Risk Management – Guidelines. International Organization for Standardization. https://www.iso.org/standard/65694.html

15 COSO. (2017). *Enterprise Risk Management – Integrating with Strategy and Performance (Second Edition)*. Committee of Sponsoring Organizations of the Treadway Commission (COSO). https://www.coso.org/Pages/erm.aspx

for coordination between the risk management and sustainability functions. Historically, these two areas were treated independently; however, their convergence is now essential to ensure that companies can effectively respond to global challenges. Risk management, traditionally focused on identifying, assessing, and mitigating threats, must now be aligned with sustainability objectives—aimed at minimizing environmental impact, promoting social well-being, and ensuring ethical governance.

This integration not only enhances a company's ability to identify emerging sustainability-related risks but also enables a strategic vision that supports both profitability and long-term resilience.

In this regard, frameworks such as ISO 31000 and COSO II ERM promote a shared approach to risk management, where sustainability goals are fully integrated into decision-making processes and organizational structures. In fact, both standards place particular emphasis on the importance of considering risks from a global perspective, including those related to climate change, energy transition, and social justice—elements that are fundamental to corporate sustainability strategies.

The risk management function must evolve into a strategic discipline, enabling companies not only to mitigate traditional financial risks but also to anticipate and address sustainability risks. This shift fosters responsible practices that, in turn, strengthen the company's competitiveness.

The integration of these functions and regulatory frameworks—such as ISO 31000:2018 and COSO II ERM—enables organizations to build more robust and resilient risk management systems, where sustainability and risk management not only coexist but mutually reinforce one another. In doing so, companies position themselves as market leaders, capable of adapting to an increasingly complex and regulated environment, while also advancing compliance with global sustainability standards and contributing to a more equitable and environmentally responsible future.

LEGAL AND CONDUCT FRAMEWORK

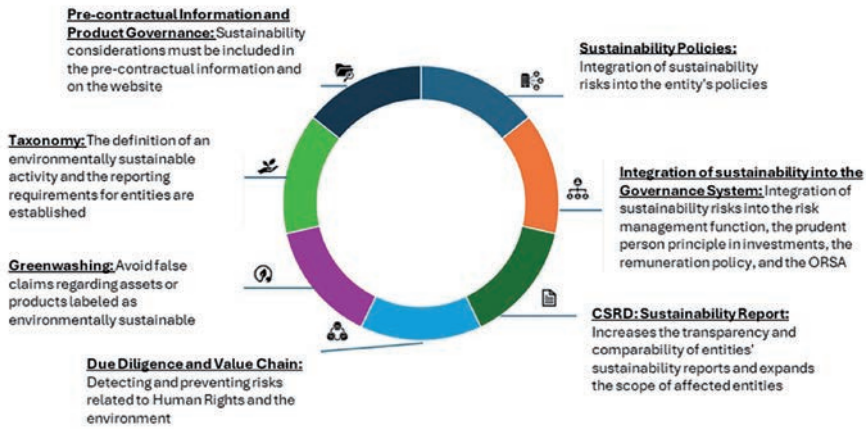
The arrival of European sustainability regulation has led to the progressive alignment of risk management with sustainability objectives.

Sustainability regulation aims to fulfill the commitment adopted by the European Union in 2019 through the European Green Deal, which seeks to make Europe the first climate-neutral continent by investing in renewable energy, energy efficiency, and the circular economy.

These obligations have a direct impact on companies and organizations. Firstly, they require a realignment of investments, encouraging capital to be directed—either directly or indirectly—towards renewable projects and driving transformations in production chains, by requiring value chains to reduce carbon dioxide emissions. Secondly, they involve reporting obligations, requiring companies to transparently and comparably disclose their actions, goals, and progress in sustainability, so that stakeholders can assess their commitment and performance in this area.

For this reason, regulatory sustainability reports have been designed to be comparable over time, comparable across all reporting entities, and specifically, the reporting under the Corporate Sustainability Reporting Directive (CSRD)—which will be explained in detail below—must also be verified by an external auditor.

KEY POINTS OF SUSTAINABILITY



Source: Author's own work

Main European Regulations

Several European regulations address sustainability and risk management, but four key regulations stand out as requiring significant adaptation efforts from the risk management function. The implications of these regulations for the performance and trajectory of companies will remain relevant over time. These regulations, considered key for the risk management function, are:

1. The CSRD, which amends the Non-Financial Reporting Directive[16], previously required a large number of entities to submit a non-financial report called the Non-Financial Statement (NFS). With this amendment, the scope of entities required to report is expanded to include not only large publicly listed companies but also, small and medium-sized enterprises and non-European

16 European Union, Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards the disclosure of non-financial and diversity information by certain large undertakings and groups.

companies operating within the European Union. The NFS has been renamed under the CSRD as the Sustainability Report.

The CSRD aims to standardize the sustainability information to be presented by the entity, requiring, first and foremost, strong involvement in the risk management function, since it demands carrying out a double materiality analysis. This analysis demonstrates how ESG risks affect companies (financial materiality) and how companies impact the environment and society (impact materiality). Additionally, the Directive seeks to reflect company information on their material topics related, among others, to the following aspects:

a. Environment: climate change, circular economy, biodiversity, pollution, water use, and natural resources.

b. Social: human rights, equality, working conditions, impact on communities.

c. Governance: business ethics, anti-corruption efforts, risk management.

Essentially, the purpose of the CSRD is to improve the transparency, comparability, and reliability of sustainability reports issued by entities, ensuring that investors and stakeholders receive trustworthy information about the environmental, social, and governance impacts, risks, and opportunities of companies. This information is established through common reporting standards aligned with the European Sustainability Reporting Standards. Additionally, the reporting to be submitted enhances the verification and auditing of sustainability data by a third party, which ensures that such data is accurate and consistent with the entity's own Annual Accounts.

Since the CSRD is an EU Directive, it requires transposition into Spanish law for its application. As of the date of this document, May 30, 2025, this transposition is underway, with a draft Law on Corporate Sustainability

Reporting[17] having been approved by the Council of Ministers on October 29, 2024. According to the draft Law, companies will be required to publish specific non-financial information about their environmental and social impact activities (alongside the annual accounts and complementing the financial management report), following a single reporting framework and in a standardized electronic format.

Additionally, the role of an independent verifier of the sustainability report is regulated. This means that the sustainability report must be verified by an independent provider, whose regulatory framework will be very similar to that of an auditor, and who must be registered in an "Official Register of Account Auditors and Sustainability Information Verifiers." Normally, this verifier must be appointed by the general shareholders' meeting before the end of the financial year to which the sustainability report relates, and their appointment must be registered in the Mercantile Registry.

The transposition of the CSRD directive into Spanish law has not yet taken place, pending the final approval of the Omnibus package and its implications for the regulation.

2. EU Taxonomy Regulation[18]: It requires the classification of economic activities as sustainable or not, based on detailed technical criteria and their contribution to climate and environmental objectives. The taxonomy aims to promote sustainable investment by helping investors identify projects and entities committed to achieving a positive environmental impact. The taxonomy was defined with various purposes, the main ones being:

    a) To support climate neutrality, seek a way to establish the requirements for investments to help achieve the goals of the European Green Deal and the net-zero emissions target by 2050.

17 Draft Bill on Corporate Sustainability Reporting, which transposes Directive (EU) 2022/2464 (CSRD, for its acronym in English) and amends the Commercial Code, the Capital Companies Act, and the Audit Law in order to establish the legal framework applicable to the reporting and verification of sustainability information, published in the Official State Gazette (BOE) on November 15, 2024.

18 **European Union, Regulation (EU) 2020/852 on Sustainable Investments and the Enabling Framework** (commonly known as the EU Taxonomy).

b) To ensure transparency through entity reporting regarding the percentage of activities aligned with the taxonomy.

c) To unify the criteria for sustainable investments across the EU by creating a common standard.

For an activity to be considered sustainable, it must meet six objectives established by the regulation and must not cause significant harm to any of them:

a) Mitigate climate change by reducing greenhouse gas emissions

b) Adapt to climate change by demonstrating resilience to climate impacts

c) Make sustainable use of water and marine resources

d) Be efficient in the use of resources and waste reduction

e) Prevent and control pollution

f) Protect and restore biodiversity and ecosystems.

It is very relevant, considering the above, that one of the challenges of the taxonomy is to combat "greenwashing," that is, to prevent entities from incorrectly labeling their activities as sustainable.

The taxonomy, as defined and required in the EU, is, in conclusion, a key tool for channeling investments toward a more sustainable economy, ensuring that the capital generated by entities and citizens is invested in activities that contribute to the EU's climate and environmental objectives.

3. The Corporate Sustainability Due Diligence Directive (CSDDD or also CS3D)[19] establishes clear standards for companies to contribute to sustainable development, considering their

19 European Union, Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on Corporate Sustainability Due Diligence, amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859.

entire value chain, so that the impact of these requirements is not limited to the European Union, but extends across all operations and transactions carried out by European companies worldwide.

In this way, entities must review operations that have an adverse effect on sustainability, with a particular focus on the environment and the social dimension (Human Rights); they must develop a Due Diligence Policy; and they will need to include a series of clauses in their contracts with suppliers, requiring them to comply with due diligence obligations and allowing the termination of the contractual relationship if such compliance is compromised. Furthermore, in these clauses, entities must require their suppliers to impose due diligence obligations in the event of subcontracting.

The ultimate goal of this directive is to ensure that the entity and its value chain respect human rights and mitigate environmental impact, establishing, if necessary, action plans to achieve this objective gradually. It is important to highlight that entities will also assume responsibility for the impacts of their value chains, which is why reviewing the operations carried out by that chain is key. Finally, it should be noted that transparency in the execution of the controls to be carried out by the entity is crucial to ensure compliance with the regulation.

4. The International Financial Reporting Standards (IFRS) is a set of accounting standards that includes requirements for the disclosure of information related to sustainability risks, aiming for transparency, clarity, and comparability. It arises from the need to create a single, global regulatory framework that enables entities to report non-financial information related to sustainability. Its four key pillars are: governance, strategy, risk management, and metrics. Once again, the risk management function plays a key role in the implementation of these accounting standards—from the accurate identification and assessment of risks to acting as a second line of defense involved in the reporting process.

CONTEXT OF THE MAIN REGULATIONS

Source: Author's own work

In line with all the above, the European Commission published the "Omnibus" package in February 2025 with the goal of simplifying the CSRD, the Corporate Sustainability Due Diligence Directive (CSDDD), and the EU Taxonomy, reducing administrative burdens and strengthening business competitiveness. Through the Omnibus package, the EU aims to reduce the excessive bureaucracy that has increasingly been seen as a brake on economic growth and companies' ability to compete globally. The main changes introduced by the Omnibus package are as follows:

- Reduce the reporting burden (estimated to cut administrative requirements by 25% for companies and up to 35% for small and medium-sized enterprises).
- Introduce legal clarity and harmonization through coherent application of ESG regulation, by integrating the CSRD, CSDDD, and the EU Taxonomy in a coordinated manner.
- Include the possibility of a differentiated regulatory regime between mid-sized companies and those operating in multiple Member States, aiming to adapt to specific sectors and markets.

- Simplify and optimize the use of various investment programs, such as InvestEU, the EFSI, and other financial instruments, to make more funding available to entities.

The main short-term impact of the Omnibus Package is on the application of the CSRD, as it will reduce by 80% the number of entities required to report. It will now only apply to companies with more than 1,000 employees and either a turnover exceeding €50 million or a balance sheet total above €25 million. In addition, deadlines will be extended, postponing the application of the CSRD until 2028 for large companies that have not yet implemented it, as well as for listed small and medium-sized enterprises. The Omnibus Package also aims to simplify the ESRS standards by reducing the number of data points, improving clarity, and eliminating sector-specific standards.In conclusion, this is a regulatory development designed to balance the need for transparency and sustainability objectives with the practical requirements of a competitive and robust market.

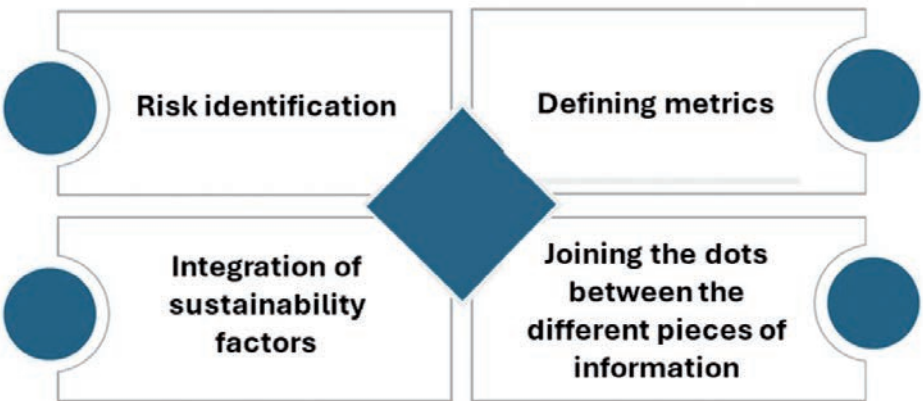
In this way, the regulatory landscape and the growing relevance of the risk management function aim to ensure that regulatory requirements are met, by providing expert judgment and ensuring that risks are properly identified and assessed. As regulation has progressively covered various sectors and processes within companies, control and understanding of the impact that organizations have on society—and specifically on sustainability—have significantly increased.

All of this raises the question of whether the sustainability goals and the resources allocated to achieve them could excessively hinder economic growth, making the EU less competitive on a global scale. Two recent examples from 2025 are the withdrawal of the United States (hereinafter, the US) from the 2015 Paris Agreement, as well as the massive production of oil and gas, which caused a drop in energy prices in the US. Such measures create a competitive disadvantage for the EU, as the European industry bears high energy costs, especially in energy-intensive sectors such as steel and chemicals.

As a summary, it can be stated that European regulations are expected to require companies to provide the following elements:

- The identification of environmental, social, and governance (ESG) risks in the risk matrix, including the analysis of operations, supply chains, and regulations.
- The establishment of clear metrics to measure sustainable impact or the definition of indicators such as carbon emissions or water consumption to gauge impact.
- The integration of sustainability factors into investment decision-making and corporate culture, carrying out training and awareness initiatives for the Board of Directors, Management Committee, and all company employees.
- Connecting the dots between the different existing information within the company, testing the assumptions made by the business, and reviewing and adding value in the implementation of controls aimed at covering the company's sustainability risks.

MAIN REQUIREMENTS OF THE NEW REGULATIONS



Source: Author's own work

National Securites Market Commision (CNMV)

In this regard and giving notable importance to sustainability issues in public-interest entities, the National Securities Market Commission

(CNMV) published on July 1, 2024, an update to the Technical Guide on Audit Committees, requiring that not only financial risks be supervised but also non-financial risks, ESG risks, or sustainability risks be included in such supervision.

Thus, committee members are required to have sufficient training and experience to understand and oversee both financial information and sustainability information.

