Deloitte.

The new playbook:
ESG regulation and reporting in sports

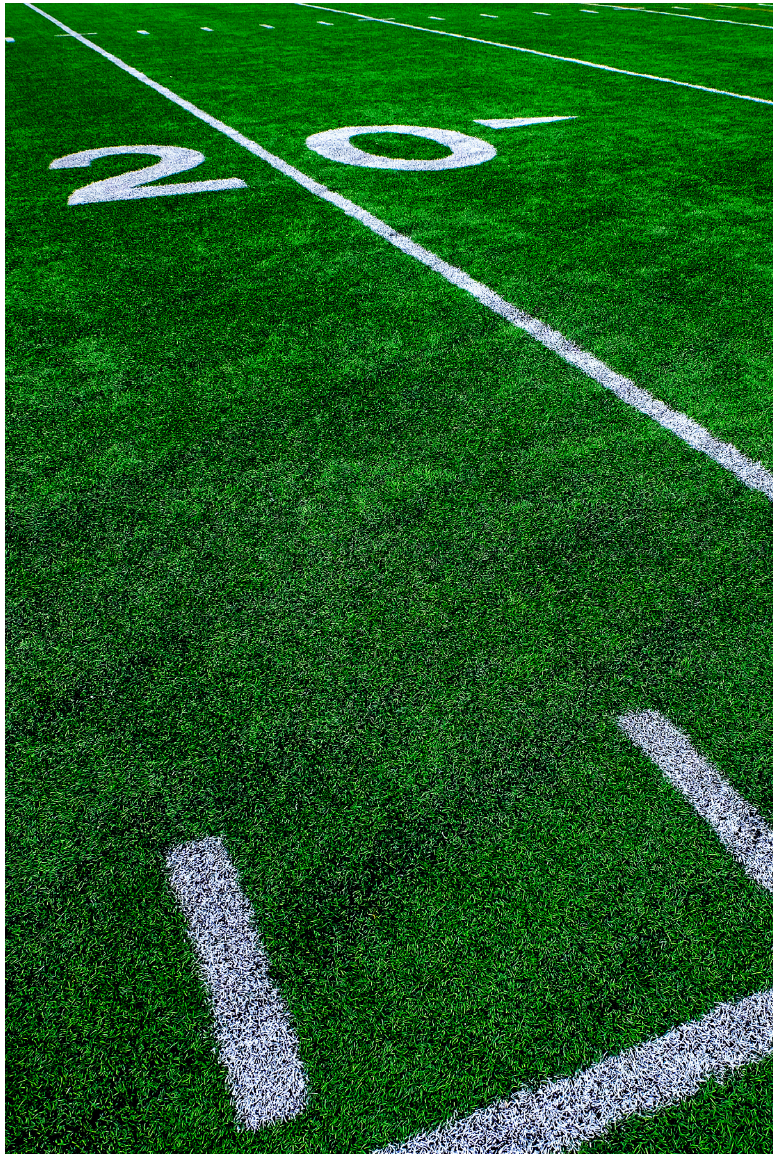
FIRST QUARTER

Commitment to fair play: Following rules on and off the field

Rules form the backbone of sports. In between all the spectacular plays, heart-pumping action, and incredible talent on display, rules allow the games to be played the right way. Lately though, a new set of rules has become more significant throughout the world, which is having an impact on the sports and entertainment landscape.

Environmental, social, and governance (ESG) reporting and regulation has become increasingly important across many industries, and now ESG is affecting the world of sports. From professional leagues to individual teams and athletes, there's a growing recognition of the desire to embrace sustainability, social responsibility, and good governance practices. Sporting events and organizations can leave a large environmental footprint. Reducing that footprint is an important consideration for the industry's long-term sustainability.

ESG refers to the measurement of a company's sustainability and societal impact. A wide array of stakeholders finds this information valuable to evaluate corporate behavior and predict future financial performance. This list includes investors, financial analysts, employees, consumers, boards of directors, ESG rating agencies, and the government.



Here's a summary of the leading ESG considerations:

1. **Environmental impact:** Environmental criteria can be used to evaluate a sports/entertainment entity's commitment to the natural world, focusing on energy use, waste management, and conservation of resources. This allows for responsible stewardship and sustainability, often reflecting the company's dedication to preserving the planet for future generations.

