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BRIEFING

What Companies Need to Do and Consider on ESG Disclosure

29 October 2026



Key themes

1. Purpose and status of Guidelines
2. Why this matters commercially, not just reputationally
3. What companies need to understand: the E, S and G building blocks
4. Governance and internal responsibilities
5. Understanding the investor audience before designing disclosure
6. Choosing a reporting format
7. Which reporting frameworks to consider
8. The wider Saudi regulatory and policy context companies should be aware of
9. Practical action checklist for companies
10. Prepare now, not when a deadline is announced

01 Purpose and status of Guidelines

The Saudi Exchange has issued the ESG Disclosure Guidelines (the "**Guidelines**") to promote awareness of environmental, social, and governance ("**ESG**") considerations among listed companies, provide practical guidance on ESG concepts, and support issuers in assessing, measuring, and disclosing their ESG performance. The Guidelines outline key questions for companies to consider and introduce a range of recognized reporting frameworks and disclosure approaches that can be used to enhance transparency and accountability.

While the Guidelines are not legally binding and should be viewed as guidance rather than mandatory disclosure requirements, they clearly signal the increasing importance of ESG practices and reporting. The Guidelines are intended to be a living resource and will continue to evolve alongside developments in the ESG landscape.

In this context, companies should consider proactively aligning their governance, reporting processes and internal ESG capabilities with the principles reflected in the Guidelines. While some companies have already adopted voluntary ESG reporting and are building a reporting track record ahead of any mandatory requirements, others have yet to begin. For those companies, now may be an appropriate time to assess their ESG readiness and consider establishing a structured approach to reporting. Taking these steps early can support

an efficient response to future regulatory developments, while also helping companies meet evolving investor, stakeholder and market expectations regarding transparency, sustainability and long-term value creation.

02 Why this matters commercially, not just reputationally

While ESG disclosure in Saudi Arabia remains largely voluntary, market expectations are evolving rapidly. Investors, lenders, customers and other stakeholders are increasingly seeking transparency on how companies manage environmental, social, and governance matters, viewing such information as a critical indicator of long-term resilience, sustainability, and corporate value.

ESG reporting provides investors with insights that go beyond traditional financial metrics. It offers a deeper understanding of the quality of a company's governance, its approach to risk management, its ability to adapt to regulatory and market developments, and its capacity to create sustainable long-term value.

The Guidelines identify several tangible commercial benefits of ESG disclosure, including improved access to long-term capital, more favorable financing terms, and greater appeal to long-term institutional investors, such as pension funds.

They also highlight opportunities for cost savings, revenue generation and risk mitigation, while providing deeper insight into stakeholder needs that can support innovation and strengthen competitiveness. Disclosure can also enhance corporate reputation, strengthen employee engagement, support talent attraction and retention, and differentiate companies in an increasingly sustainability-focused market.

03 What companies need to understand: the E, S and G building blocks

"ESG" and "sustainability" are used interchangeably in the Guidelines and both encompass the environmental, social and governance considerations that can affect a company's ability to execute its strategy and create value; although sometimes labelled "non-financial," how a company manages ESG has material financial consequences. Companies should map their own exposure against the three pillars:

E	S	G
Environmental	**Social**	**Governance**
key issues include GHG emissions (absolute and intensity), product carbon footprint, financing environmental impact, climate change vulnerability, biodiversity and land use, water stress, raw material sourcing, toxic emissions and waste, packaging material and waste, electronic waste, and opportunities in clean tech, green building, renewable energy, and cleaner hydrocarbon energy such as carbon capture, utilization and storage.	key issues include labor management, health and safety, human capital development, supply chain labor standards, product safety and quality, chemical safety, privacy and data security, responsible investment, and social opportunities such as access to communications, finance, nutrition and health.	key issues include board effectiveness in overseeing management and protecting shareholder value, tax transparency, alignment of pay with strategy, ownership and control structure, transparency and independence of accounting and audit practices, and corporate behavior including business ethics, fraud, corrupt practices, and money laundering.

04 Governance and internal responsibilities

As a practical first step, companies should clearly define the internal roles, responsibilities and capabilities required for ESG reporting and establish effective coordination among key functions, including finance, investor relations, communications, legal, sustainability, and relevant business units. Senior management should demonstrate a clear strategic commitment by actively contributing to, and overseeing, the reporting process.

A company's board of directors should be engaged from the outset to help define its ESG priorities and sustainability commitments and to signal that ESG-related risks and opportunities are being managed at the highest levels of governance. This is a factor that many investors consider when assessing the quality of management and long-term value creation.

Practical questions companies should be able to answer include: How is ESG disclosure used to engage and align board members, senior executives and employees? What are the CEO's and Chairman's key ESG issues and future goals? How are board members, senior executives and employees actually involved in ESG-related decision-making, planning, monitoring and activities?