The CNMV technical guide also recommends that the audit committee review, prior to its approval by the board, the quality, clarity, consistency, and completeness of all financial and non-financial information, as well as any other related information the entity makes public, such as financial statements, the management report, sustainability information, related-party transaction disclosures, reports on management and risk control systems, corporate governance, directors' remuneration, among others. All of the above is without prejudice to prior verifications that may be carried out by other committees due to the subject matter, such as the review of the remuneration report by the remuneration committee.

KEY DEPARTMENTS INVOLVED IN COORDINATION

Internal coordination is essential for the success of complex initiatives such as sustainability-related reporting. This process requires harmonious collaboration among specialized departments such as Sustainability, Risk Management, Compliance, Procurement, Investments, Legal, Human Resources, Actuarial, and others. Assigning teams with specific capabilities facilitates comprehensive management, ensuring quality, efficiency, and compliance at every stage of the report.

Traditionally, the Sustainability Department and the Risk Management Department[20] have developed a strong capacity to coordinate and maintain a comprehensive view of the company's operations. This ability enables them to effectively handle the preparation of complex reports, ensuring that all aspects of the business are appropriately considered and managed. Thanks to their expertise and knowledge, these departments are essential to guarantee consistency and quality in the presentation of reports critical to the company.

In the case of sustainability reports, it is not a matter of a single department taking on coordination alone; rather, a collaborative coordination between the Sustainability and Risk Management Departments is key. Both areas contribute to ensuring that business practices are sustainable and comply with current regulations. This collaboration guarantees that risks are properly managed, allowing for a comprehensive and transparent approach to corporate sustainability.

20 In this text, the roles of risk and sustainability functions are differentiated as the "Risk Function" and the "Sustainability Function." This distinction is proposed for the purposes of this document; however, in practice, not all companies separate these functions in this way, as they may be combined or linked to other areas..

Sustainability Department

The Sustainability Department in companies often depends on various areas, and its placement may vary according to the company's structure. The most common, though not exclusive, areas include:

- Finance: To manage sustainable investments and sustainability reporting.
- Legal: To ensure compliance with environmental regulations and laws.
- Human Resources: To develop training programs and a corporate culture focused on sustainability.

The department's reporting line varies depending on each company and its focus. Generally, it is linked to a management or senior management level to ensure its integration throughout the corporate strategy. In Spain, the number of human resources dedicated to sustainability varies according to the size and sector of the company. According to a recent report[21], more than 80% of large Spanish companies prioritize sustainability and have implemented sustainable benefits for their employees. Despite this, 22.3% of companies mention the lack of specialized human resources as a barrier to developing sustainability initiatives.[22]

A significant incentive to advance in this area is the growing pressure from regulators, investors, and consumers, which is driving companies to adopt more rigorous and transparent sustainability practices, increasing their focus on sustainability, and creating specific departments or assigning dedicated personnel to this area.

21 https://www.equiposytalento.com/noticias/2024/01/24/mas-del-80-de-las-empresas-espanolas-priorizan-la-sostenibilidad/?citationMarker=43dcd9a7-70db-4a1f-b0ae-981daa162054

22 https://www.rrhhpress.com/tendencias/61000-nueve-de-cada-diez-empresas-en-espana-desarrollan-acciones-de-sostenibilidadmedioambiental?citationMarker=43dcd9a7-70db-4a1f-b0a-e-981daa162054

ROLES AND RESPONSIBILITIES OF THE SUSTAINABILITY DEPARTMENT

Source: Author's own work

Sustainability management has several key functions to promote sustainable development and social responsibility within organizations. Some of the main functions include:

- Environmental Impact Assessment: Identify and evaluate the environmental impacts of the organization's operations, and seek ways to minimize them.
- Development of Sustainable Strategies: Create and implement strategies that promote long-term sustainability, including reducing the carbon footprint and efficient resource use.
- Regulatory Compliance: Ensure the organization complies with all environmental, social, and governance regulations and standards.
- Resource Management: Optimize the use of natural and material resources to reduce waste and promote efficiency.
- Promotion of Social Responsibility: Encourage responsible business practices that benefit the community and respect human rights.
- Innovation and Continuous Improvement: Research and adopt new sustainable technologies and practices that can enhance the environmental and social performance of the organization.

- Transparency and Communication: Inform stakeholders (employees, customers, investors, etc.) about sustainability initiatives and achievements in a transparent and effective manner.

- Collaboration and Partnerships: Work with other organizations, governments, and entities to promote sustainable practices and share knowledge and resources.

The functions of the Sustainability Department are very broad and must be aligned with those of the Risk Management Department. Both functions are affected by the scope of sustainability and share a common goal: to raise awareness among employees, management, and the Board of Directors about the importance of making sustainable decisions, understanding sustainability risks, their impact on the company, and how to find growth opportunities for the organization.

Risk Management Department

The risk management function[23] must be supported by an appropriate organizational structure, aligned with the roles it performs. Generally, this department reports directly to the CEO, although it is also common for the Risk Management Department to report to the Finance Department, and the Compliance Department to the Legal Department.

In recent years, companies have been allocating specific resources to carry out this function. As expected, the average resources dedicated in large companies are greater than those in medium or small-sized companies, due to the increased complexity of risks and opportunities faced by larger organizations.

As mentioned earlier regarding the Sustainability area, the lack of specialized personnel in sustainability risk management remains a challenge for some companies[24].

23 In some companies, this function is combined with other areas.

24 https://www.deloitte.com/es/es/Industries/financial-services/research/perspectivas-sector-seguros.html

https://www.funcas.es/prensa/la-competencia-las-capacidades-en-tecnologia-y-la-sostenibilidad-redefinen-el-panorama-bancario-espanol/

The main functions of the Risk and Compliance Department include:

- • Risk identification and assessment: Analyzing and detecting potential risks the company may face in different areas (operational, financial, legal, reputational, etc.). This involves evaluating both internal and external risks, such as fraud, operational errors, regulatory changes, among others.
- Development of policies and procedures: Creating, implementing, and maintaining policies and procedures that guide the company in risk management. This includes establishing internal standards to prevent legal and operational risks.
- Regulatory analysis: Ensuring that the organization complies with all applicable local and international laws, regulations, and standards, including tax, labor, data protection, environmental, safety laws, among others.

ROLES AND RESPONSIBILITIES OF THE RISK AND COMPLIANCE MANAGEMENT

Source: Author's own work

- Supervision and control: Oversee operations to detect possible deviations from internal or external regulations. This includes periodic review of activities and the implementation of controls to mitigate risks.

- Management of internal and external audits: Collaborate in the planning and execution of audits, both internal and external, to assess compliance with policies and regulations.

- Training and awareness: Provide ongoing training to employees to raise awareness about the importance of compliance and risk management. This training usually covers legal, ethical, and safety aspects.

- Incident and crisis management: In the event of a breach of rules or policies, the risk department is responsible for investigating the incident, implementing corrective measures, and managing legal repercussions. Likewise, during crisis or emergency situations, the department acts as the leader in managing the organization's response, ensuring that all actions comply with regulations.

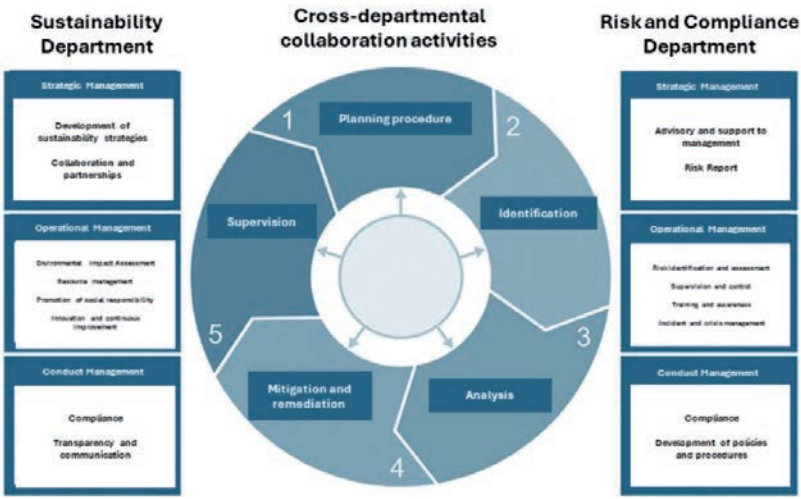
- Advisory and support to senior management: Act as an advisor to senior management by providing information on emerging risks, regulatory changes, and their potential impact on the company's operations.

- Risk reporting: Prepare periodic reports on the status of risks to keep senior management and the company's governing bodies, such as the board of directors, informed.

Relational Framework Between Both Departments

The following model represents the main collaborative activities between the Sustainability and Risk departments.

RELATIONAL FRAMEWORK BETWEEN BOTH DEPARTMENTS



Source: Author's own work

These collaborative activities can be summarized as follows:

1. Planning Process: The strategic and budgetary planning process consists of activities involving the Sustainability department, where the main objective is to define the path, the company should follow in the coming years. The Risk department plays a crucial role both in the planning process and in fostering collaborations and partnerships, ensuring that all of them comply with local, international, and sector-specific regulations.

2. Identification: It is common for business areas, including the Sustainability Department, to be more focused on identifying opportunities. Therefore, collaboration with the Risk Department is key in this process, as it helps identify both the risks and opportunities of the plan, leveraging all available

information within the organization. In terms of sustainability, this collaboration is especially important for eliminating biases and coordinating work across all involved areas-a challenge for which the Risk Department is particularly well-equipped.

This identification will address environmental risks (e.g., impacts from biodiversity loss, greenhouse gas emissions, climate change, renewable energy, energy efficiency, air quality, water, resource depletion, pollution, waste management, etc.), as well as social risks (e.g., those related to the rights, welfare, and interests of individuals and communities, labor standards in the supply chain, child labor, workplace health and safety, human capital management and employee relations, consumer protection, etc.), and finally governance risks (e.g., those related to the management of the entity, its Board of Directors and stakeholders, executive compensation, shareholder rights, stakeholder engagement, information disclosure, business ethics, controls to prevent bribery and corruption, etc.).

3. Analysis: The joint evaluation by the Sustainability and Risk areas of environmental impacts and risks allows for estimating the probability of their materialization, along with the potential direct and indirect economic costs. These consequences are measured as potential deviations from the baseline of the strategic plan and, equally important, from the perspective of impacts on the company's reputation and brand.

4. Mitigation and Correction: Once the strategy and potential consequences in case of deviations are defined, the Sustainability and Risk & Compliance areas work together to establish a response plan that contemplates any of the following three actions: reducing the risks, sharing the economic consequences with a third party, or accepting the likelihood of such impacts occurring within the organization. The tactical implementation of the strategy will involve resource management, seeking innovation and continuous improvement, while also promoting the company's social responsibility.

5. Supervision: Finally, monitoring that everything planned and executed meets the organization's expectations—and that, in the event of deviations, the appropriate individuals will know how to make timely decisions and activate the rest of the organization—must be supported by a governance system that allows for addressing challenges and provides a record of the decisions made by senior management. In this regard, a facilitating element for such structured discussions is the existence of a Sustainability Committee. While this would not be the only mechanism to consider, each organization should establish its own according to its specific reality.

Challenges and Key Factors in the Collaboration Between Both Departments

Due to the very nature of the Risk Management area's functions, it is well understood that it must be closely involved with all business areas, and particularly nowadays, with the Sustainability area.

In this context, while the Sustainability area plays a key role in defining the company's strategy by integrating sustainable practices across all parts of the business—from the supply chain and product development to daily operations—the Risk area focuses on identifying potential challenges that may arise during the strategy's execution. It drives the development of contingency plans to mitigate identified risks and ensures the company can adapt to possible eventualities, while also supporting decision-making at the highest level.

This comprehensive approach provides better and stronger protection for the company's reputation, enhancing its image among investors, employees, regulators, and the general public.

At least three reasons can be highlighted for advancing the integration and collaboration between risk management and sustainability functions:

- Because environmental risks, such as climate change, can impact the financial stability of a company; in this sense, sustainable decisions help reduce these risks.

- Because the company's reputation is enhanced by sustainable practices, attracting consumers and employees who are committed to the environment.

- Because sustainability regulations are increasing and managing them properly is key to avoiding penalties or even the closure of a facilit.

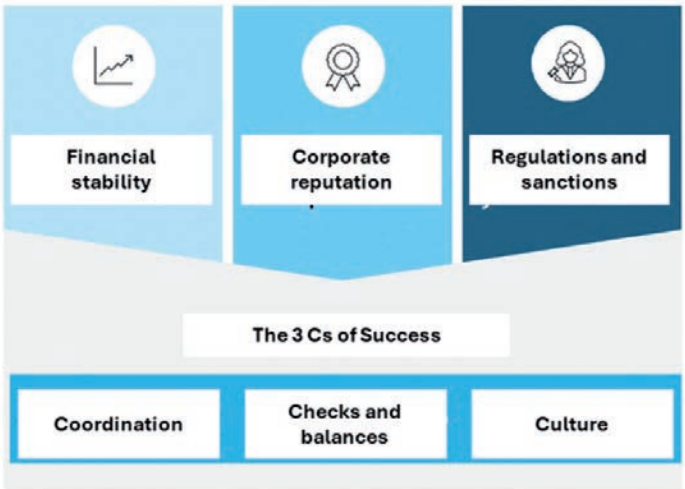
This collaboration is not without challenges, although the keys to a successful relationship lie in the following three points:

- Coordination: Smooth communication and constant coordination between both areas are essential to align their objectives and ensure that sustainability strategies are viable and secure.

- Counterbalance: A balance between Innovation and Caution is necessary. The sustainability area drives innovation, while the risk area ensures that changes are manageable and safe, fostering the development of opportunities. This balance can be challenging, as they must find a middle ground between boldness and caution.

- Culture: Creating a shared culture within the company that values both sustainability and risk management is crucial for the actions of both areas to be understood, embraced, and followed. Despite the often-repeated lack of specialized personnel and resources, which can sometimes hinder the effective implementation of necessary policies and procedures, promoting the importance of sustainability and risk management, increasing internal training and development offerings, as well as participation in networks and professional communities focused on sustainability and risk management knowledge-sharing, are accelerating organizations' progress.

CHALLENGES AND KEY SUCCESS FACTORS OF THE COLLABORATION



Source: Author's own work

3. RISK MAPS WITH ESG INFORMATION

HOW TO INCORPORATE ESG RISK INFORMATION INTO EXISTING RISK MAPS?

A risk and opportunity map is a visual tool used by organizations to identify, assess, and graphically represent the risks and opportunities that may affect their strategic objectives. This tool provides a clear and structured view of the internal and external factors influencing the organization, facilitating decision-making and strategic planning.

The map is generally constructed with two main axes. On the vertical axis, the impact or severity of risks and opportunities is represented—that is, how significant the effect of each event would be if it occurred. On the horizontal axis, the likelihood of occurrence is measured—that is, the probability that a risk or opportunity will materialize. In this way, the map allows visualization of the combination of these two factors for each risk or opportunity.

Regarding risks, they are understood as events or conditions that can have a negative impact on the organization's objectives. Risks are placed on the map according to their likelihood of occurring and the impact they would have if they materialize. The most critical risks—those with a high likelihood of occurring and a significant impact—are usually located in the upper right part of the map.

