

# ESG Reporting Regulation in Israel

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## **Abstract**

The publication of uniform and comparable ESG reports is an intensifying global trend, which has gained additional significance in the past year with the adoption of comprehensive ESG reporting regulations in the European Union and the United States. Simultaneously, in the non-regulatory arena, the IFRS Foundation has launched ISSB standards that are expected to become the leading international ESG reporting standard in the coming years. These dramatic developments are widening the qualitative gap between current ESG reporting in Israel and the emerging global standard. Against this background, this position paper examines the need for ESG reporting regulation in Israel, whose contribution will primarily manifest in providing important information to investors for making informed investment decisions, while creating standardization of information, alongside strengthening Israel's attractiveness in the global investment arena. On the ethical level as well, this may yield public benefit for Israeli society, as such reporting can be expected to encourage the implementation of more responsible corporate conduct norms toward the environment and society. As part of the discussion, the paper also addresses the appropriate scope and format of reporting to maintain balance between public benefit and corporate costs.

## Introduction

In recent years, ESG investing has gained awareness and popularity worldwide, driven by both ethical-ideological perspectives and business-financial considerations. Consequently, investors and other stakeholders show increasing interest in information about corporate conduct regarding ESG aspects. After a decade of "flooding" with multiple ESG reporting frameworks worldwide (over 600 as of this writing), which led to inconsistency and instances of greenwashing, the trend has shifted toward standardization of global and uniform ESG reporting. The past year marks a genuine revolution in the field: the United States and European Union have adopted new comprehensive regulations mandating ESG reporting for an enormous number of corporations. Simultaneously, for the first time, the IFRS Foundation, the parent organization of the International Accounting Standards Board, published ISSB standards for ESG reporting that have received widespread global support, including from the International Organization of Securities Commissions (IOSCO), and are expected to become the world's leading ESG reporting standard in coming years.

In Israel, public awareness and discourse regarding ESG, as well as investments in the field, are in early developmental stages compared to Western countries. Although regulators have taken several steps in recent years to encourage the field, primarily the Capital Market Authority's directive requiring institutional bodies to publish public ESG investment policies, significant progress is still needed to narrow the gap with other Western countries. Consequently, ESG reporting in Israel is partial, inconsistent, and deficient, with only a few dozen companies currently reporting on the subject.

Based on the analysis in this position paper, our stance is that the time has come for comprehensive regulatory action in Israel to mandate ESG reporting in accordance with international standards. To create an appropriate balance between corporate costs and public benefit from such reporting, we recommend initially applying this regulatory reporting requirement to companies whose securities are traded in Israel, excluding small corporations as defined in the [Securities Regulations \(Periodic and Immediate Reports\), 1970](#),<sup>1</sup> in accordance with ISSB standards that offer a comprehensive yet balanced global disclosure framework, focused on financial

materiality and synchronized with accounting reporting requirements applicable to reporting corporations in Israel and other leading ESG reporting frameworks. Subsequently, after experience and conclusions regarding reporting impacts are gathered and subject to public discussion, consideration can be given to extending the requirement to large private companies and additional entities.

We believe this move is essential primarily for investors to obtain a complete picture of reporting companies' financial position and profitability, enabling them to make informed investment decisions and compare investment viability between different companies. This is particularly important given that current accounting rules do not fully reflect the potential financial implications of corporate conduct regarding corporate responsibility – implications that are becoming increasingly material with growing public awareness of ESG and stricter regulation in the field. Additionally, such a move could provide significant momentum to strengthen Israel's position in the global investment arena, yielding benefits in the form of a more attractive and developed capital market that stands at the forefront with the world's leading countries, while simultaneously contributing to improving business impact on the environment and society in Israel.

In this paper, we examine in *Chapter 1* the trends in ESG investments globally and in Israel; in *Chapter 2* we describe the major regulatory developments in ESG reporting in the United States and European Union over the past year; in *Chapter 3* we review the main ESG reporting standards worldwide, particularly the ISSB standards; in *Chapter 4* we analyze the current state of ESG reporting in Israel; and finally, in the *Summary and Recommendations Chapter*, we present our conclusion regarding the need for ESG reporting regulation in Israel based on all these factors, and what we consider the appropriate way to implement it; in the *Appendix* included at the end of this position paper, we provide an expanded review of trends in ESG investments globally and in Israel.

## Chapter 1: ESG Investment Trends Globally and in Israel

In recent decades, the business world has undergone substantial transformations in its perception of corporate responsibility, commonly described through the term ESG, which is divided

<sup>1</sup> A company that has issued *shares* to the public, whose market value on the stock exchange is less than 300 million NIS and is not included in one of the leading stock indices of the stock exchange; (b) a company that has issued *bonds* to the public, the market value of the bonds in circulation is less than 200 million NIS; (c) a reporting corporation whose securities are *not traded* on the stock exchange.

into three domains – *Environmental, Social, and Corporate Governance*:

*The Environmental domain (E)* includes various aspects such as carbon emissions reduction, transition to green energy, responsible use of natural resources, waste reduction and recycling, and biodiversity conservation; *the Social domain (S)* focuses on issues like human rights protection, fair wages and proper working conditions, worker safety, relations with local communities, privacy protection, equal opportunities and rights, and workforce diversity; *Corporate Governance (G)* deals with management structure and proper distribution of authority, control quality, adherence to ethical principles, protection of minority shareholders, transparency, prevention of corruption and bribery, and more.

Over the years, global awareness has increased regarding the importance of individual rights, intolerance toward corruption and improper corporate conduct, and consensus about the urgent need to mitigate global warming and halt damage to ecological systems. Since money has always been one of the most powerful engines for driving change, shifts in accepted moral codes are also being translated into an updated perception of business companies' role, increasingly viewing them as part of the global social and environmental fabric, and therefore, as such, bearing active responsibility for establishing a better world. Unlike traditional capitalism that positions economic profit as the be-all and end-all, the millennial generation increasingly promotes a view that companies should not extract premiums for their shareholders at the expense of the general public.

In recent years, there has been a growing understanding among investors and companies, including those who don't share the aforementioned perspective, that high ESG morality and profit maximization are not necessarily conflicting objectives but may actually align, as sustainability risks expose companies to genuine financial risks. The first to understand the damage potential are long-term investors – such as pension funds – whose risk management is affected by potential future ecological disasters (such as extreme weather and other environmental risks ranked in the top ten most likely to occur, World Economic Forum, 2024). But even in the short-to-medium term, poor ESG conduct may expose companies financially due to potential reputational damage, lawsuits, fines, damage restoration costs, operational disruption following new regulations, etc.

Although there is no absolute consensus in academic literature and capital markets regarding a positive correlation between ESG investments and returns, most studies point in this direction, and at minimum show that these investments have higher resilience to crises and therefore carry reduced risk.<sup>2</sup> Moreover, numerous surveys conducted show that in practice, more and more investors, including the world's largest investment funds, consider ESG factors, with the E component being most dominant, followed by G and S. Forecasts predict accelerated growth in the global ESG investment share from approximately \$30 trillion in 2022 to a projected volume of about \$40 trillion by 2030, representing over a quarter of the projected total managed assets worldwide.<sup>3</sup> Thus, even those who doubt the connection between ESG investments and performance cannot ignore that market sentiment itself creates an advantage for them.

Responsible investment can manifest in active shareholder involvement to improve a company's ESG level, or as a consideration in the investment decision itself, in the following ways:

*Negative screening:* Diverting funds from "sin companies" whose activities and/or conduct violate ESG values, such as companies in tobacco, weapons, fossil fuels, gambling industries, etc., or companies that exploit workers, harm local communities, conduct animal testing, cause environmental pollution, have poor corporate governance, etc.

*Positive screening:* Diverting funds to companies whose activities and/or conduct promote ESG values, namely impact investments, such as companies engaged in renewable energy, green building, organic agriculture, waste and water recycling, life-saving technologies and medicines, public/electric transportation, etc., or companies that maintain equality in representation and compensation across all levels, contribute to the community, maintain proper corporate governance, etc.