2. **Social impact:** Social criteria can be applied to delve into a sports/entertainment organization's approach to managing relationships with its employees, suppliers, customers, and the communities it serves. Embracing social criteria can be a testament to a company's dedication to ethical operations and sustainable growth, potentially enhancing its reputation and fostering long-term success.

3. **Governance impact:** Corporate governance encompasses aspects such as organizational structure, board composition, how executives are compensated, ethical business practices, and anti-competitive measures, which can provide accountability and integrity.

4. **Investor relations:** As more investors are considering ESG factors in their investment decisions, compliance with ESG regulations can create additional revenue-generating opportunities.

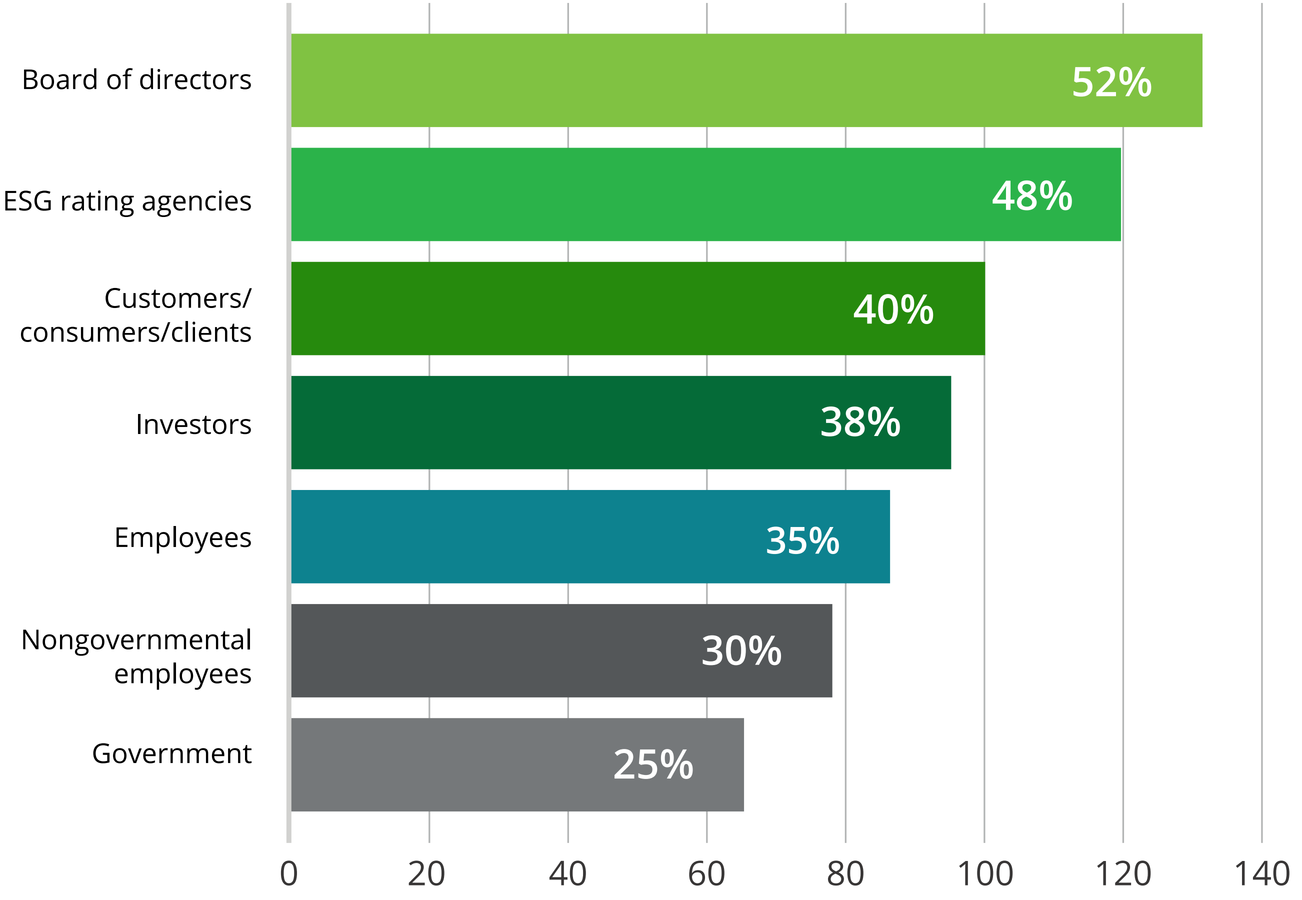
5. **Reputation and brand value:** Following ESG regulations can enhance the reputation of sports and entertainment entities, potentially making them more attractive to audiences, sponsors, and investors.