05 Understanding the investor audience before designing disclosure

Investor expectations for ESG information vary significantly. Companies should therefore understand their existing ESG engagement with investors, their desired investor mix, and the expectations of their most significant investors. While some investors may prefer material ESG information to be incorporated into financial or integrated reporting, others may expect a detailed, stand-alone ESG report. These preferences should inform the content, scope and format of ESG disclosure, as well as the company's approach to investor engagement.

06 Choosing a reporting format

The Guidelines present three common reporting formats, each serving the same underlying purpose of making material ESG information publicly available to existing and prospective shareholders, with the appropriate choice varying by industry.

Stand-alone sustainability report	Financial reporting with material ESG factors	Integrated reporting
Addresses the ESG information needs of investors and, at times, other stakeholders such as consumers and civil society.	Where a company determines that certain ESG factors are material to its business over a specific time horizon, it may include that information within its financial reports, typically covering a narrower set of factors than the other two options.	A concise communication of how the company's strategy, governance, performance and prospects, in the context of its external environment, lead to value creation over the short, medium and long term.

07 Which reporting frameworks to consider

The Guidelines direct issuers to their ESG themes/key issues appendix together with a companion appendix of reporting initiatives to help identify what is material and which framework best suits their industry. Frameworks and initiatives referenced include:

The United Nations Global Compact, a voluntary alignment of company operations and strategy with ten principles on human rights, labor, environment and anti-corruption;

The Climate Disclosure Standards Board ("**CDSB**"), a framework for reporting environmental information with the same rigor as financial information;

The United Nations Guiding Principles Reporting Framework, the first comprehensive guidance for companies to report on human rights issues consistent with the United Nations Guiding Principles on Business and Human Rights;

UNCTAD - Intergovernmental Working Group of Experts on International Standards of Accounting ("**ISAR**"), which supports developing countries and transition economies in implementing best practices in corporate transparency and accounting;

Carbon Disclosure Project ("**CDP**"), which requests standardized climate change, water and forest information from major listed companies via annual investor-backed questionnaires;

Global Reporting Initiative ("**GRI**"), whose standards are among the most widely used global sustainability reporting;

The International Integrated Reporting Framework ("**IFRS**"), providing concise, comparable disclosure of governance, performance and prospects;

Sustainability Accounting Standards Board ("**SASB**") Standards, which identify industry-level sustainability topics and metrics likely to be material, originally developed for issuers filing with the US Securities and Exchange Commission; and

The Financial Stability Board ("**FSB**") Task Force on Climate-related Financial Disclosures ("**TCFD**") framework, an industry-driven voluntary approach to consistent financial disclosure of climate-related risks and opportunities across eight key sectors.

Companies should select the framework(s) that best match their sector, investor base, and existing reporting infrastructure, rather than defaulting to the most internationally prominent option without a fit assessment.

08 The wider Saudi regulatory and policy context companies should be aware of

Saudi Arabia has developed an increasingly sophisticated regulatory framework that supports environmental sustainability, social responsibility, and sound corporate governance, reflecting Saudi Arabia's broader economic transformation agenda under Vision 2030. While ESG is often discussed as a global trend, many of its core principles are already embedded across Saudi Arabia's regulatory and policy landscape.

To illustrate this evolving framework, we provide below a high-level overview of selected legal instruments relating to the Environmental (E), Social (S), and Governance (G) pillars. These examples are intended for illustrative purposes only and do not represent a comprehensive review of the full body of applicable Saudi laws, regulations, policies, standards, or sector-specific requirements that may be relevant to an ESG assessment.

Environment

Since the launch of Vision 2030, Saudi Arabia has placed sustainability at the center of its economic transformation agenda. Following its accession to the Paris Agreement in 2016, Saudi Arabia introduced several landmark initiatives, most notably the **Saudi Green Initiative** in 2021, which seeks to accelerate the transition to sustainable energy, reduce carbon emissions, expand reforestation and land restoration efforts, and protect terrestrial and marine ecosystems through a long-term climate action framework. These initiatives are accompanied by an increasingly comprehensive regulatory and policy framework. The examples set out below are illustrative only and represent a small subset of the wider measures through which ESG considerations are being integrated into Saudi Arabia's regulatory landscape.

At the regulatory level, the **Environmental Law** (issued by Royal Decree No. M/165 dated 19/11/1441H) establishes the primary framework for environmental protection, requiring permits or licenses for an environmental activity or an activity that has an environmental impact and imposing obligations relating to the monitoring and reporting of emissions and pollutants. The Environmental Law and its implementing regulations also address climate-related matters, including emissions management and the regulation of ozone-depleting substances. Complementing this framework, the **Waste Management Law** (issued by Royal Decree No. M/3 dated 5/1/1443H), regulates waste management activities through a licensing regime administered by the National Center for Waste Management, while the **Water Law** (issued by Royal Decree No. M/159 dated

11/11/1441H), provides an integrated framework for the conservation, development, and sustainable management of Saudi Arabia's water resources.