Naturally, the division is not necessarily dichotomous, and there may be companies with "problematic" activities in environmental aspects, for instance, but with high levels of social conduct and corporate governance, or even more complex cases such as a company that operates in a highly polluting field with one hand while contributing to environmental restoration organizations with the other. For this purpose, there are many leading global bodies that provide "ESG ratings" for companies in an attempt to weigh all relevant parameters to provide as complete and complex a picture as

<sup>2</sup> For the relationship between ESG performance and returns, see the *Appendix* to this paper.

<sup>3</sup> For trends in the field of ESG investments worldwide, see the *Appendix* to this paper.

possible.<sup>4</sup> Companies, for their part, understand that ESG rating is a significant advantage in the competition for investors, and thus, for example, almost all S&P 500 companies now have ESG ratings (compared to only about 20% in 2013).

The growing demand for ESG investments is generating a growing supply of investment products. Today, investors interested in having their money serve responsible purposes have a very wide range of options including green bonds (where raised funds are used to develop responsible objectives), shares of companies with high ESG ratings or companies from green industries, ESG-oriented indices and funds, and more.

All this proves that this is not just a buzzword, passing trend, or fringe phenomenon, but rather a sustainable trend that continues to spread in the global arena. One can assume that as the millennial generation and subsequent generations take their places in key positions, it will only intensify since their core values generally align more significantly with sustainability and ecology, and with social justice and ethical conduct compared to previous generations.<sup>5</sup>

Currently, Europe significantly leads the ESG trend. According to [Bloomberg](#) estimates, it holds about 45% of the global ESG investment market share and is expected to continue leading it in coming years. In the United States, which also holds a considerable share of the field, there is heavy controversy surrounding the issue between Republicans who claim it is a Democratic agenda that illegitimately harms financial interests, and Democrats who accuse Republicans of harming the general public due to narrow economic interests. When several Republican states threatened to withdraw \$3 billion from BlackRock investment house due to ESG investment bias, \$4.7 billion was immediately injected from Democratic states. This anecdote perhaps summarizes better than any explanation how even those who doubt the connection between ESG investments and returns, or believe it is merely an attempt at political correctness, will have to internalize that the strengthening global trend of preferring companies with high ESG ratings is establishing facts on the ground and creating "market regulation" that effectively gives advantage to such investments.

In Israel, the ESG field is still in its early stages relative to leading Western countries, particularly in environmental aspects, as reflected in low prioritization of the issue in public agenda, "soft" and deficient regulation, lack of sufficient professional knowledge, and more. For instance, Israel was one of the few countries that did not arrive with a consolidated and approved carbon emissions reduction plan at the COP21 conference where the [Paris Agreement \(2015\)](#) was declared.<sup>6</sup> In 2016, Israel ratified its joining of the agreement, but in practice only in April 2024 was a [Climate Law proposal](#) approved in first reading in Israel, and even this was claimed to set emission reduction targets significantly lower than those undertaken by most leading countries, and even allows considerable regression from them. Additionally, Israel is among the last OECD countries (except Turkey) to implement a [carbon tax](#), which will enter into force gradually only at the beginning of 2025, and it too is not free from criticism. State Comptroller reports also express unconcealed criticism of government conduct in handling climate issues and present a rather grim situation (State Comptroller and Public Complaints Commissioner, 2024). The OECD (2023) consistently ranks Israel low and insufficiently in almost every environmental parameter, and also notes it among countries with the lowest level of climate awareness education among the young generation (Borgonovi et al., 2022). Correspondingly, ESG investments in Israel are also significantly lower in volume compared to the rest of the Western world.<sup>7</sup>

The gap between Israel and leading countries can be explained by several factors: *On the practical side*, Israel is a relatively small economy geographically disconnected from other Western countries, so global trends percolate into it more slowly. Additionally, the local market tends to be concentrated and influenced by a small number of large business entities that don't necessarily have an interest in promoting the issue; *On the sociological side*, Israeli culture tends to be more focused on the short term ("get it done quickly"), both at the macro level given that it is a young country in the stages of building foundations that additionally deals with survival challenges perceived as much more acute and urgent than environmental and social issues that typically manifest in the long term, and at the business sector level which sanctifies "exit

4 Including MSCI, Morningstar (which acquired Sustainalitics), S&P, Bloomberg, FTSE Russell, Refinitiv, ESG ISS (which acquired RobecoSAM), Moody's (which acquired Vigeo Eiris) and more.

5 On the generational differences in the approach to ESG, see the *Appendix* to this paper.

6 An international binding convention declared at the annual UN Climate Conference in 2015, and requires the countries that signed it to set targets for reducing greenhouse gas emissions, with the aim of limiting global warming to no more than 2 degrees Celsius compared to the pre-industrial era (since updated to 1.5 degrees). So far, about 200 countries have signed the agreement.

7 For more information on the scope of ESG investments in Israel, see the *Appendix* to this paper.

entrepreneurship" values. Furthermore, the ESG field is typically perceived as more identified with the liberal side of the political map in Israel, which in recent years has mostly not been part of the coalition and consequently not part of state leadership.

However, in recent years there has been some awakening both from the market and from regulators in Israel to narrow the gaps with the world. The most significant step is a circular published by the Capital Market, Insurance and Savings Authority (2022), requiring institutional bodies – which manage over 2 trillion NIS out of approximately 5 trillion NIS managed assets in Israel – to publish starting July 2022 specific policies regarding ESG aspects relevant to investment portfolio performance and likely to materially affect them. The circular even requires the investment committee to develop independent expertise in ESG, or alternatively contract with external service providers in the field. Consequently, institutional bodies published policy documents ranging on a broad scale between specific and even measurable definition of ESG policy – mainly bodies that had embraced the issue prior to the circular's publication – to general policy documents that laconically state that ESG aspects may be considered as part of overall investment considerations and risk assessment.

One can assume that the versatility in the level of detail and specificity of the previously mentioned policy is related to the fiduciary duty of institutional bodies toward savers, which ostensibly requires them to prioritize profit maximization above all (Fair Value Forum, 2020). Thus, when dealing with an institutional body that tends toward a skeptical approach regarding the degree of correlation between ESG and performance and returns and the ability to measure it reliably, or has not yet formulated a position on the issue, it will avoid making sweeping declarations and commitments, leaving broad discretion to the investment manager regarding the weight given to ESG scores in ad hoc decision-making. On the other hand, to the extent that the institutional body views high ESG scores as generally predictive of better financial performance, or at least reduced risk, it will adopt a more distinctly pro-ESG policy. Particularly noteworthy is Migdal company, which stated in its policy that ["there is a general assessment that investment in companies working to promote structured ESG activity will yield higher returns,"](#) and consequently committed to directing about 10 billion NIS (beyond billions already invested) to Net Positive investments

by 2030,<sup>8</sup> simultaneously gradually exit investments that don't align with the policy at a rate of at least 10% annually, and avoid new investments in fossil fuel production and complete the diversion of funds from existing investments by the end of 2045. While relative to Migdal's total managed assets, [which stand at over 400 billion NIS as of end-2023](#), these are low volumes compared to global trends, it is still noteworthy in the Israeli landscape.

According to a survey conducted by IFIE in March 2023 among institutional bodies in Israel (Tzur et al., 2023), most are at a relatively early stage of integrating ESG considerations into internal work processes and formulating structured practices, but they are investing considerable effort and resources in this, including receiving external consultation, training, purchasing information systems, and more, so it appears there is good infrastructure for field development. Given that the main challenges are the lack of ESG reporting requirements for companies and lack of clarity regarding regulatory requirements for institutionals on the issue. Additionally, research by Goren and Zviran (2023), which is also described in the *Appendix* to this paper, shows that demand among investors in Israel for ESG products is low, awareness of the field is underdeveloped, and even more sophisticated investors, who might have been expected to lean in this direction, still operate according to the principle of profit maximization and don't bias investments toward ESG tracks.

Additional developments that occurred in Israel in recent years regarding ESG investments worth mentioning: In 2021, the Stock Exchange launched [two new environmental indices](#), for the first time since the launch of the veteran Maala index in 2006 – the TA-Cleantech index which includes all shares in the cleantech and renewable energy sub-sectors (serving a positive screening strategy, i.e., impact investments); and the TA-125 Climate Clean index which excludes fossil corporation shares from the TA-125 index shares (serving a negative screening strategy).