6. **Financial impact:** A commitment to ESG efforts often involves a cost, whether it's implementing new processes, training staff, or applying penalties for noncompliance. This could affect the financial health of organizations within the sports and entertainment industry.

Traditionally, the primary focus of sports has always been on the game itself. However, as its influence has expanded, so has its responsibility. Sponsors and stakeholders, including leagues, are increasingly demanding more from the teams they support. A commitment to ethical behavior, sustainability, and community engagement is now often seen as important as being at the top of the standings. Organizations should be prepared to follow the rules of these new requirements.

Deloitte commissioned an online survey in January 2024 of 250 executives of TMT companies, with a minimum annual revenue of $500 million, and a minimum of at least 100 publicly owned companies. Executives are defined as senior finance, accounting, sustainability, and legal executives with a minimum seniority of director, chief risk officers, general counsels, chief legal officers, or chief sustainability officers.

Which stakeholders do you feel the most pressure from regarding your organization's ESG reporting and disclosure policy? Select all that apply. N=250



SECOND QUARTER

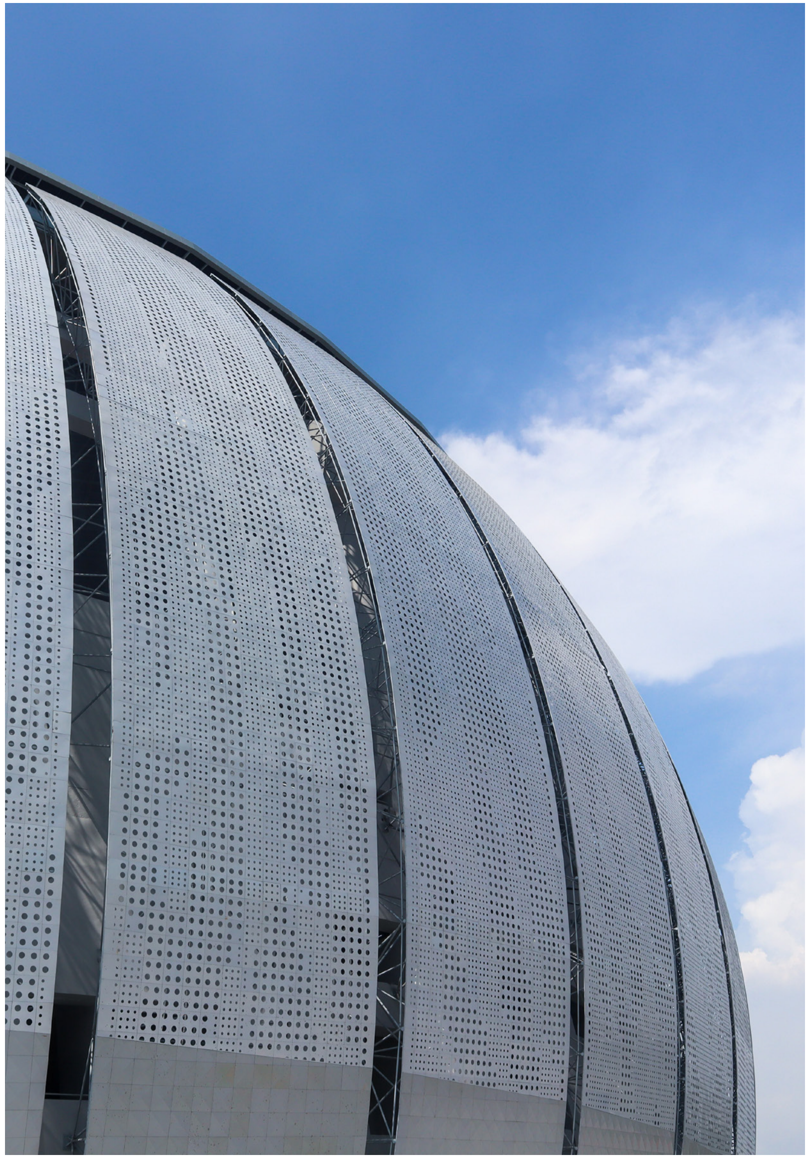
Scoring big:

A pledge to lessening the environmental impact of sports

Sporting events and organizations can have a significant environmental impact. Stadiums can consume immense resources, from construction to operation. When considering everything from the high-tech jumbotron to the water usage needed to maintain the grass, energy demands and carbon emissions can be vast.[1] Leagues generally hold thousands of games and events per year, each one with an environmental cost that can collectively add up.