On the other hand, opportunities are events or conditions that, if properly leveraged, can generate benefits or advantages for the organization. Like risks, opportunities are placed on the map according to their probability and the positive impact they could generate. Opportunities with high impact and low probability are typically located in the lower right part of the map.

The usefulness of the risk and opportunity map lies in its ability to enable organizations to evaluate and prioritize the various factors that may affect their performance. This visualization facilitates decision-making by helping management determine which actions to take, whether to mitigate a risk or capitalize on an opportunity. Additionally, the map is an effective tool for communicating risks and opportunities to all stakeholders within the organization, ensuring a shared understanding of the factors that can influence the company's success.

It is essential that all relevant risks to the organization, including environmental, social, and governance risks, are reflected in the risk map to ensure comprehensive and effective management. Including all risks, both known and emerging, provides a complete view of the threat landscape the company faces. This not only ensures the identification of risks that could significantly impact strategic objectives but also facilitates informed decision-making regarding the actions to implement. Excluding any risk from the map may create a false sense of security and leave the organization vulnerable to unforeseen surprises or threats. Furthermore, by having all risks represented on the map, the company can properly prioritize them according to their likelihood and impact, allowing for more efficient resource allocation and the establishment of risk control measures, such as prevention or mitigation, for all possible scenarios.

To incorporate environmental, social, and governance (ESG) risk information into existing risk maps within companies, it is essential to follow an integrated and cross-functional approach. Some fundamental steps to achieve this integration of ESG risks into the risk map are as follows:

1. Comprehensive Risk Inventory Analysis: Conduct a detailed analysis of the company's risk inventory to identify those risks that have a transversal ESG dimension. It is important to determine which sustainability area each risk is related to and which specific ESG topics they encompass.

2. Identification and Assessment of Cross-cutting Risks: Identify cross-cutting sustainability risks ensuring coverage of all relevant ESG topics. In this regard, it is important to carry out a proper evaluation of climate risks. Following the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)[25] for the identification, prioritization, and economic quantification of climate risks is essential to ensure the correct identification of this type of ESG risks.

3. Methodology for Calculating Double Materiality According to the CSRD: The CSRD has defined how to methodologically quantify financial materiality (probability of occurrence and impact on P&L (Profit, Damage, or Impact) or Operating Cash Flow (OCF)) and impact materiality (probability of occurrence and function of the likelihood of remedying the caused impact). Define a risk level based on the risk levels previously established in Sustainability risks, with the aim of setting thresholds for what is material and what is not.

4. Identification and Updating of IROS (Impacts, Risks, and Opportunities): After identifying, evaluating, and compiling the impacts, risks, and opportunities with each area, the Risk department is again vital to provide overall consistency to the measurement carried out with the areas regarding material and non-material issues. This includes reviewing the analyses obtained and ensuring alignment in the prioritization matrix with the sustainability risks on the corporate risk map.

5. Linking the Risks Identified in the IROs with the Risks on the Map that Have a Cross-cutting ESG Component: As a common, though not exclusive, practice, the Risk department—validated by Sustainability as a final step—links the risks from the corporate inventory that have a cross-cutting component with each of the risks identified in the IRO matrix.

25 TCFD. (2017). Final report: Recommendations of the Task Force on Climate-related Financial Disclosures. Financial Stability Board. https://www.fsb.org/2017/06/recommendations-of-the-task-force-on-climate-related-financial-disclosures/

For the process of identifying and controlling sustainability risks to be robust, it is necessary to fulfill the following five premises:

a. Homogeneous methodology: Ensuring that different measurement methodologies are not used for ESG risks is fundamental. The management of these risks must be carried out in an integrated and cross-functional manner.

b. Coordination between departments: First, the Risk department must coordinate with the Sustainability department, as well as with other areas responsible for managing ESG risks, to ensure a homogeneous methodology aligned with the risk levels of the corporate model. Additionally, given the transversal nature of sustainability risks, it is crucial to coordinate the active involvement throughout the measurement process of all specialist areas whose inputs are vital for a consistent and robust measurement of sustainability risks. These include Accounting (for accounting criteria perspective), Strategy (supporting the definition of scenarios for both risks and opportunities), and Cost Control (which manages the long-term projection model). If possible, it is important to integrate this philosophy into procedures and processes to maintain a formal and official methodology within organizations.

   Finally, it is important to highlight the role that the Internal Audit area can play, given its global and cross-functional vision, in deploying ESG reporting standards as well as in the areas involved in measuring risks and opportunities, since ESG risks are highly transversal risks.

   i. Valuation time horizons: Consider different time horizons for risk assessment, such as short, medium, and long term, aligned with the company's strategic and decarbonization goals.

   ii. Global coherence in measurement: Ensure overall coherence in measuring ESG risks through review of the analyses obtained and alignment of prioritizations.

iii. Internal reporting (Executive Committee report, Audit Committee) and external reporting at year-end, ensuring consistency in the evaluation criteria of sustainability risks with the accounting criteria established in the Annual Financial Statements. It is recommended that reporting comes from the Risk area to ensure coordination and integration of sustainability risks into the corporate risk map.

The Technical Guide for Audit Committees[26] for Public Interest Entities, dated June 2024, establishes that the Board of Directors holds the non-delegable responsibility to approve the risk strategy and policy, based on proposals from the Committee that manages the risk function and the Sustainability Committee regarding the risks under their competence. Therefore, it is necessary to coordinate reporting to both Committees, with the Risk area being responsible for preparing this report.

In non-regulated organizations, the model to follow depends on the organization's structure, so that it can effectively assimilate the methodology and provide proper support to the decision-making bodies.

These steps will help effectively integrate ESG risk information into existing risk maps, providing a more complete and accurate view of the risks the company faces.

26 Institute of Accounting and Auditing (ICAC). (2020). Technical Guide on Audit Committees of Public Interest Entities. Ministry of Economic Affairs and Digital Transformation.
https://www.icac.gob.es/sites/default/files/2020-06/guia_tecnica_comisiones_auditoria_eip.pdf

BENEFITS OF HAVING AN INTEGRATED VIEW OF FINANCIAL AND NON-FINANCIAL RISKS

Having an integrated view of financial and non-financial risks, including Environmental, Social, and Governance (ESG) risks, offers multiple benefits for organizations.

Below are some of these benefits, which become evident even during the process of identifying and integrating all risks into the corporate Risk Map:

c. More comprehensive and accurate risk overview: By integrating ESG risks into existing risk maps, companies gain a more complete and accurate understanding of the risks they face. This leads to better identification and assessment of risks, which in turn facilitates informed and strategic decision-making.

d. Improved risk management: The integrated management of financial and non-financial risks enables a consistent and cross-cutting methodology, avoiding the use of different measurement approaches for ESG risks, as previously mentioned. This ensures overall coherence in risk measurement and enhances the effectiveness of risk management

    i. Identification of opportunities: Integrating ESG risks into existing risk maps also enables the identification of business opportunities of all kinds, including those related to sustainability. This may involve the development of new products and services that respond to consumer demands and environmental regulations.

    ii. Regulatory compliance: Integrated ESG risk management helps organizations comply with sustainability-related laws and regulations, allowing them to meet regulatory requirements more efficiently and effectively. This is particularly relevant in relation to compliance with the CSRD (Corporate Sustainability Reporting Directive), which

introduces new ESG reporting requirements that are transforming the way organizations report on sustainability criteria. Companies will be required to provide more detailed and rigorous sustainability reports, including over one hundred metrics and targets.

iii. Global impact: Integrated risk management allows governing and decision-making bodies to manage with a global perspective, closing prioritization gaps across different risk types. Ultimately, the organization must ensure global and sustainable governance through clear and aligned roadmaps.

4. RISK MANAGEMENT SYSTEMS, CSRD AND CSDDD

THE IMPORTANCE OF DOUBLE MATERIALITY REPORTING: HOW TO APPROACH ITS ASSESSMENT EFFICIENTLY

Introduction to Double Materiality Assesment

The Corporate Sustainability Reporting Directive (CSRD), adopted by the European Union, marks a turning point in the way companies are required to report on sustainability. One of the key innovations of the CSRD is the mandatory adoption of the double materiality approach, which requires companies to analyze and disclose both:

- Financial materiality: How environmental, social, and governance (ESG) factors affect the company's financial position, performance, and long-term economic sustainability.
- Impact materiality: How the company's activities impact the environment and communities, taking into account aspects such as climate change, human rights, and other relevant social factors.

This approach responds to the growing need for transparency and sustainability in the corporate sector, and is aligned with the Sustainable Development Goals (SDGs) as well as global frameworks such as the Global Reporting Initiative[27] (GRI) and the Task Force on Climate-related Financial Disclosures[28] (TCFD).

27 Global Reporting Initiative. (2021). GRI Standards. GRI. https://www.globalreporting.org/standards/

28 Task Force on Climate-related Financial Disclosures. (2017). Final report: Recommendations of the Task Force on Climate-related Financial Disclosures. Financial Stability Board. https://www.fsb.org/2017/06/recommendations-of-the-task-force-on-climate-related-financial-disclosures/

The Importance of Double Materiality Reporting in the CSRD Era

The importance of double materiality reporting lies in several key aspects:

a. a. Mandatory regulatory compliance: The CSRD establishes that, starting in 2024, EU companies and those with significant operations in the region must comply with rigorous reporting requirements based on the double materiality framework. This includes a broader range of organizations such as listed companies, large private companies, and certain SMEs, significantly expanding the regulatory scope. Compliance with the CSRD is not only a legal obligation but also an opportunity for companies to demonstrate leadership in sustainability and align with European and international standards. The introduction of the Omnibus Package does not eliminate these obligations, although it extends deadlines and, in some cases, simplifies certain requirements.

b. Response to stakeholder expectations: Reporting under the double materiality approach allows companies to provide a comprehensive view of their performance, addressing the expectations of investors, customers, employees, and other stakeholders. These groups increasingly value transparency regarding companies' environmental and social impacts, as well as how they manage related risks.

c. Integration of emerging risks: Double materiality enables companies to anticipate emerging risks, such as regulations on carbon emissions, the impact of climate change on supply chains, or growing consumer demand for sustainable products. These factors, which may initially appear non-financial, can become directly material risks to the business.

d. Access to sustainable financing: The double materiality approach is also crucial for gaining access to sustainable funding sources,

such as green bonds or ESG-linked loans. A robust report aligned with the CSRD increases the confidence of investors and financial institutions.

e. Reputation and competitive differentiation: Companies that comply with CSRD standards not only mitigate reputational risks but also position themselves as sustainability leaders, gaining preference among consumers and business partners.

How to Approach the Assessment of Double Materiality Efficiently

Calculating double materiality under the CSRD may seem like a complex challenge, but a strategic and structured approach facilitates its implementation. Below are best practices for tackling this process.

- Conduct a double materiality analysis: The CSRD requires companies to perform a formal double materiality analysis that combines:
    - Financial materiality: Identify ESG factors that may have a direct impact on the company's finances, such as regulatory, climate, or market risks.
    - Impact materiality: Assess the direct and indirect effects of the company's operations on the environment, local communities, health, and human rights.

  Using a double materiality matrix is a useful tool to visualize these two dimensions.

- Engage stakeholders: The process should include consultation with internal and external stakeholders such as employees, investors, local communities, suppliers, and NGOs. The CSRD encourages an inclusive approach to ensure that the identified material issues reflect the expectations and concerns of these groups.

- Integrate digital tools and ESG management systems: Automation and technology are key allies for efficiency in calculating double materiality. Specialized ESG software systems can help to:
    - Collect and analyze large volumes of data.
    - Generate standardized reports under the CSRD framework.
    - Monitor ongoing progress on key indicator
- Prioritize material topics: After gathering data and consulting stakeholders, companies must prioritize topics based on their relevance. This includes:
    - Assessing the likelihood and financial impact of identified risks.
    - Measuring the magnitude of environmental and social impacts.

This exercise allows organizations to focus efforts on the most critical issues for success and CSRD compliance.

- Create interdisciplinary teams: CSRD reporting requires a collaborative approach. Integration between sustainability, finance, risk management, legal, and communications departments is essential to ensure that the analysis and reporting are comprehensive and consistent.
- Maintain a dynamic and periodic process: The CSRD mandates that companies regularly update their double materiality analysis, reflecting changes in the business, regulatory, and social environment. This continuous monitoring ensures that reporting remains relevant and that companies are prepared to respond to new challenges.

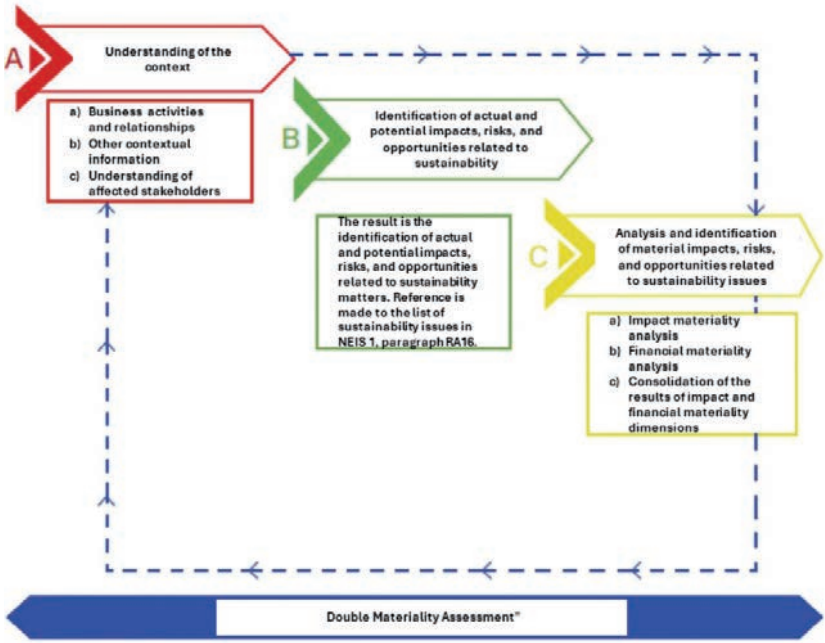
Process to Efficiently Approach the Assessment of Double Materiality

The double materiality analysis should follow the phases represented in the following figure: understanding the context, identifying Impact, Risk and Opportunities (IRO), and analyzing and determining the material IROs.

a) Understanding the context.

During this phase, the company obtains an overview of its activities and business relationships, the context in which they take place, and an understanding of its main affected stakeholders.

- Define the scope: The scope should align with the same level of consolidation as the financial report (businesses, affiliates, subsidiaries, value chain, etc.).
- Establish an interdisciplinary team: Create a team with representatives from sustainability, finance, risk management, human resources, public relations, and IT.
- Designate a project leader responsible for coordinating all activities.
- Design a work plan: Establish a detailed timeline with key milestones, such as data collection and stakeholder consultation.
- Ensure the availability of necessary resources, including analytical tools and external consultants if needed.



Source: EFRAG

b) Identification of actual and potential Impact, Risks, and Opportunities (IROs) related to sustainability issues.