Similar to the Capital Market Authority's circular, in December 2022 the Securities Authority also published a final version of a directive for fund managers and large license holders to examine and study the issue and decide on their policy, while clarifying that they may conclude there is no place to integrate ESG considerations in their work processes, but in any case must reflect it to investors (Israel Securities Authority, 2022); in January 2022, [the Innovation Authority launched an](#)

<sup>8</sup> According to the definition in Migdal's policy, these are investments that not only avoid harming the environment or society, but also contribute to positive change, and of course meet the usual standards of risk-adjusted return.

[ESG index](#) to be incorporated in funding application forms for startup companies. In the first stage, the goal is to collect data that will later serve as the basis for defining criteria that will enter into funding decision considerations.

Additionally, it appears the Innovation Authority is internalizing Israel's potential to position itself as a world leader in climate-tech, and in recent years has been dedicating significant dedicated budgets to support initiatives promoting innovation in climate-tech, including establishment of incubators, support for R&D and pilots, worker training, and more. Government support transferred from the Innovation Authority to climate-tech initiatives in 2022 totaled approximately \$71 million, representing 16% of the Authority's annual budget (Bein, Zonenberg & Moaiz, 2023); 14 cents of every dollar invested in Israeli high-tech in 2022 went to climate-tech, and every year one in six startup companies located in Israel is a climate-tech company. These figures reflect significant and consistent growth over the years.

Moreover, in 2020, Entropy in collaboration with Index launched an ESG rating for public companies, based on which the "[Index 100 ESG Entropy](#)" was launched; in early 2022, [the GreenEye Data system](#) was launched on the Stock Exchange, providing [ESG Ratings](#) for listed companies to financial institutions in Israel; in 2023, [Dun's 100 ESG Rating](#) was published for the first time; in January 2023, the State of Israel issued [green bonds](#) for the first time, amounting to \$2 billion, designated for investment in government projects supporting Israel's environmental objectives regarding the climate crisis, thus joining 24 countries worldwide that have made similar moves. The issuance received international demand six times higher than the requested amount; simultaneously, [Bank Leumi](#) also issued green bonds amounting to about half a billion dollars, following [Bank Hapoalim's](#) issuance of green COCO bonds in 2021. Both these issuances also received significant oversubscription.

In June 2023, the Banking Supervisor published a directive regarding management of financial risks arising from climate crisis impacts that will enter into force in 2025, based on the BCBS document published by the Basel Committee a year earlier, with a dual purpose: (1) to strengthen the banking system's financial stability in dealing with climate risks; (2) to promote environmental-social objectives of dealing with the climate crisis, from the perspective that the banking system is

an integral part of Israel's economic-social fabric, and must assist in government policy to reduce greenhouse gas emissions derived from the Paris Agreement and in financing the development of green technologies. Several banks have already begun voluntary early implementation of the directive (Bank of Israel, Banking Supervision, 2024).

## Chapter 2: Regulatory Developments in ESG Reporting Globally

The accelerated development of ESG investments globally increases the need for comprehensive and reliable information regarding companies' ESG aspects. On one hand, according to IFAC & AICPA (2024) data,<sup>9</sup> 98% of large companies worldwide currently report on sustainability aspects to some degree. On the other hand, some publish the information in a separate report and others as part of annual reports, some provide independent third-party verification of data while others do not, and the scope of information and reporting standards varies. Needless to say, among smaller companies, ESG reporting volumes are significantly lower. This situation may pose a significant challenge for investors as it impairs comparability between companies and creates fertile ground for potentially unreliable information and greenwashing.<sup>10</sup> For instance, in a BNP Paribas (2023) survey among 420 institutional investors worldwide managing assets worth \$51 trillion, 71% indicated that reporting quality is the most significant barrier to ESG investments, and they frequently encounter inconsistent and incomplete information.

Moreover, because accounting does not fully reflect ESG impacts, distortion may occur in comparing companies, and a company seemingly showing higher profits than another might actually perform worse due to weakness in ESG aspects. These matters gain additional significance against the background of growing negative consumer sentiment toward companies lacking corporate responsibility and the trend of tightening legislation against them – which can be assumed will increasingly materially affect, including financially, companies that do not make necessary adjustments to their activities and conduct. For example, emission reduction and carbon offsetting involve significant costs. For emission reduction, a corporation may need to purchase green assets, decommission polluting assets, change production processes (sometimes to more expensive ones), discontinue certain products, etc., while

<sup>9</sup> The research included about 1,400 companies from around the world, 100 from each of the six largest territories and 50 from each of 16 additional territories.

<sup>10</sup> Misleading labeling of companies or products as "green" and environmentally friendly in order to gain a positive image, without sufficient basis in reality or even with the intention of covering up activities that harm the environment.

for emission offsetting through purchase and use of carbon credits, these corporations will need to expend economic resources to purchase carbon credits.

A necessary condition for recognizing these costs in financial statements according to accounting rules is the existence of a present obligation (legal or constructive) arising from a past event. Therefore, when dealing with non-rigid obligations or those related to polluting activities that haven't yet occurred, many of these costs will not be reflected in the financial statements of that polluting company according to accounting rules, even if it's clear the company will bear them. The result is that such a company's financial statements reflect an unrepresentative future picture, and supplementary disclosure is needed to allow investors to make necessary adjustments to current accounting profit so that future forecasts also reflect ESG impacts.

In light of all this, regulators worldwide are taking steps to institutionalize and standardize ESG reporting requirements, with Worldfavor (2024) data showing a 155% increase in global ESG reporting regulations over the past decade, with no fewer than 1,255 ESG reporting directives published since 2011.

Many countries worldwide have already implemented or are working to implement ESG reporting regulation soon, but in this chapter we will focus on the European Union and United States, which are the two largest territories leading the field globally, and therefore the most influential in the global arena, and have undergone a genuine revolution in ESG reporting over the past year.

## 1. European Union

[CSRD \(Corporate Sustainability Reporting Directive\)](#) – At the beginning of 2024, a comprehensive ESG reporting directive entered into force in the European Union, replacing and expanding its predecessor NFRD directive, aiming to promote transparency toward investors, analysts, consumers, and other stakeholders. The directive's application will be gradual, until by 2028 it will require all large corporations in the European Union, whether listed or not, all listed corporations except micro-entities, and foreign corporations operating in the European Union through branches or subsidiaries and generating significant revenue there. According to Union estimates, this involves no fewer than approximately 50,000 corporations, with a total turnover exceeding €20 trillion.

The directive is based on the Double Materiality principle, examined simultaneously from two perspectives: both the

corporation's activity impacts on the environment and the environment's financial impacts on corporate activity. Required disclosure under it follows EFRAG's ESRS standards, including general disclosure requirements applying to all corporations under CSRD, and specific requirements for each ESG aspect (environmental, social, governance) applying subject to materiality. CSRD requires public publication of the sustainability report as part of the management report included in financial statements, as well as an independent auditor's opinion for information verification, accuracy, and completeness, and even requires EU member states to establish investigation and enforcement mechanisms for non-compliance cases. The directive will be first implemented in 2024 reports published in 2025, and appears set to create significant "alignment" in ESG reporting in Europe. Thus, according to a Workiva (2024) survey among 500 senior reporting executives in European companies, 59% of responding companies not subject to the directive (such as UK companies) indicated they intend to implement it voluntarily.

[SFDR \(Sustainable Finance Disclosure Regulation\)](#) – A regulation that entered into force in March 2021 requiring advisors and financial institutions (banks and credit institutions, insurance and pension companies, investment funds, etc.) operating in the European Union to report both at the corporate level and investment product level whether and how they consider sustainability factors, aiming to enable investors to make more informed investment decisions to support EU climate and sustainability objectives and combat greenwashing. SFDR requires distinguishing between products focused on specific sustainable investment objectives tagged as "dark green," products that only promote environmental or social characteristics tagged as "light green," and products tagged as non-sustainable, according to European Taxonomy classification (below). The regulation's effects are, on one hand, reduction in investment products previously classified as green without justification, and on the other hand, first-time tagging of investment products as green to attract investors. Bottom line, PwC estimated that assets in sustainable investment products in Europe will more than triple following the regulation (Janson et al., 2023).