Reducing that footprint is important. Reporting on the environmental impact allows a sports/entertainment entity to focus on ways it can more positively affect mother nature. Sports franchises often invest in environmentally friendly stadiums to receive tax benefits. Many organizations are adopting sustainable practices and transforming how we perceive sports venues. Solar panels are now common, in addition to rainwater harvesting systems that capture and recycle water. Green building materials and designs are being prioritized. Waste management practices have evolved to include recycling and composting programs that significantly reduce landfill contributions.

Overall, it's a shift that can change the industry. Continued commitment and effort by organizations will be compounded by environmental regulations and could lead to more significant changes in operations, along with the impact they deliver. Three initiatives represent some of the most significant mandatory changes in the sustainability landscape in years: the U.S. Securities and Exchange



Commission's (SEC) recent Enhancement and Standardization of Climate-Related Disclosures for Investors rule, the EU's Corporate Sustainability Reporting Directive (CSRD) rules, and new regulations from California that were signed by Governor Gavin Newsom in October of 2023.

The California rule[2]
A recent California rule is an example of an ESG regulation that was passed last year. It was enacted to require that large organizations doing business in the state follow new climate-related disclosure rules. Unlike the SEC rule, California's new laws also impact private companies.

Background of California rule:
California Senate Bill SB-253, known as the Climate Corporate Data Accountability Act, and California Senate Bill SB-261, known as the Greenhouse Gases: Climate-related Financial Risk Act, are part of the state's new climate disclosure system. SB-253 mandates that companies operating in the state with revenue exceeding $1 billion must disclose Scope 1, 2, and 3 GHG emissions via a central platform that is currently under development. Additionally, SB-261 mandates that companies doing business in California with revenue exceeding $500 million must disclose climate-related financial risks consistent with recommendations from the Task Force on Climate-Related Financial Disclosure (TCFD) framework.

Here are some examples of what organizations that have Scopes 1, 2, and 3 GHG emissions would be required to report:[3]

Scope 1

Heating used at stadiums for home games and training facilities.
Direct fuel consumption for racing teams and leagues.

Scope 2

Electricity demands of stadiums during home games and training.

Scope 3

Category 1: Emissions associated with the manufacturing of apparel and merchandise.

Category 2: Emissions associated with the production of equipment needed in facilities (mowers, heat lamps, ice baths, weight training equipment, etc.).

Category 5: Total amount of waste generated at stadiums during home games and training facilities throughout entire season.

Category 6: Emissions from chartered air travel to away games, preseason camps, etc.

The landmark legislation requires large entities operating in the state to be more transparent about their contributions to climate change. Sports organizations that meet the requirements will be expected to follow the regulations. This rule seems to be one of potentially many as other states have proposed similar legislation within their respective governments. Will there be even more to follow? We'll soon find out.