In this phase, the company identifies the actual and potential impacts, risks, and opportunities (IROs) related to environmental, social, and governance (ESG) issues within its own operations as well as upstream and downstream in its value chain. The outcome will be a "long" list of impacts, risks, and opportunities for further assessment and analysis in later stages.

- Stakeholder consultation: The process should include consultation with internal and external stakeholders, such as employees, investors, local communities, suppliers, and NGOs. This overview provides key data for identifying the company's Impacts, Risks, and Opportunities (IROs).

- Mapping of internal and external factors: Identify risks, opportunities, and impacts that are relevant to the

organization, both financial and non-financial. To do this, it is advisable to become familiar with the requirements of the CSRD and other relevant standards, such as GRI, TCFD, and[29] (European Sustainability Reporting Standards).

c) Analysis and determination of material IROs related to sustainability issues.

In this phase, the company applies criteria to assess impact and financial materiality in order to determine the actual and potential material impacts, as well as the material risks and opportunities. This forms the basis for identifying material information. It is necessary to establish appropriate qualitative or quantitative thresholds to evaluate the materiality of the IROs and the related information.

c.1) c.1) Assessment of Impact Materiality: In the case of actual impacts, materiality is based on the severity of the impact, whereas in the case of potential negative impacts, it is based on both the severity and the likelihood of the incident. Severity is determined by the following factors:

a) the magnitude
b) the scope
c) the irremediable nature of the incident

In the case of a potential negative impact on human rights, the severity of the incident prevails over its likelihood. For positive impacts, materiality is based on:

a) the magnitude and scope of the impact, in the case of actual impacts; and
b) the magnitude, scope, and likelihood of the impact, in the case of potential impacts.

To assess the likelihood of the impact materialising, a probability table such as the following may be used. To calculate severity,

29 European Commission. (2023). European Sustainability Reporting Standards (ESRS) Set 1 – Sector-agnostic Standards. Official Journal of the European Union.
https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32023R2772

the Irremediability, Scope, and Magnitude (in the case of a negative impact), or Scope and Magnitude (in the case of a positive impact), should be assessed first. For this purpose, tables such as the ones below may be used:

Score	Qualitative description
Very High	Practically certain that the event will occur within the timeframe established for achieving the affected objective.
High	It is probable that the event will occur within the timeframe established for achieving the affected objective.
Medium	It is possible that the event will occur within the timeframe established for achieving the affected objective.
Low	It is unlikely that the event will occur within the timeframe established for achieving the affected objective.
Very Low	It is very unlikely that the event will occur within the timeframe established for achieving the affected objective.

Source: Author's own work

Level of irremediability	Qualitative description / Examples	
Very High	The impact is completely irreversible, with no possibility of recovery	Extinction of a species due to the destruction of its natural habitat
High	The impact is difficult to reverse even with significant interventions	Prolonged contamination of an aquifer due to spills of toxic chemicals
Moderate	The impact is partially reversible with significant or costly interventions	Damage to an agricultural area due to misuse of pesticides with medium-term recovery
Low	The impact is reversible with standard corrective measures	Discharge of treated water with out-of-standard parameters that dilutes without causing lasting environmental damage
Very Low	The impact is fully reversible without significant intervention	Temporary noise emissions during construction

Source: Author's own work

Scope	Qualitative description / Examples	
Very High	Global impact with large-scale consequences for the environment, society, or economy	Massive greenhouse gas emissions contributing to global climate change
High	Cross-border impact or significantly affecting multiple regions	Oil spill spreading across multiple national coastlines
Moderate	Impact affecting multiple communities or regions but without exceeding national boundaries	Reduction in air quality in a city due to industrial activities
Low	Limited impact to a specific community or area	Generation of solid waste in a neighborhood due to a temporary event
Very Low	Localized impact, affecting a very small area or group	Noise generated at a construction site affecting a single street

Source: Author's own work

To carry out an accurate assessment of impact materiality, the following considerations are recommended:

a) Identify how the company's activities affect third parties, the environment, or society.
b) Measure aspects such as greenhouse gas emissions, the use of natural resources, working conditions in the supply chain, or respect for human rights.
c) Include specific metrics to quantify the impacts (e.g., tonnes of CO_2 emitted, number of local jobs created).

Severity	Qualitative description / Examples	
Very severe	Critical impact with devastating consequences. Difficult to mitigate and with long-term implications for the environment or society	Spill of toxic substances in a fragile ecosystem, causing irreparable damage to biodiversity
High severity	Severe impact with significant and long-lasting effects. Affects multiple stakeholders or sensitive areas	Mass layoffs of employees in a community dependent on the company, generating profound social impact
Moderately severe	Notable impact with clear but manageable consequences. May require intervention to mitigate adverse effects	CO2 emissions slightly exceeding permitted limits but with immediate compensation plans in place
Slightly severe	Low impact, limited in scope or duration. Moderately affects a small group or specific area	Temporary use of water resources in a region with sufficient availability
Insignificant	Minimal impact with barely perceptible consequences. Does not significantly affect stakeholders or the environment	Generation of a small volume of non-hazardous waste that is properly managed without environmental impact

Source: Author's own work

After assessing Irremediability, Scope, and Severity, we will be in a position to calculate the severity of the impact materiality. Once the likelihood of the impact materializing has been evaluated, and its severity calculated, we will proceed to calculate the Impact Materiality Level.

Impact Materiality Level = Probability × Severity of the Impact

Based on the previously established thresholds, we will be able to determine whether this level of materiality corresponds to a material issue or not.

To discern whether an impact is material (i.e., to define the impact threshold), the following considerations can be taken into account:

a) It is identified as a priority by more than 50% of key stakeholders.
b) It has a high impact magnitude according to internal criteria.
c) It is associated with regulatory pressures, potential litigation, or market expectations.

c.2) Financial Materiality Assessment:

Once the company has identified its risks and opportunities, it will determine which are material for disclosure purposes. This will be based on a combination of:

a) The likelihood of occurrence, and
b) The potential magnitude of financial effects

This assessment will take into account the contribution of those risks and opportunities to financial effects in the short, medium, and long term. To evaluate the likelihood of the risk/opportunity materializing, probability tables like those described in the previous section may be used.

To evaluate the financial effects of risks/opportunities, tables will be developed that take into account the impact on:

a) The potential to generate cash flows;
b) Capitals that are not recognized as assets from an accounting and financial reporting perspective, but which have a significant influence on financial performance, such as natural, intellectual (organizational), human, social, and relational capital.

To carry out an accurate assessment of impact materiality, the following considerations are recommended:

a) Identify ESG factors that may affect revenues, costs, assets, liabilities, or access to financing.
b) Analyze physical and transition risks (e.g., impact of extreme weather events or carbon regulations).
c) Use tools such as scenario analysis, simulations, and risk matrices to determine the likelihood and financial impact of these factors.

Once the likelihood of the risk/opportunity materializing and the associated financial effects have been assessed, we will proceed to calculate their Materiality Level.

Risk Materiality Level = Probability × Financial Effect (-)

Opportunity Materiality Level = Probability × Financial Effect (+)

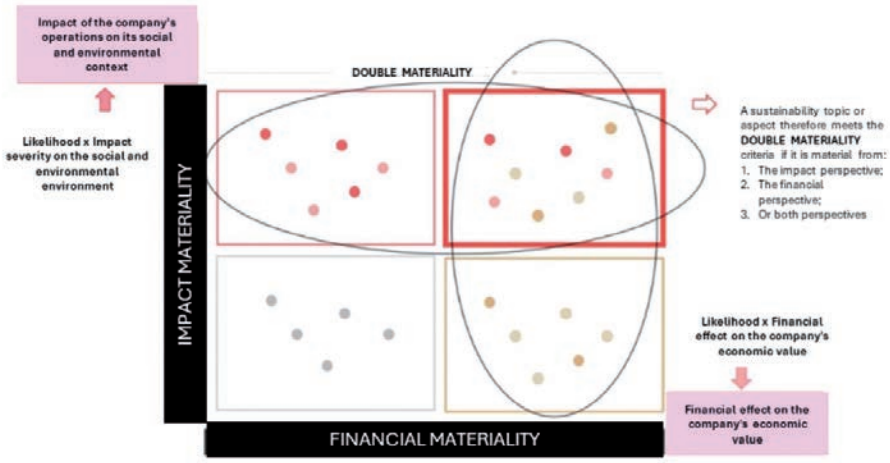
Based on previously established thresholds, we will be able to decide whether this materiality level corresponds to a material issue or not. To determine whether a risk or opportunity is material (i.e., to define the risk/opportunity threshold), the following considerations may be taken into account:

a) A percentage of annual revenue (for example, ≥5%).
b) An absolute value (for example, €1 million).
c) Strategic indicators, such as damage to critical assets or loss of key contracts.

Double Materiality Matrix

Once all the IROs (Impacts, Risks, and Opportunities) have been identified and evaluated, it is advisable to construct the double materiality matrix. This will serve as the basis for reporting the

company's sustainability information, considering that an IRO is material if it is material from the impact perspective, the financial perspective, or both.



Source: Author's own work

Topics that appear with high values on both axes are considered doubly material and should be prioritized both in ESG strategy and in reporting under the CSRD

Double Materiality as a Strategic Pillar

The double materiality approach, driven by the CSRD, transforms sustainability reporting from a regulatory obligation into a strategic tool. By adopting this approach, companies not only meet regulatory expectations but also strengthen their resilience, identify innovation opportunities, and improve their relationships with stakeholders.

To efficiently address the calculation, it is essential that companies implement a structured approach supported by technology and internal collaboration. This will not only ensure compliance with the CSRD but also position the organization as a sustainability leader in a constantly evolving global market.

THE EXPANSION OF ESG IN THE VALUE CHAIN: IMPLICATIONS FOR COMPANIES FROM THE APPLICATION OF THE CSDDD

Introduction to the Corporate Sustainability Due Diligence Directive (CSDDD)

The European Union's Corporate Sustainability Due Diligence Directive (CSDDD) arises in response to growing concerns about the negative impacts that business activities can have on human rights and the environment. The globalization and complexity of supply chains have increased the need for regulation that ensures responsible and sustainable business practices throughout the organization's sphere of influence.

In this context, the primary objective of the CSDDD is to establish a legal framework that requires companies to identify, prevent, mitigate, and account for the adverse effects of their operations in these areas.

The objectives of the CSDDD are clear and ambitious: firstly, it seeks to protect human rights, including labor rights, and promote decent working conditions throughout the value chain; secondly, it aims to safeguard the environment by reducing the ecological footprint.

of business activities and encouraging sustainable practices; finally, the directive aspires to create a level playing field for companies within the EU, ensuring that all comply with the same standards of responsibility.

The CSDDD applies to large companies headquartered in the EU, as well as those operating in the European market, regardless of their country of origin. This includes both multinational corporations and small and medium-sized enterprises (SMEs) that exceed certain revenue and employee thresholds.

Specific sectors, such as textiles, mining, and agriculture, are particularly affected due to their high risks related to human rights and the environment.

This approach has a clear "evangelizing" spirit, as it aims for the principles regulated under the green transition legislation to extend beyond the territories of the European Union through the value chains of European companies and those operating in the European market.

Responsibility of Organizations Regarding Their Value Chain

A company's value chain encompasses all activities and processes from the procurement of raw materials to the delivery of the final product to the consumer. It includes all suppliers, subcontractors, distributors, and other business partners involved in the creation and distribution of products and services.

The CSDDD introduces the concept of extended responsibility, whereby companies are not only accountable for their own direct operations but also for the practices of their partners within the value chain. This means they must ensure that their suppliers and subcontractors also comply with the human rights and environmental sustainability standards applicable in the European Union. This concept has been refined and simplified in the Omnibus package.

Companies must be aware of the common risks and violations within their value chains. Some examples of potential risks include child labor, unsafe working conditions, environmental pollution, and the destruction of natural habitats.

The identification and mitigation of these risks is crucial to comply with the CSDDD, as we will see below.

Requirements Established by the CSDDD

The CSDDD establishes a series of requirements for the organizations subject to it regarding the management of their value chains.

Due diligence is the process through which companies identify, prevent, mitigate, and account for the negative impacts of their operations. This concept embodies the spirit of the regulation to the extent that it gives the directive its name, as organizations are expected to be proactive (act diligently) both in identifying and mitigating such impacts.

Part of the process involves implementing internal policies and procedures to ensure compliance with human rights and environmental sustainability standards throughout the value chain.

Companies must conduct regular risk assessments to identify and prioritize risks within their value chain. This involves analyzing the operations of their suppliers and subcontractors, as well as the conditions in the regions where they operate.

The risk-based approach represents another key pillar of the regulation, as it is a fundamental step to focus efforts on the most relevant risks and rationalize the use of resources as much as possible.

When negative impacts are identified, companies must take corrective actions to mitigate and remediate them. This may include modifying business practices, collaborating with suppliers to improve their standards, and compensating affected communities.

A particularly important nuance— and indeed one of the most innovative aspects in this case— is that these mitigation plans may extend beyond the organization's direct control and involve the supplier, or even the supplier's supplier. This point could represent the source of significant strategic and operational challenges that companies will need to face when implementing the CSDDD, as we will see in the next section.

The CSDDD requires companies to be transparent in their due diligence efforts. This includes publicly disclosing their policies, procedures, and risk assessment results, as well as providing regular reports on their progress and challenges.

Strategic Implications of Compliance with the CSDDD

The effective implementation of the requirements established by the CSDDD has a series of highly relevant implications for the strategy of companies subject to the regulation, with certain specific characteristics depending on the size of the organization:

A) Challenges and opportunities for multinational organizations.

A.1. Integration into corporate strategy.

For multinational organizations, integrating the CSDDD into the corporate strategy involves aligning sustainability objectives with overall business goals, ensuring that social and environmental responsibility becomes a core part of the company's mission and vision.

It is to be expected that the identification of certain risks in the value chain will lead to strategic decisions that affect the very design of the supply chain, due to a reassessment of the costs and benefits associated with certain geographies.

A.2. Competitiveness and Reputation.

Compliance with the CSDDD will enhance the reputation of European companies in the global market.

Organizations that demonstrate a commitment to sustainability and human rights can attract consumers and business partners who value these practices, thereby differentiating themselves from their competitors.

On the other hand, the extension of the requirements established by the CSDDD to geographic areas not directly subject to this regulation may pose challenges in negotiations with third parties, especially if they operate in global markets with less stringent requirements.

The individual bargaining power (and the relative weight of the European Union in each sector) will determine the expected success in the adoption of better environmental practices and the potential impact on competitiveness when competitors are not subject to the same requirements.

A.3. Stakeholder Relations.

Relationships with stakeholders — including suppliers, customers, investors, and local communities — are fundamental. The CSDDD encourages collaboration and dialogue with these groups to ensure that business practices are responsible and sustainable.

This can strengthen relationships and build long-term trust, although it may also generate certain tensions due to the "imposition" of the European vision in other jurisdictions.

B) Challenges and Opportunities for SMEs.

B.1. Resource Adaptation.