[EU Taxonomy](#) – The taxonomy is a classification system defining criteria for economic activities aligned with a net-zero pathway to eliminate carbon emissions by 2050 and broader EU environmental objectives, which entered into force in July 2020 aiming to create a common language and uniform definition of what will be considered sustainable, and interfaces

with other regulations, such as CSRD and SFDR as mentioned, with [EU Green Bond Standard](#),<sup>11</sup> and more. In this way, it plays an important role in helping the EU increase sustainable investments by creating investor confidence, preventing greenwashing, providing clarity to companies about expected standards, and reducing market inconsistency.

In summary, regulatory steps taken in the EU will constitute a significant upgrade, and together compose a developed and comprehensive ESG reporting system covering key market players, both on the demand and supply sides, and impose significant ESG reporting obligations for the first time on tens of thousands of corporations in Europe and beyond.

## 2. United States

[SEC's Climate-Related Disclosures](#) – The SEC, the U.S. Securities and Exchange Commission, announced in March 2024 final adoption of mandatory federal rules regarding climate impact reporting. The draft law sparked extensive public discussion for two years, receiving over 24,000 responses – the highest number ever. Despite relaxation of requirements compared to the original draft, this still represents a significant upgrade in U.S. regulatory approach to the climate crisis. [The reporting rules](#) will apply to public companies in the United States subject to SEC oversight, even if not incorporated or operating in the United States, and will enter into force gradually from 2025 reports through 2028, both regarding types of companies required to report and scope of information.<sup>12</sup> Some disclosure is required within financial statement notes, subject to CPA audit and internal control over financial reporting, such as financial impacts of climate events on actual results, on assumptions and estimates, as well as carbon offsets and REC (Renewable Energy Credit), and some is also required outside financial statements, such as greenhouse gas emissions, climate risk management and oversight, climate risk impact on strategy and business model, climate-related plans and targets, and more. Information outside financial statements will be subject to management controls, with concrete greenhouse gas emissions disclosure also requiring external verification.

At the state level – California was the first state to recently adopt comprehensive legislation, primarily requiring large corporations with business activity in the state (regardless of

whether public or private) to provide [climate reporting](#) including disclosures on scope 1+2+3 greenhouse gas emissions, carbon offsets, climate-related financial risks and coping strategy based on TCFD and more. Emissions information will be submitted to the California Air Resources Board (CARB) or a non-profit organization working on emissions and defined by CARB, while financial risk disclosure is required to be published publicly on the company's website. The law's provisions will enter into force gradually. Following California, several other U.S. states began examining the possibility of adopting similar legislation.

## Chapter 3: ESG Reporting Standards

Beyond the significant developments that recently occurred in the global regulatory landscape, as reviewed in the previous chapter, for about two decades there has been an extensive non-regulatory arena of ESG standards, many published by international organizations. According to estimates, there are currently [over 600 ESG reporting directives worldwide](#). However, in recent years, the trend has been toward reduction and consolidation of multiple reporting frameworks into a uniform and leading global ESG standards set, and with the establishment and publication of ISSB, as will be elaborated below, VRF, CDBS, and TCFD ceased independent operation and merged into it,<sup>13</sup> so that the main ESG reporting standards currently in the global arena are GRI, which broadly targets all stakeholders, and ISSB, which focuses on investors and financial stakeholders.

Below is a review of several leading ESG reporting standards worldwide:

[GRI \(Global Reporting Initiative\)](#) – An international non-profit organization that develops and publishes ESG reporting standards. The organization was founded in Boston in 1997 following public outcry over environmental damage caused by an oil spill eight years earlier. The organization's headquarters is currently located in Amsterdam and has representations worldwide (GRI, 2024). The first version of GRI standards was published in 2000 and has been updated several times since. The standards are a modular system consisting of three series: Universal Standards, Sector Standards for specific sectors, and Topic Standards focusing on specific material issues in various sustainability areas. The sectoral standards system is set to

11 A voluntary standard published by the European Union in November 2023 with the aim of helping to develop the green bond market. Implementation of the standard will allow issuers to prove that they are financing legitimate green projects that are aligned with the European Union's taxonomy, and to receive a "certification" that is expected to be in demand in the ESG investment field.

12 However, we note that petitions against the legislation are pending in US courts, and they may lead to the postponement of the said deadlines.

13 Value Reporting Foundation – the body that published the [SASB standards](#); [Climate Disclosure Standards Board](#); [Task Force on Climate-Related Financial Disclosures](#).

include dedicated standards for 40 different industries, with standards currently published for sectors in oil and gas, agriculture, aquaculture, fishing, and coal (to take effect in 2024 reports). Standards for additional sectors currently being developed include textiles and clothing, financial services, and mining.

Additionally, GRI is now in the final stages of [developing a taxonomy](#). The standards include metrics and indicators in the areas of environment, society, corporate governance, economy, and human rights, and are implemented on a voluntary basis. GRI is considered the most comprehensive ESG reporting standard, targeting all stakeholders in the matter, and is implemented extensively at the global level. For example, in 2022, 78% of G250 (the 250 largest companies worldwide by revenue), and 68% of N100 (the 100 leading companies in each of 58 countries, totaling 5,800 companies), publishing sustainability reports, used GRI standards (KPMG, 2022). Furthermore, GRI reports that between 2021 and 2023, there were almost 2.5 million downloads of the standards from the website. The publication of new regulations in the United States and Europe and the launch of ISSB may eat into its market share, but GRI is currently working on mapping compatibilities with new reporting systems to facilitate parallel implementation.

[VRF \(Value Reporting Foundation\)](#) – An international non-profit organization founded in June 2021 as a result of a merger between SASB and IIRC. SASB standards identify the subset of ESG issues most relevant to financial performance across 77 industries, and IIRC's integrated reporting framework helps companies make material information accessible about the organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context in which it operates. With the establishment of ISSB, the bodies issued a joint announcement stating that VRF would merge into ISSB. The merger was completed in August 2022, resulting in VRF ceasing to exist as an independent body.

[CDSB \(The Climate Disclosure Standards Board\)](#) – An international group of non-governmental business and environmental organizations that set as its goal to position ESG disclosures at the same level of importance at which financial disclosure is perceived in the international business mainstream, and even published a disclosure set on the subject. CDSB disclosures served as a basis for formulating ISSB standards and it merged into it in January 2021.

[TCFD \(Task Force on Climate-Related Financial Disclosures\)](#) – An international body founded in 2015 by the Financial Stability Board (FSB)<sup>14</sup> of G20 countries, which published in 2017 a reporting framework specifically focused on climate-related financial risks, unlike more general ESG standards. TCFD has representatives in all FSB member countries and has received broad support from companies, governments, and international organizations. To avoid adding additional reporting burden on companies, TCFD recommendations were mapped against existing disclosure frameworks and serve as a guide for more efficient reporting processes. They include detailed reporting recommendations in four areas: climate risk management, climate risks and opportunities, strategy and extreme scenarios, and climate risk metrics. The recommendations include a combination of quantitative and qualitative disclosures that complement each other. In 2022, one-third of N100 companies implemented TCFD, almost doubling compared to 2020 data. Additionally, almost two-thirds of G250 companies implemented TCFD, a 24% increase compared to 2020 (KPMG, 2022). In 2021, the G7 countries – United States, Canada, Japan, Germany, France, Italy, and Britain – agreed to work toward mandatory TCFD requirements, however following the establishment of ISSB, TCFD announced at the end of 2023 that it had fulfilled its role and disbanded, therefore ISSB took upon itself the monitoring of climate-related disclosure progress.

[UNGC \(UN Global Compact\)](#) – A UN initiative from 2000 aimed at promoting global business values, through, among other things, *the ten principles*: defining UNGC's core values in human rights, labor conditions, environmental quality, and anti-corruption; *SDG goals*: seventeen sustainable development goals defined by the UN as part of the global effort for a better and more sustainable future in social, environmental, and economic areas by 2030; *Reporting Guide*: business companies participating in the UNGC initiative are required to report to their stakeholders on their progress in implementing the ten principles annually, through responding to a detailed questionnaire, and even publish a copy on the UNGC website (U.N. Global Compact, 2024). Over 24,000 companies and organizations from 167 countries implement UNGC. The UN Global Compact clarifies that they are "more like a guide dog than a watchdog" in that they do not track and have no enforcement tools, therefore participation in the

<sup>14</sup> An international body aimed at promoting global financial stability, and includes representatives from 24 countries and financial organizations.

initiative does not constitute endorsement regarding the corporation's ESG performance.