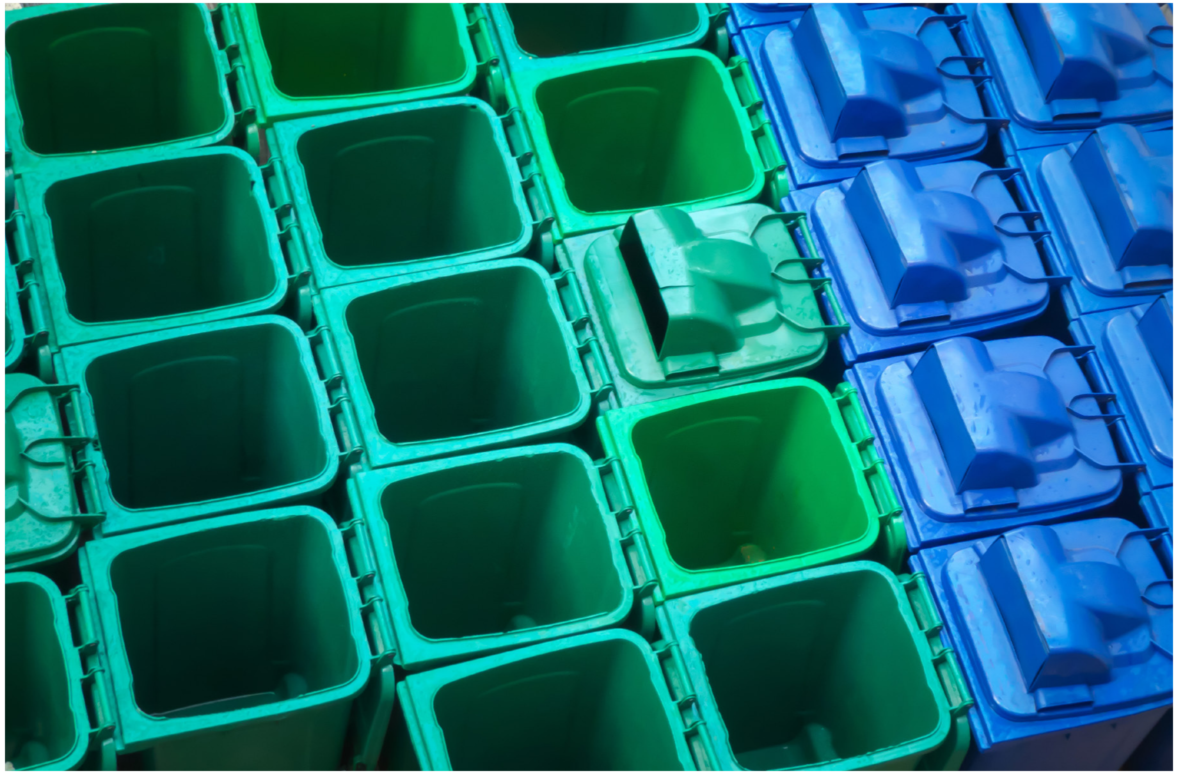
Examples of teams and players committing to help the environment:

1. A major sports organization has implemented a sustainability strategy focused on waste management, transportation, and energy use. It also recommends that its lead sponsors have their own green initiatives.

2. A top sports league partners with a campaign to reduce single-use plastic in its stadiums and arenas.

3. Several major companies are working to reduce the environmental impact of their supply chains by using recycled materials in their products, reducing water usage, and lowering greenhouse gas emissions.

4. Former professional athletes support a large variety of initiatives, such as clean water and sanitation projects, along with educating young people about the importance of environmental stewardship.



By measuring, reporting, and being accountable for their environmental impact, sports organizations can set a positive example to inspire significant change within the industry. Stadiums can become beacons of environmental stewardship. The sports world should feel encouraged to be more sustainable. It's time to harmonize the industry with the health of the planet.

THIRD QUARTER

Leading the way:
How sports can make a larger societal impact

One of the compelling aspects of sports is its ability to unite people from various walks of life. The passion for sports often transcends boundaries, creating a shared experience that can bring people from different backgrounds together into a collective fanbase. This power can make the social impact of ESG compliance in sports incredibly profound. By promoting diversity and supporting local communities, sports organizations are uniquely positioned to help drive positive social change on a grand scale.

When sports organizations actively report on their diversity, equity, and inclusion initiatives, they hold themselves accountable for fostering an all-embracing environment. These initiatives often involve increasing the representation of women, racially and ethnically diverse individuals, and other underrepresented groups both on and off the field. ESG reporting and regulation can also play an important role in reducing discrimination within the sports industry. By implementing effective policies to prevent discrimination and harassment, sports organizations can create safer and more welcoming environments.