Sustainability considerations have also been incorporated into Saudi Arabia's financial regulatory framework. In this regard, the Capital Market Authority issued the **Guidelines for Issuing Green, Social, Sustainability, and Sustainability-Linked Debt Instruments** in 2025, providing a framework to facilitate sustainable financing and support the allocation of capital towards projects that advance environmental and social objectives. Collectively, these measures reflect Saudi Arabia's commitment to embedding sustainability principles across its regulatory, and financial systems in support of the broader objectives of Vision 2030.

Social

Human rights protection begins at the highest level with the **Basic Law of Governance** (issued by Royal Order No. A/90 dated 27/8/1412H), Chapter 5 of which, "Rights and Duties," sets the foundational guarantees from which sector-specific legislation flows. Labor and employment standards rest on the **Labor Law**, (issued by Royal Decree No. M/51 dated 23/8/1426H), which prohibits discrimination based on gender, disability, age, or any other ground, and requires employers to maintain clean, hygienic workplaces and take necessary precautions to protect workers from occupational hazards, diseases, and machinery risks, backed by sector-specific Civil Defense safety regulations and the **Social Insurance Law** (issued by Royal Decree No. (M/273) dated 26/12/1445H), which provides occupational injury and hazard insurance coverage for workers.

On products and chemicals, the **Product Safety Law** (issued by Royal Decree No. M/36 dated 29/1/1446H) governs any product placed or offered in Saudi markets and prohibits the manufacture, import, or marketing of unsafe products, supplemented by dozens of the Saudi Standards, Metrology and Quality Organization ("**SASO**") technical regulations requiring conformity assessment. The **Law of Management of Chemical Substances** (issued by Royal Decree No. M/38 dated 16/6/1427H), regulates import, export, and handling of chemicals through permits issued by designated competent entities.

On privacy, the **Personal Data Protection Law** (issued by Royal Decree No. M/19 dated 9/2/1443H) is the principal statute governing personal data processing, granting data subjects access, correction, and erasure rights, alongside the **Anti-Cyber Crime Law** (issued by Royal Decree No. M/17 dated 8/3/1428H), which identifies cybercrimes and determines their punishment to enhance information security.

Governance

Corporate governance in Saudi Arabia is principally governed by the **Companies Law** (issued by Royal Decree No. M/132 dated 1/12/1443H) and its implementing regulations, together with the **Corporate Governance Regulations** issued by the Capital Market Authority for listed companies (Resolution No. 8-5-2023 dated 25/6/1444H). These frameworks establish the core principles of effective corporate governance, including board oversight, accountability, transparency, and the protection of shareholder rights.

The governance landscape is further reinforced by a comprehensive body of legislation aimed at promoting ethical business conduct and safeguarding market integrity. This includes laws addressing bribery, corruption, fraud, money laundering, and other forms of financial misconduct. For example, the **Anti-Bribery Law** (issued by Royal Decree No. M/36 dated 29/12/1412H) criminalizes the offering, solicitation, or acceptance of benefits in exchange for influencing public decisions, contracts, licenses, or other governmental actions. Similarly, the **Anti-Money Laundering Law** (issued by Royal Decree No. M/20 dated 5/2/1439H), imposes a framework for preventing and combating money laundering.

The broader governance and compliance framework is complemented by several other key pieces of legislation, including the **Law of Combating Financial Fraud and Breach of Trust** (Royal Decree No. M/79 dated 10/9/1442H), the **Anti-Commercial Fraud Law** (Royal Decree No. M/19 dated 23/4/1429H), and the **Anti-Concealment Law** (Royal Decree No. M/4 dated 1/1/1442H), which is designed to combat illicit business arrangements and the circumvention of foreign investment regulations.

09 Practical action checklist for companies

1. **Conduct a legal and regulatory ESG assessment** to identify applicable requirements, disclosure obligations, and legal risks, and align ESG governance, policies, and reporting practices with evolving regulatory expectations.

2. **Identify material ESG priorities and develop an appropriate reporting approach**, taking into account the company's business activities, stakeholder expectations, investor requirements, and relevant reporting frameworks.

3. **Support ESG disclosure, stakeholder engagement, and continuous improvement initiatives** to enhance transparency, strengthen market positioning, and demonstrate progress against ESG objectives over time.

10 Prepare now, not when a deadline is announced

Although Saudi-listed companies are not yet subject to a confirmed ESG compliance deadline, waiting for one may represent a missed strategic opportunity. In practice, some companies have already begun voluntary ESG reporting and are building a track record ahead of any mandatory requirement, while others have not yet started reporting and should give active consideration to doing so.

Companies that begin preparing now will be better positioned to comply with future regulatory requirements, attract investment, enhance stakeholder confidence, and secure a competitive advantage over peers that postpone their ESG readiness initiatives.



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