[ISSB \(International Sustainability Standards Board\)](#) – ISSB was established in November 2021 by IFRS, the International Accounting Standards Board, to develop leading global ESG reporting standards widely implemented, similar to the accounting standards published by the organization, following demand from the field. In June 2023, a set of standards was first published, effective from 2024 reports, aimed at creating a common and uniform language among all company reports worldwide and aligning reports with the accepted accounting language in financial statements. The underlying concept holds that sustainability risks may expose companies to genuine financial risks, and therefore information about them is relevant information for investors. Since their publication, the standards have received cross-country and cross-sector support, with about 400 organizations from 64 jurisdictions committing to promote their adoption.

For example, IOSCO, the international umbrella organization of securities authorities, recommended [ISSB standards](#) as suitable to serve as a global framework for capital markets to assess relevant sustainability risks and opportunities, and called on its 130 member jurisdictions – which regulate 95% of global financial markets – to consider adopting them. Regulators from over 20 jurisdictions representing together almost 55% of global GDP, over 40% of global market value, and more than half of global greenhouse gas emissions, have already decided to [incorporate ISSB](#) in their jurisdictions or are actively taking steps to do so, including China, Britain, Canada, Australia, Hong Kong, Japan, Singapore, [Brazil](#), and additional countries. Other important global financial bodies, such as the International Monetary Fund, World Bank, OECD, UN, G7, G20, and Financial Stability Board also expressed significant support. Organizations from the ESG reporting field, such as GRI, CDP, and TNFD also confirmed their support for ISSB. At the COP28 climate conference held in November 2023 in Dubai, a broad range of corporate groups representing thousands of companies worldwide, investor groups managing over \$120 trillion, as well as 70 institutional investors, over 25 global exchanges,<sup>15</sup> over 40 accounting organizations and firms, universities, analysts, business consultants, regulators and standard setters, and more signed a declaration of support.

[ISSB standards](#) incorporate or are based on other leading ESG reporting standards, such as SASB, WEF IBC, and CDSB, and heavily rely on TCFD's disclosure architecture based on four pillars – corporate governance, strategy, risk management, metrics and targets. The published standards are:

[S1](#) – General *sustainability-related* financial disclosures. The standard requires disclosure of information about the company's impacts and dependencies on natural resources, community, etc. For example, a company relying on a specific water source will need to consider the risk of changes in water quality, availability, and changes in usage costs. Another example is a company relying on a specific local community where work with it can be affected by regulation or can impact the company's image. Additionally, a company will be required to make disclosures regarding corporate governance, strategy, risk management, and metrics and targets concerning climate risks and opportunities. The standard draws concepts from IRF and international accounting standards, and regarding non-climate matters (which S2 deals with specifically) refers to external sources that companies can use to identify relevant risks and opportunities.

[S2](#) – *Climate-specific* disclosures. The standard requires disclosure of climate-related risks and opportunities with physical dimensions including company processes affected by climate. Additionally, the standard includes more concrete disclosure requirements than TCFD such as specific identification of the person responsible for climate risk management and how their competence was ensured; description of transition plan to green energy; presentation of scenario analyses; quantitative and qualitative details of current and future financial impacts of climate risks; details of metrics and targets including scope 1–3 carbon emissions (according to GHG protocol)<sup>16</sup> and industry metrics; company targets, compliance with them, and their alignment with international agreements; whether and how climate aspects are reflected in executive compensation; and more. Additionally, ISSB published guidance regarding industry-based implementation based on SASB standards. Furthermore, ISSB tentatively decided to add to its agenda [research and development of future standards on biodiversity and ecological systems and human capital](#).

Financial data and assumptions included in the disclosure are required to be consistent where possible with those applied

15 Including the African Stock Exchanges Association representing 27 exchanges, and the Arab Federation of Capital Markets representing 17 exchanges.

16 Scope 1 – direct emissions from the combustion of fuels from sources owned or controlled by the organization; Scope 2 – indirect emissions from the consumption of electricity and other types of energy originating from outside the organization; Scope 3 – other indirect emissions arising from the activities in the value chain of the organization's products or services.

in preparing the company's financial statements, according to the accounting standards it implements. The materiality definition in ISSB standards is identical to IFRS standards, whereby information is considered material if it can reasonably be expected to influence investor decisions (i.e., single materiality). It should be noted that ISSB allows limited and specific exemption from disclosing commercially sensitive information. The disclosure is required to be published simultaneously with general-purpose financial statements, within a separate report attached to the financial statements, and include comparative figures for previous years. ISSB subjects the quality of required external verification of information to local regulation, and its recommendation is that the regulatory body responsible for financial reporting should be the authority also for sustainability reporting (in Israel – the Securities Authority).

As part of its goal to promote uniformity and simplification of ESG reporting worldwide, ISSB works to create harmony, collaboration, and minimize duplications with major reporting frameworks worldwide. Accordingly, ISSB and ESRS (European reporting standards under CSRD directive) worked together to ensure very high alignment between both standards, and it was even decided that ISSB standards would include reference to ESRS and view them as a "guidance source" for companies in publishing metrics and disclosures. In May 2024, ISSB and EFRAG (the body that sets ESRS standards) published [joint guidelines](#) for mutual implementation of standards mapping compatibilities on one hand and differences on the other, to reduce reporting burden for companies implementing both standards.

Additionally, in March 2022, GRI and ISSB signed a [memorandum of understanding](#) for close cooperation, recognizing the significant public interest in aligning work programs, terminology, and guidelines of the bodies where possible, to maximize compatibility between disclosures. Subsequently, in November 2023, GRI launched the Sustainable Innovation Lab in Singapore in collaboration with ISSB; in January 2024, the bodies published [joint guidance](#) for mutual implementation of carbon emissions disclosure, and significant cooperation exists between the two bodies in formulating standards on biodiversity ([GRI 101](#), already published in January 2024, and ISSB standard still in research stages).

In conclusion, ISSB's publication is a significant milestone in global ESG reporting, and it is expected that during the coming year it will be mandatorily adopted in some countries,

and in the medium-long term it will become a leading reporting standard worldwide, similar to international accounting standards. To complete the picture, we note that IFAC, the International Federation of Accountants, is currently working on publishing ISSA 5000 standard that will include a set of principles for external verification of sustainability disclosures by accountants. The standard was developed in cooperation with ISSB, and is applicable with numerous ESG reporting frameworks, including S1 and S2 standards. [The standard is expected to be published by the end of 2024.](#)

## Chapter 4: ESG Reporting in Israel – Status Review

The financial system in Israel is several steps ahead of the real sector, and while financial regulators look to international standards, gradually outlining directives toward entities under their supervision with the vision of considering ESG factors in financing and investment decisions as detailed above, in practice financial institutions currently lack real ability to act accordingly and adequately, in the absence of structured ESG reporting infrastructure by companies.

Securities laws applying to companies whose securities are traded on the Tel Aviv Stock Exchange include disclosure requirements that address corporate governance aspects relatively broadly, as well as several specific requirements regarding social and environmental areas, such as description of environmental risks to which the company is exposed, and its donation policy. Additionally, there is an overarching general disclosure requirement for all matters material to investors. However, in summing up these disclosures, they are found to be insufficiently comprehensive, lack specificity, are scattered across several parts of the annual report, and overall do not equal the standard required from ESG reporting to serve as a tool for informed investment decisions.

In recent years, several governmental or regulatory initiatives were taken to encourage the market to voluntarily publish ESG reports. For example, in 2020, the Ministry of Strategic Affairs launched the [Impact Nation program](#), for partial funding of the cost of preparing corporate responsibility reports for the first time by public companies in Israel, through grants of up to 100,000 NIS, aiming to attract foreign investors and create "economic public diplomacy" in light of claims that Israeli companies operate contrary to UN ethical codes. Of 31 companies that received grants in the program's two rounds, 28 published corporate responsibility reports for the first time

between 2021–2023, and 14 of them published [corporate responsibility reports](#) again in the following year.