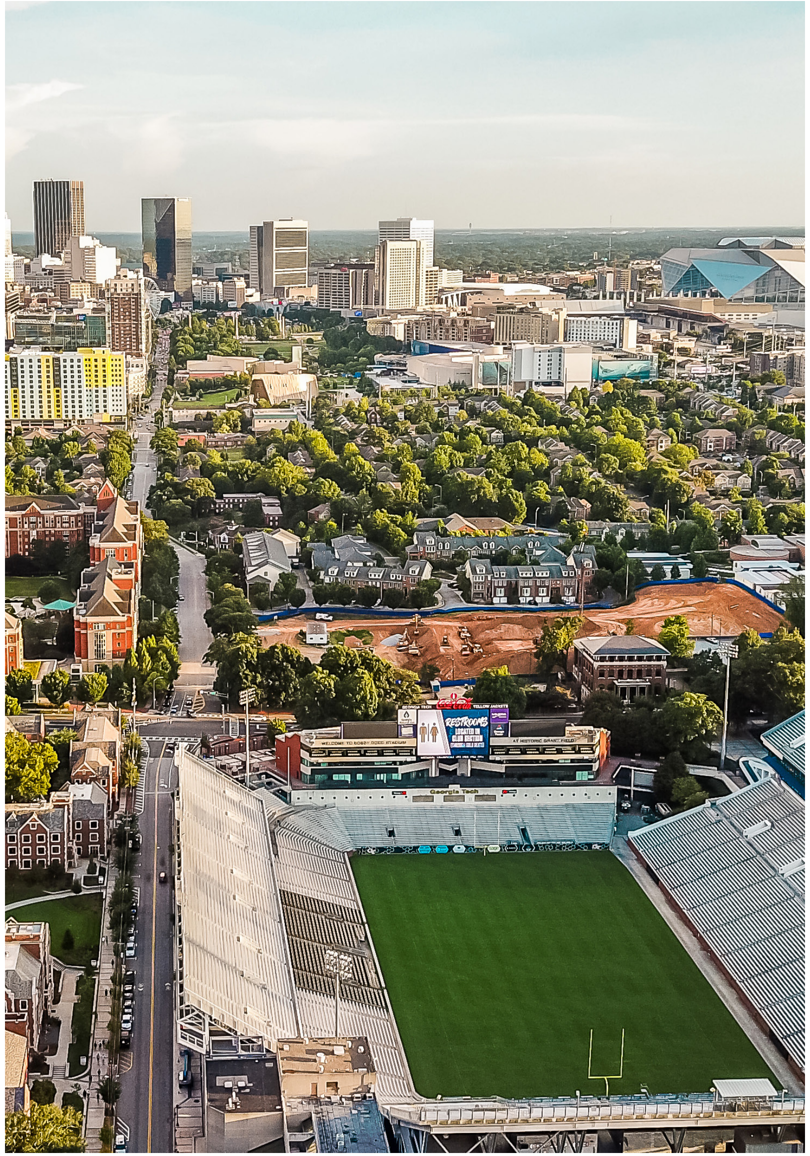
Community engagement is another important aspect in which a significant impact can be made. Sports organizations often do a great deal of philanthropic work, most have charitable foundations, and many work with their communities to get kids active through youth empowerment programs. These initiatives demonstrate a commitment to giving back, along with investing in infrastructure and facilities that can benefit the entire community.[4]

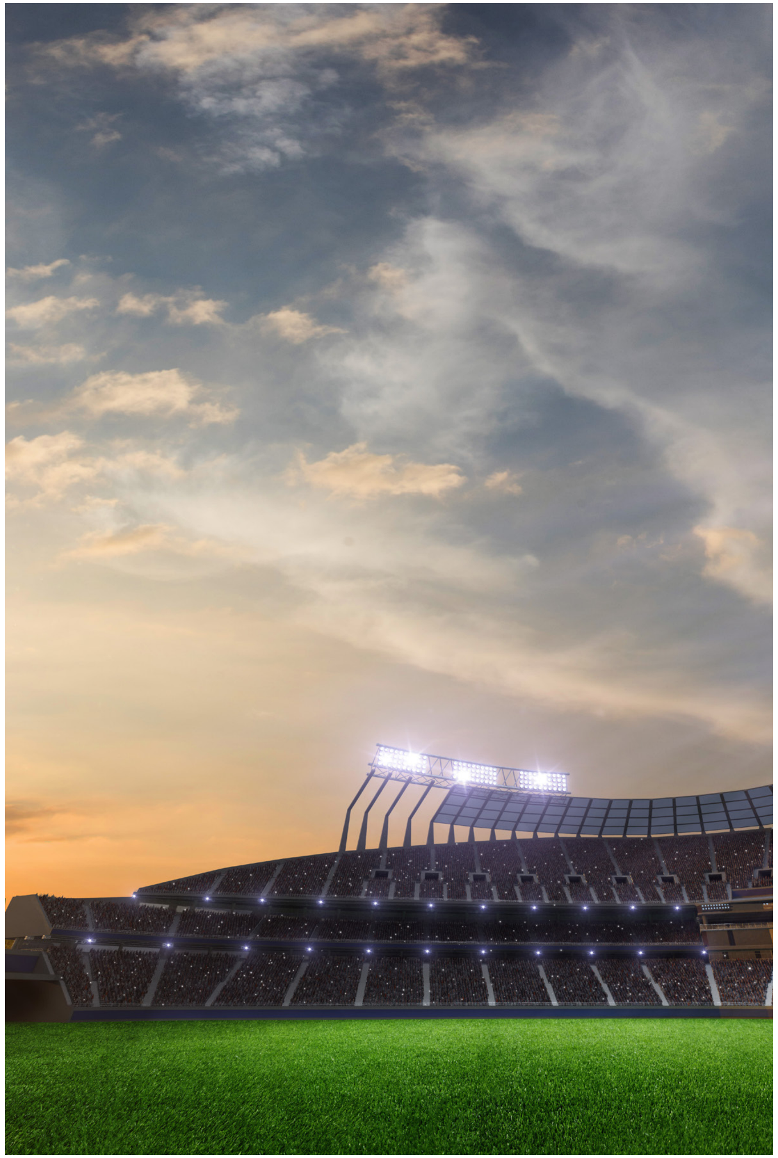
Additionally, ESG reporting can help promote economic development by creating jobs, supporting small businesses, and attracting investments. This economic stimulation can have a domino effect, benefiting not only the community but also the broader region.