SMEs may face unique challenges in implementing the CSDDD due to limited resources. However, adapting available resources and optimizing processes can help manage these challenges by prioritizing higher-risk areas and leveraging accessible tools and technologies.

B.2. Innovation and Opportunities

Compliance with the CSDDD can create new business opportunities for SMEs. The adoption of sustainable practices can drive innovation in products and processes, generating competitive advantages and access to new markets that value sustainability.

In particular, certain sectors may experience a reshoring of business activities from non-European regions, given the difficulties in influencing the implementation of necessary practices to mitigate identified risks.

B.3. Support and Collaboration

SMEs can benefit from support programs and collaboration with other companies and organizations. This includes participating in sectoral networks, seeking advisory services, and collaborating with larger companies that can provide resources and expertise.

Operational Implications of Compliance with the CSDDD

In addition to the strategic implications already outlined, compliance with the CSDDD adds complexity and requires the execution of specific additional tasks within the design of current processes.

A) Challenges for Multinational Organizations.

A.1. Supply Chain Management

Effective supply chain management is crucial for compliance with the CSDDD. Multinational organizations must implement tools and technologies to monitor and control their suppliers, ensuring they meet sustainability and human rights standards.

A.2. Training and Education

Training and education of employees and business partners are essential. Companies must develop training programs that address the requirements of the CSDDD and promote a culture of responsibility and sustainability across "the extended organization".

A.3. Monitoring and Auditing

Ongoing monitoring and auditing are necessary to assess compliance with the CSDDD. This includes conducting internal and external audits, as well as establishing control systems that enable the identification and correction of non-compliance.

B) Challenges for SMEs.

B.1. Process Simplification

SMEs can simplify due diligence processes to make them more manageable. This includes implementing standardized procedures and using accessible tools that facilitate the identification and mitigation of risks.

B.2. Sectoral Collaboration

Sectoral collaboration can be an effective strategy for SMEs. Partnerships and support networks among companies within the same sector can provide shared resources, knowledge, and best practices for compliance with the CSDDD.

B.3. Use of External Resources

SMEs can turn to consultancies and specialized services to support compliance with the CSDDD. These external resources can offer expert advice, tools, and solutions tailored to the specific needs of SMEs.

A New Way of Engaging with Third Parties

The CSDDD represents a paradigm shift in how companies engage with third parties. Moving from limited to extended responsibility, companies must now consider the impacts across their value chain and take proactive measures to ensure sustainable and responsible practices. The Omnibus package has simplified the scope of measures within the value chain.

Compliance with the CSDDD offers long-term benefits, including sustainability, improved reputation, and business resilience. Companies that adopt responsible practices can build stronger relationships with their stakeholders and be better prepared to face future challenges.

The future of due diligence is constantly evolving. Trends and regulations will continue to develop, and companies must be ready to adapt to these changes.

The CSDDD is the beginning of a movement toward greater responsibility and sustainability in the business world. It can be expected to gradually extend to other geographies, much like what happened with other pioneering regulations also born in the European Union.

Areas such as data protection (GDPR) are a good example of regulations where the progressive adoption of similar approaches has been observed in other regions.

SYNERGIES BETWEEN RISK MANAGEMENT SYSTEMS AND THE CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD)

CSRD and General Aspects of Risk Management Systems or ERM

As previously mentioned, the importance placed on risk analysis and management by companies and organizations is reflected in many European regulations and directives—particularly those related to sustainability and forming part of the European Union's growth strategy known as the "Green Deal."

In particular, Directive 2022/2464 on Corporate Sustainability Reporting (CSRD) highlights the benefits for companies of becoming aware of and understanding their sustainability-related risks and opportunities. For this reason, there are numerous synergies between Enterprise Risk Management (ERM) and compliance with the Directive.

The CSRD also refers to information demands from stakeholders connected to the companies (investor community, clients, suppliers, partners, etc.), who place a high value on the disclosure of information about corporate risks and governance (risk management).

Through its Sustainability Reporting Standards (Regulation 2023/2772), the CSRD establishes disclosure requirements regarding sustainability-related information that are very similar to elements found in an Enterprise Risk Management (ERM) framework:

- It establishes the need to carry out an analysis of Impacts, Risks, and Opportunities (IROs) in sustainability.
- It requires a level of granularity in the analysis (by country, site, or subsidiary), depending on the company's structure—similar to the breakdown used when implementing an ERM system.

- It requires prioritization through an assessment of materiality in terms of impact, in line with standard practices in Risk Management.
- Through the ESRS standards, it sets out a hierarchy of sustainability matters (climate change, pollution, water resources…) that closely resembles a taxonomy/universe/risk dictionary, as used in ERM frameworks to classify risks by nature and aggregate them for a portfolio-level view.
- It defines information domains that are strongly aligned with the components of any Risk Management framework (e.g., COSO ERM): Governance, Strategy, Risk Management (IROs), Metrics and Targets.

Due to these similarities, it is clear that there are strong synergies between Risk Management and CSRD compliance—particularly in conducting the Double Materiality analysis—which should be thoroughly analyzed and fully leveraged by each company in a way that is proportional and aligned with its specific characteristics. At the same time, depending on each company's starting point, implementing the CSRD also presents challenges and brings changes to the methodology and processes of Enterprise Risk Management, which must likewise be addressed.

The following section will examine various aspects of the CSRD that can either serve as sources of synergies between Risk Management and Sustainability Reporting, or that may challenge the company's traditional Risk Management methodology.

Double Materiality: Financial Materiality

A) Risk Analysis.

The analysis of financial materiality is arguably the area with the most immediate synergies with Risk Management, as its objective is to identify and assess negative (and positive) financial effects on the company's financial position, cash flows, access to financing, etc., related to sustainability issues.

The CSRD proposes conducting this exercise through the combination of two parameters: likelihood and potential magnitude of financial effects on the company. Whether this represents a synergy or a challenge will depend on the existing Risk Management methodology in each case.

For companies that are just beginning to develop their risk management practices, it is often easier to evaluate risks using qualitative scales or relevance matrices (based on surveys, benchmarking, questionnaires, etc.).

These qualitative scales allow for a straightforward prioritization of the most significant risks, without requiring excessive effort. However, qualitative risk assessments may lack objectivity and can raise doubts about the credibility of the risk analysis process. If skepticism emerges at higher levels of the organization, management support can be lost, which can directly impact on how risks are addressed and managed.

For this reason, many companies plan to undertake a quantitative (and financial) evaluation of risks.

Quantitative assessments can rely on a wide range of methodologies of varying complexity, often based on probabilistic calculations: scenario modeling, Monte Carlo simulations, sensitivity analysis, value-at-risk (VaR), loss distribution analysis, etc.

Between the purely qualitative model and the more complex quantitative models lies an intermediate approach: the representation of risks as points on a "heat map", with two axes—one for probability and another for financial impact. As either the likelihood or the impact of a risk increases, it moves into the "hotter" zones of the map, where it is prioritized.

The use of traditional risk maps is also widespread, as is the use of combined risk and opportunity maps.

Since this methodology of evaluating and representing risks based on their probability and financial impact is one of the most

used by companies, it will generally represent a synergy in the implementation of the CSRD.

In companies where risk assessment is conducted using qualitative methodologies, however, the implementation of the CSRD will pose a challenge, as shifting toward a quantitative risk assessment is not straightforward. It requires significant effort from the Risk Management team, active involvement across the organization, and strong support from senior management.

In any case, even highly quantitative risk analysis methodologies are unlikely to be directly transferable to the financial materiality analysis required by the CSRD, for several reasons:

- The CSRD requires a specific level of granularity, aligned with the ESRS standards, which often does not match the scope or universe of traditional risk analysis.

- To comply with CSRD, the risk universe must be adapted to ESG topics, or a set of rules must be developed to "allocate" or "map" financial effects to the topics defined by the ESRS standards.

- The CSRD introduces specific time horizons (short, medium, and long term) that may differ from those traditionally used in risk assessments. While the short term, typically defined as the current fiscal year, often aligns with standard corporate risk analysis, the long term (over 5 years) can present a significant challenge for risk assessment frameworks.

B) Opportunity Analysis.

When it comes to analyzing and representing the positive financial effects of opportunities related to sustainability events, it is more complex to identify and leverage synergies with Enterprise Risk Management (ERM), since opportunity analysis generally falls outside the scope of the Risk function and instead lies within areas closer to Strategy, Business Development, Diversification, etc.

However, if a simultaneous analysis of risks and opportunities is to be carried out to assess financial materiality, and this is done from the Risk function, the risk team can successfully develop this analysis and bring advantages to the organization for several reasons:

- Both risk and opportunity analyses are exercises derived from the evaluation of potential scenarios. In this sense, although the positive effects of each scenario's realization may have previously been overlooked, they are relatively easy to determine.
- They share valuation methodology: the probability scale used to evaluate opportunities can be the same as that used for risks, and the financial scale can be symmetrical.
- Risk management typically has an established methodology, including a network of interlocutors, a risk cycle calendar, and a system for recording analyses.

In this case, the Risk area has the opportunity to position itself as the scenario analysis partner, distancing itself from the negative connotation that can arise if the focus is solely on the possible occurrence of risks.

Double Materiality: Impact Materiality

As part of the double materiality exercise, the CSRD requires an analysis, for each sustainability topic under the ESRS, of the incidences (potential or actual) that the company may have on people or the environment—that is, on external stakeholders.

Traditionally, Sustainability departments have evaluated ESG materiality through stakeholder surveys as a starting point for prioritizing sustainability issues. This impact materiality analysis may be similar to previous practices but demands a much more rigorous methodological approach.

For the new impact analysis, the Directive proposes metrics for probability and severity. Severity is further graded based on magnitude, scope, and irreversibility (the latter only in the case of negative incidences). According to the CSRD, impacts can be either real or potential. In the case of real impacts, there are initially no synergies with the Risk Management process, as the latter operates in a context of potentiality. The analysis of potential external impacts is the one that presents the greatest challenges for companies, although synergies with Enterprise Risk Management (ERM) can also be leveraged.

In some companies, risk analysis measures, beyond the negative financial effect, certain external incidences (often qualitative) such as impacts on the environment, personal safety, or compliance issues, among others. These scales could be aligned with those proposed by the Directive for analyzing potential negative impacts, constituting an additional source of information and thus enabling the exploitation of synergies.

Even in this case, the process and methodology will require adaptation to meet the Directive's requirements, posing challenges for the entire organization and, in particular, for the Enterprise Risk Management system. Additionally, there will be greater synergies in leveraging evaluations of potential negative impacts on ESG matters than with potential positive impacts, as the latter are usually outside the scope of Enterprise Risk Management (ERM).

In this case, the synergies between the Directive and Enterprise Risk Management (ERM) are almost nonexistent, because Risk Management always operates in a context of potentiality and uncertainty, whereas actual impacts are closer to being indicators or metrics.

Other Common Points between CSRD and Risk Management

In addition to the Double Materiality assessment, the CSRD includes many reporting requirements on sustainability matters and focuses

on risk assessment in many of the reporting standards outlined in the ESRS.

This means that Risk Management is responsible for and/or supports many data points in the new Sustainability Report mandated by the CSRD: climate risks, emerging risks, methodologies, and more.

BEST PRACTICE IN COLLABORATION BETWEEN SYSTEMS FOR MORE EFFECTIVE RISK MANAGEMENT

The analysis of synergies and challenges between the Corporate Sustainability Reporting Directive (CSRD) and the Enterprise Risk Management (ERM) system must be addressed not only from the Risk area but in collaboration with other involved departments, such as Sustainability, Environment, Compliance, and, in general, all areas responsible for risk.

Depending on the structure, organization, and characteristics of each company, different methodological approaches can be adopted to improve risk management in relation to the Double Materiality analysis, to better leverage synergies between the risk management system and other systems.

Below, two approaches are described. These could be considered as extremes, and intermediate approaches that best suit each company could be defined by combining elements from both.

1. First approach: scenario assessment.

This approach is based on supporting the Double Materiality analysis through the assessment of potential scenarios, which allow for the identification—in a single exercise—of risks, opportunities, and potential positive or negative impacts (IROs).

For example, if scenario analysis is carried out for a construction project the company is undertaking, scenarios can be defined that affect that project and their consequences can be analyzed jointly:

- An accident during the construction of the project causes economic damage to the company and at the same time may have an impact on people or the environment.

- Hiring a local supplier that allows for cost savings while also having a positive impact on the community through job creation.

The advantages of this approach are several:

- Addressing all IROs (Impacts, Risks, and Opportunities) in a single exercise, optimizing the time and resources the company dedicates to the Double Materiality analysis.
- Maintaining a consistent methodology between the Double Materiality assessment and the risk management framework: the same scenario would have the same probability, associated with different impacts, risks, and opportunities.
- Transforming the risk management function into a scenario management function, with a more optimistic perspective than one focused solely on risks and what could go wrong. This can lead to improved reputational standing of the function and greater involvement in the company's strategic and planning exercises.

This approach may also present some drawbacks:

- Its execution requires the participation of a multidisciplinary team in the identification and evaluation of IROs, with expertise in risks, opportunities, and ESG-related impacts.
- Teams focused on the evaluation of specific impacts (such as Strategy or Environmental Management) may feel challenged or threatened by this approach.

2. Second approach: specialized assessment.

This approach consists of addressing the Double Materiality assessment through specialized teams, each focused on identifying specific risks, opportunities, and impacts.

For example, through specialized teams focused on risks and impacts related to safety, environment, compliance, or governance, among others. In many cases, these specialized groups are also responsible for management systems such as Occupational Health and Safety Management or Environmental Management Systems, etc.

This approach presents several advantages:

- Alignment with the structures and requirements of existing management systems, allowing for synergies with the current organizational setup.
- The analysis can be highly specialized and of high quality, as it is carried out by subject matter experts.
- It can consolidate the identification of actual and potential impacts.

However, it may also involve some drawbacks:

- Addressing each topic through specialized groups may lead to heterogeneity in methodology, and even in the evaluation of risks, opportunities, and impacts (IROs).

In this case, it is considered the best practice to involve the Risk Management area, to ensure coordination among specialized areas and maintain consistency and comparability in the methodologies used.

Each organization must conduct a thorough analysis of its roles, capabilities, and processes, and select the approach that best fits its needs to comply with the CSRD—particularly for performing the Double Materiality assessment.

Whether to establish a risk analysis methodology or to support the analysis of opportunities and potential impacts, the Risk area must participate in the process and collaborate with the various departments involved. It may even expand its scope to include the analysis of consequences derived from uncertainty scenarios.