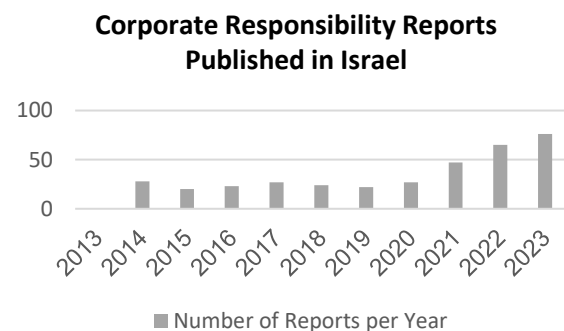
In April 2021, the Israel Securities Authority (2021) published a proposed ESG disclosure outline, after receiving numerous public comments and holding roundtables, under which it called on all reporting corporations to publish annual corporate responsibility reports based on accepted international criteria (such as GRI or SASB). In explaining the recommendations, the Authority noted a consensus among respondents that there is room for ESG disclosure by public companies, however there was no unanimity on whether implementation should be mandatory or voluntary, and considering that in leading global regulations (European Union and Britain) the requirement does not come from securities laws, and wanting to drive a gradual process and avoid regulatory arbitrage between public and private companies, it was decided that reporting would be voluntary at this stage. In addition to publishing the outline, the Authority conducted professional training for corporations on ESG reporting.

Additionally, in September 2024, the Israel Securities Authority published [a report summarizing findings from a comprehensive audit on environmental risk disclosure and reporting in reporting corporations](#). The audit was conducted among a series of public companies from various sectors, reflecting an expansion of the traditional view that environmental and climate risks are primarily relevant to companies in polluting industry and energy sectors.<sup>17</sup> In the findings report, the Authority points to numerous cases of lack of proper policy for assessing and managing environmental risks, weak board oversight of the issue, and deficiencies in estimating risk materiality and disclosure provided about them in public reports relative to securities regulations requirements, even among companies operating in environmentally high-risk sectors. In light of all this, the Authority calls on reporting corporations to work toward meeting their legal disclosure obligations on the subject, and recommends conducting environmental risk assessment according to accepted methodology and in accordance with the double materiality approach elaborated above.

As noted by Bukspan (2024), anyone with sense understands that these deficiencies mentioned by the Securities Authority raise many ripples of significant potential risks. These risks relate not only to disclosure policy expected

henceforth by the Securities Authority itself, but to existing risks for reporting corporations and their officers, also from private and civil enforcement, in the form of class actions and derivative suits, among other things due to potential breach of oversight duties by officers in these corporations. In conclusion, the findings report and conclusions arising from it reflect acceleration of the trend of tightening regulatory expectations from the Securities Authority regarding disclosure on environmental matters.

Furthermore, it can be seen that until 2020, the number of companies publishing ESG reports was in a relatively constant and low range, with a significant portion being government companies and banks required to publish ESG reports and dual-listed companies. From 2021, significant growth can be seen in the data, allowing the conclusion that these steps had a welcome impact on the capital market [from INFOSPOT]:



To complete the picture, it should be noted that of the ESG reports published in 2023, 24% are from companies in the energy sector, 20% from the financial sector, 17% from manufacturing industry, 14% from technology, 8% from real estate, and the rest from various sectors. It can be assumed that from 2025 onwards, additional growth will be recorded in the number of Israeli companies publishing ESG reports, driven by new regulations taking effect in the United States and Europe, which in certain cases may also apply to foreign companies if they are held by companies subject to the regulation or constitute a significant factor in their value chain, if they have material activity in the relevant territory, or if they are listed for trading there.

Despite all this, the situation is far from satisfactory. The scope of companies reporting ESG in Israel is still very low, considering the total number of companies whose securities are listed for trading on the Tel Aviv Stock Exchange, which stands

<sup>17</sup> As mentioned in the findings report, a breadth questionnaire was distributed to a sample of 445 reporting corporations, and was intended to provide primarily procedural and statistical information regarding their assessment and management of environmental risks; a depth questionnaire was distributed to a smaller sample of 27 corporations, and was intended to provide more in-depth and broader information on these issues, based on evidence and elaborations received from the corporations.

at over 600 (Tel Aviv Stock Exchange, 2024); some do not publish the report continuously or publish long after the relevant reporting year; [examination of the reports](#) shows that no uniform reporting method is implemented, making comparability difficult – some companies report according to accepted global standards like GRI (most common), SASB, UNGC and others, others according to local standards (like Maala questionnaire), according to some combination, or in a completely independent format. Sometimes it is even apparent that the report serves mainly as a marketing tool while presenting selective information.

In this context, it is worth mentioning the following initiatives regarding ESG reporting in Israel:

- According to a 2003 government decision and 2009 Government Companies Authority director guidelines, government companies are required to formulate strategic environmental policy, publish it publicly and report on its implementation through a [sustainability report](#). In practice, not all government companies publish reports as required, and even among those that do, there is a wide disclosure range from full ESG reports prepared according to international standards to brief laconic reporting.
- [The Equal Pay for Female and Male Employees Law \(Amendment No. 6\)](#) requires employers with over 518 employees to publicly publish, annually, a report including information on gender pay gaps, starting with 2021 data.
- For over a decade, Banking Supervision in Israel has been outlining pioneering policy regarding ESG reporting, and since 2012 banking corporations and credit card companies have been required to publish corporate responsibility reports every two years (Bank of Israel, Banking Supervision, 2011). In December 2021, the directive was amended to require annual publication (Bank of Israel, Banking Supervision, 2021), and details of topics to be included were added. In December 2022, the detail requirement was expanded (Bank of Israel, Banking Supervision, 2022).
- In April 2023, the Stock Exchange launched a [corporate responsibility questionnaire](#) intended for listed companies that have not yet published full ESG reports. The questionnaire was developed based on

similar accepted questionnaires worldwide and includes about 40 closed questions in English in ESG areas.

- In July 2024, the Ministry of Environmental Protection published the first chapter (of six<sup>18</sup>) of [the Israeli taxonomy for classifying economic activities according to environmental benefit](#), based on the European taxonomy, as mentioned above. Taxonomy implementation is voluntary, and it is intended to serve as an aid tool for classifying investments according to their "climate value" in investment and financing processes based on measurable and uniform definitions.

In conclusion, it appears that the last two years mark a trend of improvement in regulatory initiatives and actual publication of ESG reports in Israel, but to establish comprehensive, reliable, and comparable ESG reporting standards in Israel, regulators need to take more significant steps.

## Summary and Recommendations

In the absence of ESG reporting regulation in Israel, investors struggle to compare companies and properly assess ESG exposures in decision-making processes. This conclusion clearly emerges from the IFIE survey and Goren and Zviran research described above, and it also follows from the fact that sometimes financial statements do not reflect potential future implications of ESG weaknesses, as elaborated in previous chapters. The improper greenwashing phenomenon has not skipped Israel, and there are companies among the most polluting that contribute to green organizations, thereby diverting public attention from environmental damage they cause, that set vague long-term goals difficult to monitor effectively, that perform "cosmetic exercises" of rebranding and using "laundered" terminology to avoid negative sentiment associated with their activity without real change, and choose to present selective information on ESG aspects while highlighting data that establishes a positive image for them. We also note that according to our position, whereby ESG reporting is important information for investors, subject to materiality of course, it is appropriate that regulators supervising financial institutions – the Capital Market Authority and Banking Supervisor – set more explicit requirements regarding consideration of ESG aspects in investment and financing decisions by entities under their supervision. However, such a

18 The chapters are: (1) Mitigation (reduction): Reducing greenhouse gas emissions; (2) Adaptation to climate change; (3) Sustainable use of water and protection of water resources; (4) Transition to a circular economy; (5) Pollution prevention and control; (6) Protection and restoration of biodiversity and ecological systems.

move will only be possible after establishing structured ESG reporting infrastructure by companies.