Many sports teams and athletes possess powerful platforms that they can use to advocate for important social and environmental causes. Raising awareness about important issues like climate change and supporting initiatives to address these challenges are examples of how sports can help make a difference. Athletes are more frequently using their visibility to push for social change, bringing attention to causes they're passionate about. The influence of high-profile athletes can be a powerful catalyst for change, driving public awareness and support for important causes.

Moreover, ESG reporting can serve as an inspiration for the next generation, showing young people that they, too, have the power to make a positive impact in the world. This inspiration could lead to a new generation of athletes and sports fans who are more socially conscious and motivated to contribute to their communities.

In essence, the integration of ESG principles within the sports industry is not just a trend; it's an important evolution. Sports organizations have the opportunity to leverage their influence to help foster diversity, equity, and inclusion, as well as community engagement. This commitment to ethical behavior and social responsibility can help keep sports teams as leaders in society and can transform the industry into a powerful force for good, proving that the spirit of sports can extend far beyond the game itself.





FOURTH QUARTER

Transforming the field:
The role of ESG in sports governance

Effective governance is important to create an environment in which sports organizations remain accountable for their ESG performance and accurate in their reporting. At the heart of good governance is ethical leadership. Sports organization leaders often play an important role in setting the tone by upholding the highest standards of integrity when it comes to ESG. These are the same levels of integrity that are important on the field to help create a team environment where everyone can thrive.

Aspects and examples of good governance

1. To achieve proper governance, it's important to implement accountability mechanisms that establish clear roles and responsibilities. It's important to set specific performance targets, then regularly monitor and evaluate progress against these targets.

2. One of the main benefits of good governance is its ability to prevent or detect corruption and misconduct within organizations. By setting clear rules and procedures, implementing strong internal controls, and fostering a culture of integrity and compliance, sports teams can significantly reduce this risk.

3 Several sports organizations have already begun to embrace proper governance in ESG reporting and regulation. This includes proactively establishing comprehensive governance frameworks to oversee ESG efforts with a goal of ensuring accountability and transparency. Organizations are setting clear guidelines for ESG reporting, demonstrating commitment to good governance and setting positive examples for others to follow.

4 Diversity is another important component of effective governance. The sidelines and executive offices of many sports organizations often don't reflect the same level of diversity seen on the field. Recognizing this, there are instances of organizations pushing for greater diversity through deliberate and focused initiatives. These aim to create more diverse boardrooms by providing training to former players so they can take on director roles within teams after their playing careers are done.

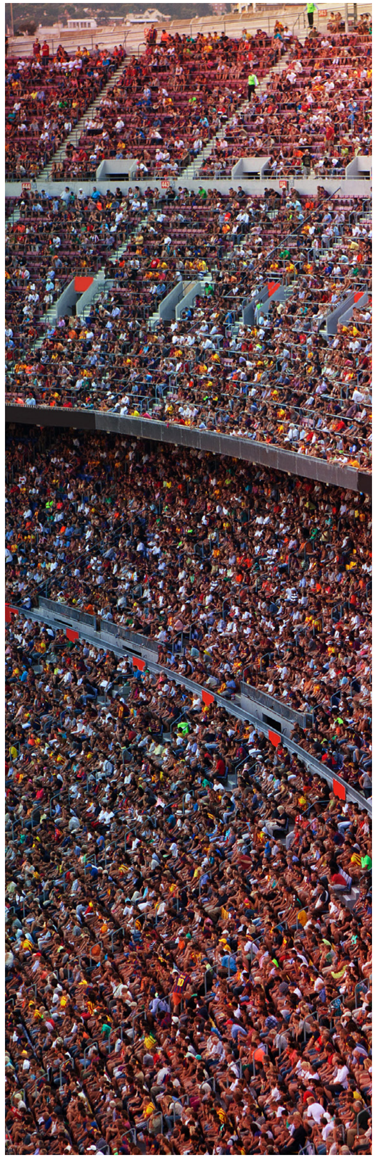
5 External advisers and collaborations can play a valuable role in enhancing ESG performance, too, by providing valuable insights, identifying potential areas for improvement, and helping organizations stay ahead of regulatory changes and industry-leading practices.