5. FUTURE TRENDS AND NEW CHALLENGES

Much has been discussed in these lines about the risk function and the sustainability function, and how to foster collaboration between them. The growing complexity of the business environment, along with the rise of sustainability as a strategic driver, has prompted an evolution in how companies manage their risks. The relationship between risk management and the sustainability function—between the Risk Department and the Sustainability Department—is in the process of consolidation. This process is being driven by stricter regulatory frameworks (CSRD, CSDDD, etc.), pressure from financial markets, the need for organizational resilience in the face of diverse threats, and the use of new technologies and AI. This consolidation is giving rise to new and future trends, which will address aspects such as functional integration, double materiality, technology adoption, changes in corporate governance, and the sectionalization of ESG risks. Let's briefly define these future trends:

1. Toward Integrated Risk and Sustainability Management.

One of the main emerging trends in the corporate world is the shift toward management models that holistically integrate sustainability within the Enterprise Risk Management (ERM) framework. This transformation reflects a change in how organizations perceive and manage risks related to environmental, social, and governance (ESG) factors—recognizing them not only as reputational or compliance-related challenges, but as fundamental dimensions of corporate risk.

The integration of sustainability into ERM first involves the systematic inclusion of ESG variables in corporate risk maps. These factors—long viewed as external or peripheral—are now analyzed with the same rigor as financial, operational, or strategic risks. ESG criteria are also being incorporated into the definition of risk appetite and tolerance, adjusting traditional metrics to reflect the potential financial, regulatory, and social impacts arising from unsustainable events.

This integration also translates into the strengthening of internal control systems and the explicit inclusion of sustainability risks in decision-making processes at all levels of the organization.

In this context, sustainability ceases to be an isolated function or merely a communications component and becomes a structural element of corporate value. This approach responds to a growing body of empirical and regulatory evidence showing that ESG risks can directly impact the viability of business models, the stability of operations, and companies' ability to access external financing, maintain stakeholder trust, and ensure long-term competitiveness.

At the same time, organizations are redesigning their governance structures to enable integrated risk management. There is a growing trend toward the creation of cross-functional and collaborative frameworks that involve multiple areas of the company, including the formation of interdepartmental committees with representatives from risk, sustainability, internal audit, finance, compliance, operations, and strategy.

This approach supports a holistic view of risk, enhances the ability to detect emerging threats—such as climate risks, regulatory changes, or social disruptions—at an early stage, and strengthens organizational resilience in the face of uncertain or complex scenarios.

This trend toward the convergence of risk and sustainability helps to consolidate a more aware and proactive organizational culture, in which long-term value creation is based on a broader and more systemic understanding of the business environment.

In this new context, strategic decisions no longer aim solely to maximize financial return, but also to ensure the sustainability of the business and its positive impact on society and the environment.

2. ESG as a Financial Risk.

This is a growing and increasingly established trend within organizations. In recent years, environmental, social, and governance

(ESG) factors have moved from a secondary position on the corporate agenda to become key determinants of financial risk. This transformation reflects the growing recognition—by regulators, investors, insurers, and financial institutions—that ESG risks are not merely "non-financial" but can generate direct and quantifiable impacts on financial statements, profitability, market value, and the operational continuity of organizations.

Climate change, for example, is no longer perceived solely as an environmental issue, but as a threat to economic and financial stability. Physical risks—such as floods, wildfires, storms, or prolonged droughts—can damage critical infrastructure, disrupt global supply chains, cause billions in insured losses, and limit access to essential resources like water or energy. These impacts have immediate consequences for the income statement, affecting both revenues and operating costs, and can even compromise the solvency of companies highly exposed to vulnerable regions.

On the other hand, climate transition risks—linked to regulatory changes, technological innovation, and shifting consumer and investor preferences—are reshaping the conditions under which companies can operate and compete. Regulations such as the European Union Emissions Trading System (ETS), carbon taxes, or bans on certain high-emission products are generating additional costs, asset devaluations, and transition requirements in sectors like energy, transportation, construction, and agriculture. In this context, so-called stranded assets—i.e., assets that lose value before the end of their expected useful life—represent a growing risk to corporate balance sheets and to the financial institutions that support them.

Social risks are also gaining financial relevance. The lack of decent working conditions, human rights violations across the value chain, or conflicts with local communities can lead to lawsuits, operational disruptions, regulatory sanctions, and consumer boycotts, all of which carry significant reputational and financial impacts.

In an environment increasingly aware of ethical and social issues, companies that fail to meet minimum standards of social responsibility

face risks that go beyond moral considerations and directly affect their economic sustainability, a key aspect particularly addressed by the Corporate Sustainability Due Diligence Directive (CSDDD).

In the area of governance, inadequate corporate practices—such as lack of transparency, concentration of power, poor management of conflicts of interest, or ineffective board oversight—can lead to fraud, reputational crises, stock price drops, and loss of investor confidence. Recent cases have shown how governance failures can destroy market value in a matter of days, especially in highly regulated sectors or those under close public scrutiny.

This new landscape is driving a profound transformation of traditional methodologies for financial risk analysis and evaluation in the global corporate environment. Assessment frameworks are starting to incorporate—and will increasingly be incorporated previously used only for non-financial risks, such as:

- Climate scenario models, which simulate the future exposure of assets to different levels of global warming and allow anticipation of potential financial impacts under pathways of 1.5°C, 2°C, or higher.
- Climate and transition stress tests, applied by central banks and financial supervisors (such as the European Central Bank or the European Banking Authority), which evaluate the resilience of the financial system to climate and regulatory shocks.
- Sustainability-adjusted valuation models, which incorporate ESG variables into cash flow projections, discount rates, or sensitivity analyses.
- ESG financial materiality indicators, which identify which ESG factors have the greatest potential financial impact in each sector.

On the other hand, the financial sector is redefining its own risk assessment practices by increasingly incorporating ESG criteria to rate the credit risk of its clients, directly affecting financing conditions such as interest rates, terms, or access to financial products.

Insurers, for their part, are reviewing their underwriting and coverage policies based on the sustainability profiles of insured companies, progressively restricting their exposure to polluting sectors or those with high social risks.

This trend of considering ESG as a Financial Risk is being supported by regulatory frameworks such as the Sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy, and the guidelines of the Task Force on Climate-related Financial Disclosures (TCFD), which require financial entities to identify, manage, and disclose ESG risks in their investment and credit portfolios. For the financial sector, the convergence between sustainability and financial risk management is not only a voluntary trend but an increasing regulatory requirement.

For all these reasons, ESG factors can no longer be considered peripheral to financial analysis. Their ability to influence the economic value of organizations is increasingly evident and quantifiable. Integrating these factors into the management of both non-financial and financial risks not only allows for the anticipation and mitigation of potential impacts but also opens the door to new business opportunities, innovation, and strategic differentiation. Companies that understand and effectively manage these risks will be better positioned to access capital, attract responsible investors, and ensure their competitiveness in an increasingly demanding and sustainability-oriented environment.

3. Consolidation of the Double Materiality Principle.

One of the most transformative trends in corporate sustainability and risk management is the consolidation and future evolution of the Double Materiality principle, promoted and formalized by European regulation through the Corporate Sustainability Reporting Directive (CSRD) and the standards developed by EFRAG (European Financial Reporting Advisory Group). This principle introduces a new framework for risk assessment: companies are no longer required to analyze only how ESG factors affect their financial performance (financial materiality), but also how their own activities generate

significant impacts on the social, environmental, and economic environment (impact materiality).

This two-way assessment redefines how risk is understood and managed in the business environment. In the past, risks were primarily addressed from the perspective of their effects on the balance sheet or income statement. However, under the new framework, the way in which a company's activities generate externalities that can, directly or indirectly, feed back into its exposure to reputational, regulatory, or market risks is considered equally important. This interdependence requires organizations to adopt a systemic view of risk, where sustainability is no longer an independent area but a cross-cutting dimension that informs all strategic and operational decisions.

The consolidation of the Double Materiality Principle is the origin of growing trends based on this new framework for risk assessment, specifically three noteworthy trends: the comprehensive redesign of risk management and reporting systems, the expansion of ESG criteria in strategic decision-making, and the creation of an integrated view of corporate performance.

The first of these trends, based on the Double Materiality Principle, concerns the comprehensive redesign of risk management and reporting systems by driving a profound transformation in corporate information systems. Companies will need to integrate ESG databases with financial systems, redesign their risk maps to include impact criteria, and adopt technologies that allow the collection, monitoring, and verification of non-financial data with the same rigor as financial data. This shift is already emerging with the implementation of the European Sustainability Reporting Standards (ESRS), which require the identification and prioritization of material issues from both the impact and financial relevance perspectives.

In the coming years, rapid evolution is expected in technology platforms aimed at facilitating double materiality analysis, including artificial intelligence solutions, scenario modeling, value chain traceability, and life cycle analysis. These tools will not only enable more precise identification of emerging risks but also

translate environmental and social impacts into financial metrics understandable to senior management, investors, and regulators.

The expansion of ESG criteria in strategic decision-making represents a second emerging trend, as the adoption of the double materiality principle will not be limited to reporting processes but will extend its influence on the highest levels of corporate decision-making. Key processes such as mergers and acquisitions, entry into new markets, product design, supplier contracting, or infrastructure investment will need to incorporate systematic analyses of social and environmental impacts, as well as the financial risks associated with those impacts.

For example, an acquisition will no longer be evaluated solely based on its expected profitability or operational synergies, but also on the ESG track record of the target company, its exposure to litigation related to environmental or labor harm, and its alignment with the acquiring organization's climate and human rights objectives. Similarly, expansion into new markets will need to consider factors such as the availability of natural resources, regulatory frameworks on labor rights, or the risk of displacing vulnerable communities.

This situation will lead us toward an integrated view of corporate performance, which represents a third emerging trend. In the near future, organizations that lead the transformation toward management based on double materiality will be those capable of articulating a holistic view of performance—where traditional financial indicators (EBITDA, ROE, cash flow) are complemented by environmental impact metrics (greenhouse gas emissions, water usage, biodiversity), social metrics (inclusion, equity, human rights), and governance metrics (corporate ethics, transparency, internal control). This convergence will give rise to new frameworks for measuring and communicating value, such as distributed economic value, net social value, or the total impact of the organization.

Moreover, double materiality will promote a governance culture that is more open, participatory, and based on accountability to multiple stakeholders. Boards of directors will need to develop specific capabilities in sustainability, and strategic decisions will need to

explicitly document how the company's internal and external effects on the environment are taken into account. This will create space for new forms of ethical leadership and for strategic sustainability to become the core of corporate purpose.

The consolidation of the double materiality principle marks the beginning of a new era in risk management and sustainability. Companies that proactively adopt this approach will be better positioned to anticipate regulations, strengthen stakeholder trust, and build business models that integrate economic, social, and environmental value within a single corporate strategy.

4. Digitalization and Technology as Enablers of ESG-Risk Management.

Digital transformation will be one of the main ways to enable and accelerating the effective integration of ESG factors into corporate risk management. In the new regulatory, economic, and climate landscape, emerging technologies—from artificial intelligence to blockchain—will act as catalysts for more accurate, predictive, automated, and data-driven management.

In the face of increasing complexity and cross-cutting nature of ESG risks, traditional approaches to information gathering, analysis, and reporting are no longer sufficient. In this context, technological advancement not only responds to a need for efficiency but also enables new capabilities that were previously out of reach: detecting hidden correlations between variables, anticipating disruptive events, verifying information in a decentralized manner, and monitoring in real time the impacts of corporate operations.

In this regard, digitalization and new technologies represent a joint trend that will foster intelligent and predictive corporate architecture. This overarching trend can, in turn, be broken down into several sub-trends, such as the use of artificial intelligence and big data to develop more predictive ESG risk management; the use of sensors, IoT, and geospatial technology for real-time monitoring; the use of blockchain to enhance traceability, trust, and reduce regulatory risks;

the development of integrated platforms for regulatory compliance and data-driven decision-making; and the democratization of access to sustainable digital tools.

The first of these trends refers to the use of artificial intelligence and big data for the development of more predictive ESG risk management. In the near future, artificial intelligence (AI) and big data analytics will become central tools for identifying patterns between ESG variables and financial outcomes, as well as for anticipating emerging risks. These technologies will enable the analysis of large volumes of structured and unstructured data from both internal and external sources, allowing the construction of dynamic risk models that evolve with the context.

AI will be particularly relevant in building sector-specific ESG risk models, analyzing news and social media (sentiment analysis) for early detection of reputational crises, and predicting financial impacts driven by factors such as climate change, social unrest, or regulatory disruptions. Additionally, a proliferation of ethical and explainable algorithms is expected to ensure transparency and auditability of AI-based decision-making.

Another key factor in the growing evolution of this trend is the use of technologies such as smart sensors, IoT (Internet of Things), and geospatial tools, which will allow companies to monitor a wide range of ESG indicators in real time. These tools will be essential for managing environmental risks—such as greenhouse gas emissions, water consumption, or biodiversity loss—as well as for assessing exposure to extreme weather events or natural disasters.

Organizations with geographically distributed operations will be able to use satellite imagery, drones, and georeferenced mapping systems to assess physical vulnerabilities and develop more effective resilience plans. This continuous monitoring will not only increase responsiveness to critical events but also enable real-time verification of ESG commitments, enhancing credibility with investors, regulators, and consumers.

Blockchain technology, in turn, will play a strategic role in the traceability of sustainable value chains, enabling each stage of the product and process lifecycle to be securely recorded and accessible to all parties involved in the company's value creation process. This decentralized verification capability will help reduce reputational risks associated with unethical practices (such as child labor, deforestation, or hidden emissions), as well as facilitate compliance with increasingly strict regulations on transparency and due diligence.

In addition, the use of smart contracts will allow for the automation of ESG requirements in financial transactions or commercial agreements, activating sustainability clauses that trigger payments, bonuses, or penalties. This trend will not only strengthen internal controls but will also contribute to the creation of so-called trust ecosystems based on verifiable data.

In the medium term, we will also see a proliferation of integrated digital platforms that unify ESG data collection, risk assessment, regulatory compliance, and the generation of reports aligned with frameworks such as the CSRD, ISSB, or the EU Green Taxonomy, all within a single environment. These solutions will enable the automation of complex processes such as sustainability audits or double materiality assessments, reduce operational costs, and increase the reliability of reported information.

Additionally, these platforms will offer ESG scenario simulation and stress testing capabilities, helping organizations evaluate the resilience of their business models in the face of different climate transition scenarios, regulatory constraints, or changes in consumer preferences.

These types of simulations will be key to supporting strategic decision-making under conditions of increasing uncertainty.

Finally, a progressive democratization of access to ESG-Risk technological tools is expected, driven both by software innovation and by public policies and collaborative frameworks. Small and medium-sized enterprises will be able to access scalable and

modular solutions that allow them to meet their sustainability obligations without incurring high costs. Likewise, partnerships between the private sector, academia, and multilateral organizations will be strengthened for the development of open or shared tools that promote data standardization and system operability.

These trends also present a future challenge, as digitalization is not an accessory component, but a structural enabler of ESG-Risk management in the future. Companies that invest today in digital capabilities will be better prepared to navigate the complexity of the regulatory environment, anticipate all types of risks, meet social expectations, and build sustainable, resilient, and data-driven business models.

5. Transformations in Risk and Sustainability Governance.

The progressive convergence between risk management and sustainability is driving a profound transformation in corporate governance models. In the coming years, the way companies oversee, guide, and make decisions on critical issues such as climate change, human rights, cybersecurity, or supply chain resilience will change in a structural way. This evolution will not only be organizational, but also cultural and strategic, as the alignment between sustainability, risk, and corporate purpose will become a key differentiator in terms of competitiveness and legitimacy.