Beyond this, in an era where ESG norms are becoming an integral part of business discourse and practices worldwide, global developments in reporting over the past year force regulators to take a position whether to join the global trend or stay behind. Sitting on the fence at this crossroads risks tagging Israel as disconnected from major trends in the financial world and causing international investment bodies that have adopted green investment policies to withdraw from investments in Israel or reflect a negative premium due to lack of clarity about their ESG ratings.

There is also public interest in such reporting as it serves as a powerful incentive for companies to improve their conduct, both due to the exposure itself, the bias they might receive from investors, consumers, and other factors as a result, and because reporting provides a clear and measurable status picture and ability to set goals and examine progress – not just for readers, but also for the company itself. At the macro level, the positive impacts will be establishing a more ethical society and preserving Earth for future generations, and will help Israel meet environmental goals it committed to, thereby reducing the gap with the world.

However, one cannot ignore that for understandable reasons, companies generally are not eager to disclose information about their business activities, and the concern that reporting requirements will constitute bureaucratic burden and impose costs that might burden their entrepreneurship and business growth, resulting from significant preparation required for ESG reporting that may include allocating dedicated roles in the organization, consultant fees and adapting systems and work procedures, as well as costs of collecting, analyzing, and reporting information on an ongoing basis.

In our view, both in light of global changes and following the awakening that has begun in Israel in the ESG field, the time has come for regulators in Israel to initiate adoption of *mandatory* global ESG reporting standards, and this is the next logical step in the series of steps taken by them so far. However, the scope of reporting requirements should be examined through cost-benefit analysis to limit imposing associated costs only to cases where it will have material impact in each of the following four aspects: scope of application, company size,

standard format, and sectoriality. Below is elaboration regarding each of these aspects.

*First Aspect: Scope of Application* – Public disclosure requirements outside capital market boundaries are not common in the landscape, but regarding ESG disclosure which is entirely about preventing harm to the *general* public, the question arises whether there is justification for distinction between public and private companies,<sup>19</sup> when there are private corporations with environmental and social impact no less than public companies. Indeed following this claim, among others, the Securities Authority decided not to impose mandatory reporting requirements when examining the issue in 2021.

In this context, two main schools of thought can be identified worldwide: *Europe*, as reflected in the CSRD directive, stands at the forefront of global ESG ideology and uses reporting as a tool to achieve the broad goal of establishing responsible corporate conduct norms, therefore applying reporting requirements also to large private companies and adopting double materiality definition, addressing company impacts on the environment. Conversely, the *American* approach, as expressed in SEC regulation, does not decide the principled-ideological discussion on the subject between the two political camps in the United States, and its objective function is to ensure investors have full relevant information for making investment decisions according to their considerations, therefore applying only to public companies.

In summary, this is not a clear-cut issue and there are certainly weighty arguments on both sides.

In our view, under cost-benefit analysis, arguments supporting limiting reporting requirements at this stage to public companies prevail, for the following reasons: many large companies in Israel trade on the Tel Aviv Stock Exchange; the public has more significant interest in public companies, among other things because a considerable portion of their pension funds is invested in listed companies; moreover, companies that prosper and succeed thanks to public funds should show responsibility toward the public; public companies have organizational DNA more oriented toward monitoring and reporting information, therefore the additional burden on them will be smaller; the impact of ESG reporting by public companies on attracting foreign investments will be more significant compared to private companies.

The concern presented to the Securities Authority in responses to the call for comments about "flight" of public

<sup>19</sup> The use of the terms "public companies" and "private companies" in this chapter is intended for reporting and non-reporting entities, respectively, that are subject to the Securities Law.

companies to foreign capital markets due to regulatory arbitrage in Israel, significantly decreases with new regulations taking effect in the United States and Europe.

After an implementation period and according to conclusions drawn regarding the degree of influence on investment and financing decisions, on Israeli market attractiveness in the global investment arena, and on one hand, on increasing public awareness and degree of improvement in corporate conduct in Israel as a result, and on the other hand, regarding costs involved in reporting for companies – a more informed assessment can be made regarding justification for requiring ESG reporting from large private companies under cost-benefit analysis.

*Second Aspect: Company Size* – We believe that cost considerations to the corporation versus public benefit that guided legislators over the years in providing various exemptions from certain disclosure requirements to small reporting corporations, as defined in [Securities Regulations \(Periodic and Immediate Reports\)](#), are also appropriate for this matter, and therefore we propose that these corporations not be required, at least initially, in implementing ESG reporting requirements, to be subject to them.

*Third Aspect: Standard Format* – In our view, the most relevant standard for implementation in Israel is ISSB, which is set to become a leading global reporting standard and receives broad wall-to-wall support. ISSB corresponds with standards implemented in Israel in financial statements (IFRS) of public companies, and is highly synchronized with other leading reporting frameworks worldwide and works to map and simplify adjustments to them as needed, thus minimizing duplicate reporting for companies subject to parallel reporting requirements. Additionally, it focuses on information relevant and material to financial markets, not broadly on all stakeholders, like GRI (although they can of course use it for their needs), and in the same breath provides a comprehensive and holistic information system relying on experience and accumulated knowledge of established standards and advice from world's leading financial entities.

Also in comparison to new regulatory requirements in the United States and Europe, ISSB can be seen as a reporting framework balancing between very extensive CSRD requirements on one side, and more limited SEC requirements on the other side:

	ISSB	CSRD – ESRS	SEC Rule
Geographic Scope	Global	European companies or those with activity in Europe (subject to criteria)	Companies traded in United States
Regulating Body	Private – IFRS	Regulator – European Union	Regulator – U.S. Securities and Exchange Commission
Mandatory / Voluntary	Currently voluntary. Appears will be adopted mandatorily in some countries	Mandatory	Mandatory
Materiality Definition	Single materiality	Double materiality	Single materiality
Topics	Environmental, social and corporate governance	Environmental, social and corporate governance	Climate
Carbon Emissions Disclosure	Scope 1+2+3	Scope 1+2+3	Scope 1+2
External Verification Requirement	Subject to local regulation	Yes	Yes

*Fourth Aspect: Sectoriality* – In our view, reporting requirements should apply to all sectors. Social aspects and corporate governance aspects are generally relevant to all companies to some degree; and regarding environmental aspects – while there may be variation in its level of actuality between different business sectors, ISSB anyway subjects disclosure requirements to financial materiality; disclosure requirement is also for opportunities not just risks; and furthermore, the standards include sector-adapted implementation guidelines (based on SASB).

In conclusion, we call on the Securities Authority to promote mandatory annual ESG reporting requirement based on ISSB standards by reporting corporations in Israel (except small corporations), subject to providing appropriate preparation period for corporations. This vital move will not prevent future discussion of need to expand reporting

requirements, fully or partially, also to large private companies and additional entities, while monitoring global developments and conducting in-depth discussion of reporting obligation concept for these entities.

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## Appendix: Expanded Review of ESG Investment Trends Globally and in Israel

### 1. The Relationship Between ESG Performance and Returns

Academic literature contains numerous studies showing a positive correlation between ESG performance and returns. One of the most comprehensive and up-to-date works on the subject is a meta-analysis published by NYU Stern Center and Rockefeller Asset Management, examining over 1,000 individual studies in the field conducted during 2015–2020. Findings show that in approximately 58% of cases there is a positive correlation between ESG and companies' financial performance and stock returns, with most remaining percentages consisting of neutral or mixed performance (Whelan et al., 2021). Similar findings also emerge from a 2015 meta-analysis examining an impressive scope of no less than 2,250 academic studies published during 1970–2014 (Friede, Busch & Bassen, 2015). We note that unlike effects at individual company financial performance level, which are relatively significant, both studies include mixed findings regarding stock portfolios (according to investment indices such as Sharpe or Alpha), showing weaker differences. Robeco offers several possible explanations for this, such as difficulty measuring ESG impact at portfolio level and isolating interactions between companies and industries, and more (van der Grient, Berkouwer & Wiersma, 2024).