6 Transparency in governance also typically involves open communication. Sports organizations should regularly update fans and sponsors on their ESG performance, highlighting achievements and addressing any challenges. This transparency can build trust and demonstrate a genuine commitment to ESG practices.

7 Cybersecurity practices will be an important consideration as sports organizations collect demographic and other information from customers and fans. As these organizations get bigger, they could potentially become targets of cyberattacks.

8 Education and training are also valuable components of effective governance. By providing ongoing education and training to employees, sports organizations can create an environment where everyone understands the importance of ESG considerations, creating a culture of continuous improvement.

Finally, it's important to recognize that governance is an ongoing process. It should keep up with the evolving structures of professional teams and leagues. For example, with the advent of private equity ownership of teams, the ownership structure should have a role to play in governance, specifically if the private equity firm is a publicly traded company. Sports organizations should continually assess and refine their governance practices to respond to new challenges and opportunities. By staying proactive and flexible, they can maintain high standards of governance and continue to lead the way in their ESG performance while meeting expectations of fans and sponsors.



OVERTIME

Redefining sports industry standards

As the significance of ESG reporting and regulation continues to increase, sports organizations should develop a set of clear targets and goals. Compared to other sectors, the sports industry's supply chain and sustainability issues generally are not as well known. This lack of awareness may make it even more important for organizations to consider taking action now. They should identify the problems within their supply chains and implement solutions to meet ESG objectives.

By measuring, disclosing, and being accountable for their ESG performance, sports organizations can build trust with the public. The combination of voluntary initiatives, efficient reporting guidelines, and regulatory intervention can transform the sports industry into a powerful force for good.

At Deloitte, we're committed to advising on this transformation. We continue to provide ESG services tailored to the unique needs of various markets and industries, including sports. Our extensive experience in ESG initiatives enables us to offer valuable insights and services to our clients in the sports industry.

Deloitte Omnia's ESG capabilities enable our Deloitte auditors to provide high-quality assurance and ESG reporting. Our innovative data management and visualization function provides meaningful insights around where you sit within your peer group and industry. Omnia ESG combines the knowledge of climate data scientists, sustainability specialists, and audit professionals with award-winning Omnia technology. The result is an organized experience that helps cut through the confusion of varying standards and regulations, allowing companies to focus on what matters to stakeholders and to confidently report and mitigate risk.

In conclusion, the growing importance of ESG reporting and regulation can present both a challenge and an opportunity for the sports industry. Deloitte can advise you on your journey to a more sustainable, inclusive, and ethical future.

Get in touch

Authors:

Joe Maneri
Audit & Assurance Partner
Sustainability and ESG Services
Deloitte & Touche LLP
jmaneri@deloitte.com

Kristen Sullivan
Audit & Assurance Partner
Sustainability and ESG Services
Deloitte & Touche LLP
ksullivan@deloitte.com

Daniel Whelehan
Audit & Assurance Partner
US Sports Sector Leader
Deloitte & Touche LLP
dwhelehan@deloitte.com

Endnotes

1. ESG in Sports, "Winning the game for everyone: ESG's role in revolutionizing inclusive sports," LinkedIn, November 13, 2023.
2. Deloitte Accounting Research Tool (DART), "#DeloitteESGNow — The sweeping impacts of California's climate legislation," *Heads Up* 30, no. 18 (October 10, 2023).
3. Beth Kaplan, Katie Glynn, and Brian Jobe, "California goes first: Responding to state-led ESG regulations," Deloitte, May 15, 2024.
4. McBride Sustainability, "The rising relevance of ESG in sports," LinkedIn, January 15, 2024.

Deloitte.