In this new context, risk governance can no longer remain a technical and isolated system, nor sustainability a peripheral reputational exercise. The integration of both functions requires a reconfiguration of governance bodies, executive roles, and lines of defense to enable more effective oversight of all types of risks, especially systemic risks, and rigorous monitoring of ESG commitments.

This process of creating integrated and strategic oversight architecture begins with changes throughout the governance structure. One of the most visible changes will be the creation of joint risk and sustainability committees within boards of directors or as part of senior management. These committees will be tasked

with jointly overseeing all types of financial and non-financial risks, including strategic, regulatory, and ESG risks, promoting a cross-cutting and forward-looking perspective.

Additionally, these bodies will facilitate better alignment between enterprise risk maps, sustainability frameworks (such as climate transition plans), and long-term corporate strategy. Rather than duplicating efforts or creating internal contradictions, this integrated approach will allow for anticipating interdependencies between risks—for example, how poor environmental management can lead to legal litigation, brand value loss, or exclusion from sustainable stock indices.

This is a growing trend already in use, which we have discussed in previous chapters.

The transformation of governance will also involve strengthening the capabilities of the highest supervisory body. In this regard, the inclusion of profiles with specific experience in sustainability, risk

management, climate change, human rights, or corporate ethics on boards of directors will accelerate. This diversification of expertise will be key for board members to effectively oversee risks in general—and ESG risks in particular—understand the complexity of corporate impacts and make informed decisions amid uncertain contexts.

Furthermore, board performance evaluations are expected to start including integrated sustainability and risk management criteria, reinforcing accountability on these matters. Boards that do not actively integrate this perspective could face criticism from institutional investors, ESG rating agencies, or even regulators themselves.

To facilitate the implementation of this new governance architecture, companies will tend to create specific cross-functional roles that connect risk management with sustainability strategies. These roles—such as Chief Sustainability Risk Officer or ESG Risk Coordinator alongside the Chief Risk Officer—will act as bridges between technical, legal, financial, and operational areas, ensuring that the identification, assessment, and mitigation of risks adequately incorporate ESG factors.

This approach breaks with the traditional functional silo paradigm, promoting more dynamic matrix structures where sustainability and risk are not separate departments but shared dimensions across all key business processes.

Another significant evolution will be the strengthening of the three lines of defense through the explicit inclusion of ESG components in each of them:

- Mandatory technical integration between sustainability information and financial statements, imposing a direct connection between ESG risk management and accounting and internal control systems.

- Strengthening of the double materiality principle, which is no longer a voluntary methodological criterion but a legal requirement applicable across all corporate reporting under the CSRD.

- Harmonized national oversight systems, with enhanced powers for public supervisors who can impose binding sanctions in cases of omission, error, or inaccuracy in ESG data.

- Requirement for independent external auditing of sustainability information, equating the rigor of these reports to that of traditional financial statements.

- Extension of the obligation to non-EU subsidiaries, ensuring that any company with significant operations in the EU, regardless of its country of origin, is subject to the same regulatory framework.

Another clear sign of the governance shift will be the incorporation of ESG metrics into incentive and compensation schemes for senior management and middle management. This will enable alignment of individual and collective performance with strategic sustainability goals and systemic risk mitigation.

There are already examples where executive bonuses are conditional on meeting targets related to emissions reduction, diversity and inclusion, or key stakeholder satisfaction. In the future, these practices will expand and become more sophisticated, including composite indicators that reflect not only financial results but also the ability to generate sustainable long-term value.

The transformation of governance around risk and sustainability is not merely an organizational adaptation but a necessary condition to face the challenges of the 21st century. Effective integration of both dimensions will enable companies to anticipate disruptions, respond agilely to crises, build trust among stakeholders, and maintain their license to operate.

In an environment where risks are increasingly interconnected, and where investors, regulators, and society demand greater corporate responsibility, the companies that lead this evolution will be those capable of building intelligent, ethical governance structures oriented toward positive impact.

6. Regulatory Convergence and International Standardization.

One of the most decisive trends in the evolution of corporate sustainability and risk management is the consolidation of a more coherent, demanding, and binding global regulatory framework. This transformation is driven by a series of regulatory and technical instruments, including the CSRD (Corporate Sustainability Reporting Directive), the EU Green Taxonomy, ISSB (International Sustainability Standards Board) standards, the OMNIBUS package, and the forthcoming TNFD (Taskforce on Nature-related Financial Disclosures) regulation. Together, these frameworks are laying the foundations for a common, comparable, and verifiable language in assessing ESG performance and risks.

In this context, the Omnibus package approved by the European Union in 2025 marks a turning point. This comprehensive reform, designed to harmonize and strengthen the European regulatory ecosystem on sustainability, introduces a structural reconfiguration of ESG reporting, supervision, and compliance frameworks.

This package not only adjusts the CSRD and other key regulations such as the SFDR and the Green Taxonomy but also introduces new regulatory elements that directly impact organizational architecture, the risk function, and corporate governance. Among its most significant contributions are:

- Mandatory technical integration between sustainability information and financial statements, imposing a direct connection between ESG risk management and accounting and internal control systems.

- Strengthening of the double materiality principle, which is no longer a voluntary methodological criterion but a legal requirement applicable across all corporate reporting under the CSRD.

- Harmonized national oversight systems, with enhanced powers for public supervisors who can impose binding sanctions in cases of omission, error, or inaccuracy in ESG data.

- Requirement for independent external auditing of sustainability information, equating the rigor of these reports to that of traditional financial statements.

- Extension of the obligation to non-EU subsidiaries, ensuring that any company with significant operations in the EU, regardless of its country of origin, is subject to the same regulatory framework.

Before the Omnibus package, many ESG practices were governed by principles of self-regulation or partial, sector-specific requirements. Methodologies were disparate, verification was limited, and compliance was often perceived as a reputational obligation than a legal imperative. This situation hindered comparability between companies, complicated access to sustainable finance, and created weak incentives for structural transformation in risk management.

Now, with the Omnibus package, corporate sustainability takes on a structural, enforceable, and sanctionable character. ESG integration becomes part of the company's nervous system.

It affects control systems, financial reporting, strategic plans, corporate governance, and, above all, the risk management model.

The new regulatory architecture has a profound impact on risk and sustainability functions. The main anticipated transformations include, among other issues, some already discussed as future trends and challenges, as well as the following:

- • Redesign of risk maps under a double materiality approach, which requires not only analyzing how ESG factors affect the company but also how the company impacts the economic, social, and environmental environment.

- Alignment with thresholds and technical criteria defined in the Green Taxonomy, which mandates adopting a common technical language in the evaluation and classification of sustainable activities.

- Establishment of integrated ESG control metrics and KPIs within enterprise risk management (ERM) frameworks, including control, mitigation, and monitoring plans incorporated into strategic planning cycles.

- Greater interdepartmental coordination, with hybrid structures or ESG-Risk committees that unify oversight of operational, financial, sustainability, and compliance risks.

- Investments in technological capabilities and traceability systems allow real-time monitoring of critical ESG indicators, automate reporting, and facilitate external audits.

This new regulatory framework acts as a lever for deep transformation, forcing companies to reconfigure not only their reporting mechanisms but also their business models, governance structures, and organizational culture. It is no longer simply about responding to an external obligation but about integrating sustainability principles into the logic of long-term value creation.

This regulatory advancement in the field of sustainability led by Europe is exerting significant international pressure. The European model is being emulated by other regulators: the SEC in the U.S. has developed climate transparency proposals; and in Latin America, Asia, and Africa, ESG standards compatible with European and international frameworks are being adopted. In this context, the ISSB positions itself as the core of global convergence, and its growing compatibility with the CSRD and the European Taxonomy will facilitate technical and operational alignment of corporate reporting across different continents.

7. Sectorialización de la Gestión de Riesgos ASG.

One of the most relevant trends in the evolution of ESG Risk Management will be the increasing sectionalization of approaches, regulatory frameworks, and analytical tools. While the general principles of sustainability and risk management can be applied across the board, ESG risks manifest differently in each industry,

and their effective treatment requires contextual and strategic customization.

In the future, we will see companies, regulators, and investors increasingly adopting a differentiated logic that allows ESG Risk Management strategies to be tailored to the operational, environmental, and social particularities of each economic sector. This evolution will not only improve the effectiveness of mitigation policies but also facilitate sectoral comparison, regulatory alignment, and transparency towards stakeholders.

On the one hand, the recognition of the specificity of ESG risks by sector is becoming necessary, as different productive sectors face unique and differentiated ESG exposures. For example:

- The financial sector is particularly exposed to transition risks (such as the devaluation of carbon-intensive assets) and reputational risks linked to unsustainable investment practices.
- The agri-food sector faces threats related to water stress, biodiversity loss, and food security—issues increasingly sensitive to climate change and environmental regulations.
- The manufacturing industry must pay special attention to risks associated with labor conditions, intensive resource use, emissions, and the complexity of globalized supply chains.
- The technology sector must address ethical, social, and governance risks related to data usage, automation, cybersecurity, and digital inclusion.

This diversity of risks of all kinds compels organizations to develop ESG risk maps tailored to their sectoral profile, considering not only traditional threats but also the negative impacts their activities have on the natural and social environment. Additionally, risk maps increasingly evaluate opportunities as a differentiating factor and trend.

In line with this differentiation, we expect the consolidation of sectoral management frameworks that define best practices, performance

thresholds, relevant metrics, and monitoring mechanisms adapted to each industry. These frameworks will be promoted by business associations, multilateral organizations, and regulators, seeking to balance standardization with contextual flexibility. For example, banking and insurance sectors are already adopting guidelines such as those from the TCFD (Task Force on Climate-related Financial Disclosures) to assess climate risks, while sectors like textiles or electronics are developing specific standards for human rights due diligence and supply chain traceability.

In parallel, the creation of comparable sector-specific ESG metrics will enable analysts, investors, and regulators to more accurately assess the relative performance of companies, avoiding distortions caused by the application of generic indicators that are not relevant in certain contexts.

Emerging regulatory frameworks, such as the CSRD in the European Union, already foresee the need for sector-specific technical guidelines (sector-specific ESRS), which establish mandatory and voluntary indicators adapted to the realities of each industry. This approach will expand in the coming years, with regulations that will include sectoral risk thresholds, differentiated requirements, and reporting obligations more closely aligned with the actual impacts of each economic activity.

Furthermore, it is expected that sectoral transition programs will be promoted, featuring specific incentives and roadmaps for industries with high environmental impact, such as steel, cement, aviation, or maritime transport. This sectoral regulation will enable the design of more efficient public policies and accelerate the sustainable transformation of the most emission- or resource-intensive sectors.

Sector specialization will also contribute to a better allocation of resources for ESG-Risk management. By having more precise diagnostics and tailored strategies, companies will be able to prioritize investments, adopt appropriate technologies, and focus efforts on the most critical aspects of their operations.

This will also translate into a higher return on investment in sustainability by avoiding generalized approaches and promoting actions aligned with actual material risk factors. Likewise, it will allow for better evaluation of ESG performance over time and in comparison, with sector peers, fostering responsible competitiveness.

Finally, this trend will drive the professionalization of Sustainability-ESG and risk management teams with a sector-specific focus. Talent with deep technical knowledge of each industry's dynamics will be required—capable of interpreting specific risks, adapting regulatory frameworks, and designing effective sustainable solutions. Universities, research centers, and certification bodies will begin offering specialized sector-based training, which will help close the skills gap that currently limits ESG transformation.

8. Financial Market Pressure as a Catalyst.

In the coming years, pressure from financial markets will consolidate as a decisive driver for the integration of ESG-Sustainability factors into corporate risk management. As institutional investors, banks, insurers, and pension funds internalize ESG risks in their decisions, companies will be compelled to respond not only to regulatory demands but also to an economic viability logic and access to capital.

This trend represents a structural shift: sustainability will cease to be seen merely as a reputational commitment or corporate philanthropy and will become a determining criterion for solvency, profitability, and financial competitiveness. In this new paradigm, organizations that fail to adequately manage their ESG risks will be penalized by the financial system, with direct consequences on their financing costs, valuations, and ability to attract long-term investment.

Financial actors are reshaping their analytical frameworks to structurally include environmental, social, and governance risks. Funds such as signatories of the Principles for Responsible Investment (PRI) and strategies aligned with the Net Zero Asset Owner Alliance set a clear roadmap: investments must be aligned with verifiable and quantifiable sustainability criteria.

This will translate into the inclusion of ESG indicators in fundamental analysis models, as part of the assessment of credit risk, operational resilience, and long-term value creation potential; in the reconfiguration of credit ratings and risk scores, where agencies such as S&P, Moody's, or MSCI will increasingly incorporate non-financial factors into their solvency and sustainability metrics; as well as in the growing demand for auditable and standardized ESG reports, driving companies to improve their transparency and traceability to meet the expectations of more demanding investors.

A direct consequence of this pressure is the segmentation of financing conditions. Organizations with strong ESG performance will have access to more competitive financing, preferential insurance terms, or lower premiums, while those with poor management will face financial penalties.

In the short and medium term, there is expected to be growing use of green bonds, sustainable bonds, and loans linked to ESG objectives, which offer economic incentives to companies that meet verifiable sustainability targets; the development of interest rates adjusted by ESG performance, where credit terms vary based on achieved environmental and social outcomes; and the application of investment restrictions and sectoral exclusions by sustainable funds, particularly affecting companies in carbon-intensive sectors or with human rights issues. All of this will increase the pressure on companies to proactively manage their ESG risks, as their cost of capital will be directly affected by their sustainability profile.

On the other hand, the rise of sustainable finance will bring about a greater sophistication of the instruments available to channel resources towards sustainable activities. Thus, in the coming years, we will see the consolidation of products such as Sustainability-Linked Loans[30] (SLLs) or Transition Bonds[31], aimed at companies undergoing transformation towards more sustainable models; the

30 This is a type of financing who's financial and/or structural characteristics vary depending on the borrower's achievement of predefined sustainability objectives.

31 Transition bonds are bonds issued by brown industries to finance their shift toward less greenhouse gas (GHG)-intensive activities..

growth of regulated and voluntary carbon markets, which will assign an economic price to emissions and, therefore, modify the profitability models of many industries; and the creation of thematic investment vehicles focused on objectives such as climate change adaptation, the circular economy, or social inclusion, which will diversify the sources of capital available for projects with positive impact.

This financial innovation will not only expand the green financing ecosystem but also raise standards of transparency and accountability, compelling companies to improve their internal capabilities for measuring and managing impacts.

Another emerging trend is the formal recognition of ESG risks as systemic risks by financial institutions and supervisory bodies. Central banks, financial regulators, and market supervisors are beginning to require the explicit incorporation of climate scenarios, stress tests, and ESG resilience assessments in investment and credit portfolios.