Additionally, a 2022 study by Deloitte Switzerland conducted among 300 companies found correlation between high ESG scores and EBITDA/EV multiple. Interestingly, more significant growth in the multiple was observed among companies that improved their ESG score (meaning the market rewards ESG improvement itself more significantly than an initially high status quo). A follow-up study conducted on the same company sample (Deloitte, 2023) found that higher ESG scores result in lower debt costs (and consequently higher value according to the CAPM model).

There are claims that despite the broad scope of research on the subject, it's difficult to rely on them due to inherent methodological challenges, particularly the difficulty in isolating ESG component impact on performance. However, even among skeptical schools of thought, there is broader agreement that ESG-oriented investments show greater resilience during crisis periods.

Indeed, one cannot ignore that in the short term there may be rivalry between shareholders' interests who risked their money and invested it in the company to maximize profits and responsible conduct toward employees, consumers, environment, etc. For example, a company choosing to raise junior employees' wages to reduce pay gaps effectively reduces shareholder profit by the amount of the raise. However, in long-term perspective, there is much logic in saying that companies with diverse workforces proven by research to contribute to performance, satisfied employees, ethical corporate governance free from corruption, and with "branding premium" from customers for environmental and social responsibility, will show better performance. Moreover, this conduct indicates companies with responsibility and broad perspective in their organizational DNA, and more efficient resource allocation – beneficial traits in their business conduct as well. Finally, the growing investor preference for sustainable companies and social pressure on the issue, as will be elaborated below, gives them an advantage in competition for capital resources.

### 2. Global ESG Investment Trends

Below are several leading surveys from the past year presenting global trends in ESG investments:

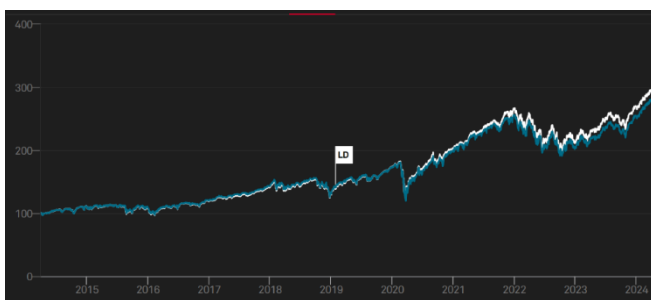
*A Capital Group (2023) survey* among 1,130 investment bodies from 25 countries shows that ESG consideration adoption rate is 90%, with 26% declaring ESG as central to their investment strategy. 39% view ESG integration as an act to reduce portfolio risk and volatility, and 45% believe it will improve investment results in the long term.

*According to a PwC survey*, which included over 150 Private Equity investors worldwide, 95% integrate ESG considerations in pre-acquisition due diligence, and about half avoided at least one deal in the past year due to ESG considerations. Additionally, 33% of respondents integrate ESG considerations in valuations. 37% of respondents indicated that the primary reason for considering ESG aspects is investment value maximization, and 70% included it among their top three reasons. In any case, most participants view ESG aspect management as aligned with achieving returns rather than contradicting them (Janson et al., 2023).

*A KPMG (2023) survey*, including over 200 M&A professionals in the United States, as well as Europe, Middle East, and Africa (collectively called EMA) found that 74% include ESG considerations as part of their M&A strategy. 53% of U.S. investors and 66% of EMA investors said deal cancellation is the main result of a material finding in ESG Due

Diligence. In contrast, 76% of M&A debt providers said that despite material findings they proceeded with providing financing or underwriting for the deal, but with more conservative terms. Conversely, 62% of U.S. investors and 68% of EMA investors will pay a premium for an asset demonstrating high level of ESG code aligned with their agenda. Additionally, 27% of U.S. investors and 48% of EMA investors said they will conduct ESG Due Diligence more frequently in the future (on over 80% of deals). This represents a significant increase from 16% in the U.S. and 25% in EMA in the previous two years.

Comparison of the S&P 500 ESG index (white line)<sup>20</sup> to S&P 500 (blue line) over recent years shows it generally demonstrates better performance [from S&P GLOBAL]:



There is a wide range of estimates regarding the global volume of ESG investments, as there is no universal definition for the term ESG, and it includes "gray areas" that allow flexibility in determining which investments fall under it, however all estimates show dramatic growth. Thus, GSIA's (Global Sustainable Investment Alliance) 2022 annual report shows that during 2016–2022, there was double-digit growth each year in global ESG investment volume (due to substantial tightening in the methodology for measuring ESG investment volume in the United States in 2022, and lack of historical data adjusted to the new methodology, the U.S. cannot be relied upon for comparison, however other regions demonstrate sufficient significant growth to infer the global trend):

**FIGURE 1**  
Snapshot of global sustainable investing assets,  
2016–2022 (USD billions)

REGION	2016	2018	2020	2022
Europe	12,040	14,075	12,017	14,054
Canada	1,086	1,699	2,423	2,358
Australia & New Zealand	516	734	906	1,220
Japan	474	2,180	2,874	4,289
<b>Sub-total (USD Billions)</b>	<b>14,115</b>	<b>18,688</b>	<b>18,220</b>	<b>21,921</b>
% change		32%	-3%	20%
United States	8,723	11,995	17,081	8,400
<b>Total (USD Billions)</b>	<b>22,838</b>	<b>30,683</b>	<b>35,301</b>	<b>30,321</b>
% change		34%	15%	n/a

Note: 2022 not applicable due to a change in methodology

Future forecasts also present a similar trend. According to [Bloomberg's January 2024 publication](#), global ESG investment volume was over \$30 trillion in 2022, and by 2030 it is projected to exceed \$40 trillion; more than 25% of projected total managed assets. PwC data from December 2022 presents growth forecast from \$18.4 trillion in 2021 to \$33.9 trillion in 2026, an increase of about 84%. A Statista (2024) survey, answered by 325 professional investors worldwide, shows that over 50% plan to increase their ESG investment volume in 2024.

### 3. Generational Differences in ESG Approach

Generational differences regarding ESG were demonstrated in Stanford Graduate School of Business research, conducted among almost 2,500 investors from diverse backgrounds, finding significant differences in ESG approach based on age (Haber et al., 2022). For example, 70% of young investors (Millennials and Generation Z) said they are "very concerned" about environmental issues, compared to only 35% of older investors (Baby Boomers and above). Similarly, significant gaps were also found regarding social and corporate governance issues. Moreover, the almost absolute majority of older investors opposed the idea of giving up any amount from pension savings to support ESG goals, compared to majority of young investors who expressed willingness to give up a moderate or even significant percentage to promote ESG goals. The WFE global risks report also noted that younger respondents rated environmental risks significantly higher than older age groups.

### 4. ESG Investment Volume in Israel

Currently, there are no verified data on the total volume of ESG investments in Israel, however for demonstration, according to IFIE (2024) estimates, 0.5% of total managed assets in Israel are channeled to impact investments (which can be seen as a specific type of ESG investments), significantly lower than the global figure of 1–2%. Another specific indication can be obtained from the Maala Corporate Responsibility Index, which despite fantastic returns it consistently shows in the last eight years relative to TA-35 and TA-125 indices, the ETF tracking it<sup>21</sup> attracts dramatically low investment volumes compared to benchmark indices. Additionally, out of

<sup>20</sup> Mainly excluding companies from the oil and coal, weapons, and companies that do not meet the UNGC.

<sup>21</sup> KTF TA-Maala Index.

approximately 5,400 bodies<sup>22</sup> that signed the UN's PRI convention (PRI, 2023),<sup>23</sup> as of March 2023, only a few bodies are from Israel (and 36 in total from the entire Middle East).

In 2022, research was conducted at Tel Aviv University's Faculty of Management by Jackie Goren and Moshe Zviran (2023), including a questionnaire answered by directors and managers from 59 public companies in Israel, as well as in-depth interviews. The research shows that 59% of respondents view ESG as an essential part of corporate activity, and 64.5% believe that professional development in the field will positively affect company value. However, the barrier described as most central is that the field is considered one that doesn't return on investment. Additional major barriers found are low board involvement in ESG implementation in the organization and lack of required knowledge. In practice, only half of respondents integrate ESG principles in strategic planning processes.

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22 Asset management data is only available for 2021, in which they stood at \$121 trillion in assets managed by about 3,800 entities.

23 Six principles established by the UN for responsible investment management.