This approach will have significant impact since companies will be subject to increased disclosure requirements and ESG scenario simulations, especially those publicly traded or exposed to the international financial system. ESG resilience will become a key component of admission criteria for capital markets, investment funds, or multilateral financing instruments, and failures in managing ESG risks may be treated as aggravating factors in assessments of solvency, reputational risk, and litigation exposure. This will increase pressure to establish and develop strong corporate governance, as well as appropriate preventive strategies.

9. The Humanization of Risk: Social and Ethical Dimension.

In the next decade, corporate risk management will undergo a profound transformation by explicitly incorporating the human and ethical dimension into its analytical frameworks.

This trend points to a renewed appreciation of human capital, social justice, and integrity as critical factors for sustainability. It is no longer just about minimizing losses or protecting assets, but about creating

environments that promote well-being, equity, and cohesion both inside and outside the organization.

In this new approach, factors traditionally considered "intangibles" such as mental health, diversity, human rights, or organizational culture become key variables in corporate risk assessment, with direct effects on reputation, productivity, talent retention, and the social license to operate.

The humanization of risk means recognizing that people not only generate risks but also absorb and mitigate them. How a company treats its people, relates to its communities and environments, or ensures decent working conditions will become increasingly relevant in identifying social risks and designing sustainable responses.

In this context, organizations will need to incorporate indicators such as pay equity, talent turnover, workplace climate, diversity, and inclusion into their risk maps, measure the impact of their activities on the physical and emotional well-being of employees, and evaluate risks arising from potential human rights violations, both within their own operations and throughout the supply chain.

The pandemic accelerated awareness of the impact of the work environment on mental health and work-life balance. In the coming years, companies that ignore these factors will face significant risks: increased absenteeism, loss of key talent, labor conflicts, or even lawsuits related to psychosocial negligence.

Among the practices that companies will need to consolidate in the future are the creation of mental health policies, burnout prevention, and emotional management, supported by psychological assistance tools and empathetic leadership; the design of safe, inclusive, and participatory work environments that foster psychological safety, trust, and motivation; and the evaluation of the internal social impact of strategic decisions, especially in processes of restructuring, automation, or cultural change.

This approach will help strengthen organizational resilience from within, transforming human capital into a protective shield against reputational, regulatory, or productivity crises.

The advancement of regulatory frameworks and international standards such as the UN Guiding Principles on Business and Human Rights, the OECD Due Diligence Guidelines, and the EU's CSDDD will drive the need for robust ethical governance systems integrated into the overall risk architecture.

This will require the implementation of early warning mechanisms, ethics committees, and stakeholder consultation processes; the development of due diligence policies on human rights both within the organization and among related third parties (suppliers, contractors, strategic partners); and the incorporation of social criteria in the evaluation of projects, acquisitions, or market entry to avoid negative impacts and preserve social legitimacy.

Corporate ethics will cease to be merely a framework of aspirational values and become a concrete tool for risk mitigation and trust-building. In this emerging context, social and ethical performance will be measured, reported, and audited with a level of rigor increasingly comparable to that of financial statements. Advanced standards will be developed to report indicators related to working conditions, inclusion, work-life balance, continuous training, and responsible leadership; assessments of the social impact of business activities, including differential effects on vulnerable communities; and metrics on talent engagement, satisfaction, and professional development as early signals of organizational risk. This systematization of data will allow aligning corporate values with strategic decisions, optimizing decision-making, and demonstrating the company's commitment to people's sustainability or social sustainability.

After analyzing and presenting these nine trends regarding the relationship between the risk function and the sustainability function within companies, we observe that these trends represent significant future challenges for organizations and society.

Business management is entering a new phase characterized by the structural integration of sustainability and risk management. This transformation responds both to stricter regulatory demands such as the CSRD, CSDDD, or the EU Omnibus package, and to growing pressure from financial markets, technological advances, and the need for resilience in the face of complex and systemic risks.

In this new paradigm, ESG factors cease to be peripheral elements and become fully integrated into risk management frameworks (ERM), internal control systems, and strategic decision-making. Key trends are consolidated, including the integrated management of sustainability and risks, the recognition of ESG factors as financial risks, the application of the double materiality principle, digitalization as an enabler of new predictive capabilities, and the transformation of corporate governance towards more interconnected, ethical, and impact-oriented models.

Looking ahead, a growing sectionalization of ESG frameworks is expected, with approaches tailored to the specificities of each industry, as well as an increasingly sophisticated financial ecosystem where sustainability criteria will condition access to and cost of capital. The humanization of risk management, focusing on well-being, human rights, and equity, will complement this evolution by incorporating an ethical and social dimension that will be measurable, auditable, and strategic. Altogether, these dynamics anticipate a profound reconfiguration of the business model, where sustainability and risk management converge to define the value, legitimacy, and viability of organizations in an increasingly demanding, regulated, and data-driven global environment.

6. CONCLUSIONS AND FINAL REFLECTIONS ON THE INTEGRATION OF SUSTAINABILITY AND RISK IN BUSINESS MANAGEMENT

The integration between sustainability and risk management functions represents today one of the most significant transformations in contemporary corporate governance. This evolution is not circumstantial but structural and multifactorial, stemming both from the increase in global systemic risks and the proliferation of demanding regulatory frameworks that call for a new way of understanding business value.

As analyzed throughout this work, sustainability is no longer limited to an ethical or reputational commitment: it constitutes an essential dimension in building organizational resilience, competitiveness, and legitimacy. Meanwhile, risk management has transcended its traditional focus on financial and operational risks to become a strategic function capable of anticipating, quantifying, and mitigating complex threats encompassing environmental, social, and governance (ESG) factors.

Since the publication of the European Green Deal (2019), and through the CSRD, the EU Taxonomy, the CSDDD, and more recently the 2025 Omnibus Package, a regulatory ecosystem has been shaped that requires companies to address their social and environmental impact with the same rigor as their financial results. In particular, the CSRD imposes a double materiality approach, which requires assessing both the financial effects of ESG risks on the company and the impact of business activity on the environment and stakeholders. This dual approach redefines the very concept of risk and demands close collaboration between functions that previously worked in isolation.

Evidence shows that organizations that have successfully advanced in this process share a series of structural best practices: the consolidation of integrated governance with active participation from specialized committees and boards of directors; the creation of collaborative structures between sustainability and risk functions, supported by strong relational models; the incorporation of technological tools for traceability and real-time measurement; and the adoption of shared methodologies such as IRO analysis (Impacts, Risks, and Opportunities) and the double materiality matrix.

Particularly relevant is the development of integrated risk maps that incorporate ESG risks within traditional corporate risk matrices. This step is not only methodological but strategic, as it allows for the alignment of risk analysis with financial planning and with the decarbonization and social transformation goals that companies are required to address. Including non-financial risks in these maps, assessed by their probability, financial impact, and degree of remendability, enables more precise, cross-functional, and anticipatory management.

Furthermore, the importance of coordinated interdepartmental structures has been highlighted, where Sustainability and Risk Management departments collaborate closely throughout the entire management cycle: from risk identification, scenario analysis, response planning, mitigation, to continuous monitoring. This relationship is especially necessary to comply with requirements such as the IFRS Sustainability Standards, which integrate the risk management approach within the accounting-financial framework, and the CNMV Technical Guide (2024), which mandates audit committees to oversee both financial and non-financial risks.

Another key element highlighted in the document is the expansion of the ESG approach across the value chain, as required by the CSDDD. This regulation obliges companies to identify, mitigate, and remedy adverse impacts generated directly or indirectly by their activities, including those caused by suppliers and subcontractors. Complying with this obligation requires robust due diligence mechanisms, the inclusion of ESG clauses in contracts, traceability of compliance, and the periodic evaluation of value chain performance. This approach

reinforces the global dimension of corporate sustainability and suggests that risk management can no longer be limited to the boundaries of the parent company.

Despite these advances, significant challenges remain. Organizations still face difficulties in breaking down functional silos, developing a shared organizational culture, harmonizing methodologies, and aligning technical training with new regulatory requirements. Additionally, the proliferation of coexisting standards and regulations creates confusion and increases the administrative burden, especially for SMEs. In this regard, the Omnibus Package has attempted to simplify and streamline the regulatory framework—particularly by reducing the number of companies required to report in the short term, extending implementation timelines, and unifying technical criteria.

Faced with this scenario, many conclusions can be drawn from this study. However, it is important to highlight in this final section the key takeaways that emerge from the analysis. These are:

1. Sustainability and risk management are no longer independent functions, but strategically interdependent. The analysis shows that the evolution of the regulatory, financial, and social environment has blurred the traditional boundaries between sustainability and risk. Both functions—previously conceived as separate areas with different objectives and languages—now converge in an integrated governance model. Risk management can no longer be limited to financial or regulatory aspects, and sustainability can no longer focus solely on social responsibility. The interdependence between these two functions results in a shared framework for analysis, planning, and oversight, aligned with new requirements for transparency, resilience, and impact.

2. European regulation acts as a catalyst for organizational transformation. Regulations such as the CSRD, CSDDD, and the EU Taxonomy, complemented by the European Sustainability Reporting Standards (ESRS), have accelerated the need for companies to integrate sustainability at all levels of decision-making. This transformation is neither voluntary nor secondary: it is structural and reflects a redefinition of corporate fiduciary

duty. The European regulatory framework positions ESG risks as an essential part of corporate strategy, establishing mandatory reporting under the principle of double materiality and extending accountability throughout the entire value chain.

3. Cross-functional collaboration requires innovative organizational architecture. Effective integration between sustainability and risk management cannot be achieved without formal structures that promote coordination—joint committees, hybrid roles, shared information channels, and traceability systems. The Sustainability Department and the Risk Department must work closely together, from strategic planning to monitoring and reporting. This collaboration not only ensures compliance with legal requirements but also enhances the organization's ability to anticipate disruptions and capitalize on emerging opportunities.

4. Technology is a key enabler of the integration process. Digital tools, predictive models, ESG platforms, big data analytics, and artificial intelligence are making it possible to manage both financial and non-financial risks in an integrated manner. These advancements not only improve operational efficiency but also enable compliance with the strict traceability and verification requirements imposed by the CSRD. Companies that invest in digitalization are better positioned to assess, report, and act on ESG risks.

5. El enfoque de doble materialidad es el nuevo estándar para la toma de decisiones estratégicas. La evaluación de la doble materialidad, es decir, el impacto financiero de los factores ASG sobre la empresa y el impacto de la empresa sobre el entorno, implica una transformación profunda en el análisis del riesgo. La doble materialidad permite identificar los IROs (impactos, riesgos y oportunidades) más relevantes y priorizarlos en función de criterios económicos y sociales. Este marco metodológico refuerza la coherencia entre los informes financieros y de sostenibilidad, y permite diseñar estrategias de valor compartido.

6. La Sustainability and risk management are drivers of innovation, legitimacy, and competitiveness. In an environment marked by social pressure, regulatory demands, and global competition,

companies that effectively integrate sustainability and risk can differentiate themselves, reduce their exposure to threats, and attract talent, investors, and consumers. Beyond regulatory compliance, this integration represents a long-term value generation strategy, a way to mitigate vulnerabilities, and a tool to strengthen corporate legitimacy in the eyes of society.

Ultimately, the convergence of sustainability and risk management now constitutes a new model of corporate governance. This model goes beyond regulatory compliance and stands as a strategic thinking framework that transforms the way organizations assess their environment, make decisions, engage with society, and create long-term value. In an increasingly volatile, uncertain, and regulated global context, companies that embrace this integration with vision, rigor, and commitment will be better prepared to lead the future. Therefore, understanding current trends in this integration is important — but even more important is anticipating what may come and taking the reins of transformation.

Therefore, the analysis of future trends becomes a competitive advantage that will allow us to reflect on and determine the direction in which we guide the transformation of the risk and sustainability functions, in a way that enables us to create value for both the company as a whole and for society. In this regard, the document analyzes the most relevant future trends, a brief overview of which is presented below:

1. Consolidation of integrated ESG governance at the highest corporate level. An increasing number of companies are expected to institutionalize sustainability committees within their boards of directors, with explicit responsibility for overseeing ESG risks. This trend points to a governance model where sustainability and risk are not only coordinated but also jointly supervised and evaluated.

2. Strengthening of global regulation with progressive standard harmonization. Regulatory convergence will continue. In addition to the development of the European framework (CSRD, ESRS,

CSDDD), international bodies such as the ISSB, EFRAG, and TCFD will keep working to harmonize standards. This will facilitate comparability and reduce current fragmentation, although it will require companies to maintain a permanent regulatory adaptability.

3. Evolution of reporting towards dynamic, real-time, and verified systems. Sustainability information will shift from a static, annual exercise to a continuous, verified, and digitalized process. Artificial intelligence, blockchain, and automated systems will enable real-time reporting, integrating sustainability and finance into a unified and coherent narrative.

4. Expansion of ESG due diligence across the entire global value chain. Corporate responsibility will no longer be limited to a company's own operations. Obligations under the CSDDD, along with pressure from investors and consumers, will demand comprehensive traceability and control over suppliers, subcontractors, and strategic partners in terms of human rights, environmental impact, and business ethics.

5. Integration of sustainability into strategic and financial planning. Climate and social risks will begin to be systematically incorporated into financial planning through scenario analyses, stress tests, and ESG asset valuation. This integration will enable the development of evidence-based resilience strategies aligned with ecological and social transition.

6. Professionalization and mainstreaming of ESG teams and competencies. Sustainability and risk functions will increasingly require specialized profiles with technical, regulatory, financial, and technological expertise. There will be a growing demand for training, certification, and career development focused on integrated ESG risk management across all hierarchical levels.

7. From mitigation to sustainability leadership as a competitive advantage. Leading companies will move beyond seeing sustainability as a defensive obligation and start leveraging it as a driver of innovation, differentiation, and access to sustainable

financing. Organizations capable of integrating sustainability, risk, and strategy into a systemic vision will be the ones that thrive in an increasingly demanding, transparent, and interdependent global environment.

Ultimately, beyond regulatory frameworks, methodologies, and standards, what is at stake is how organizations choose to relate to the world. Integrating sustainability and risk management is not just a technical or strategic decision: it is an act of awareness, a commitment to present and future generations, and a declaration of principles about the kind of society we want to build. Because behind every environmental indicator, every social metric, and every governance protocol, there are people, ecosystems, and communities that deserve to be protected and respected. In a time that demands urgent action and deep reflection, confronting us with new limits and persistent inequalities, choosing the path of responsibility is also an act of hope. An active, courageous, and transformative hope that reminds us that companies can and must be part of the solution, and that there is still time to change course toward a fairer future.

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In an increasingly uncertain business environment marked by climate change, growing regulation, and social pressure, the integrated management of environmental, social, and governance (ESG) risks has become a strategic imperative. This manual offers a deep and practical insight into how organizations can align sustainability with risk management, promoting resilient, ethical, and competitive governance models.

Through a rigorous analysis of key European regulations such as the CSRD and CSDDD, readers will find tools, practical cases, and methodologies to address double materiality calculation, develop integrated risk maps, and anticipate emerging disruptions. This work reflects the collective commitment of sustainability and risk management experts who have joined forces to translate regulatory complexity into clear operational guidance.

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