

How Firms Can Leverage AI in Sustainability and Regulatory Disclosures

What companies can do to maximize value while mitigating risk

Corporate reporting, including sustainability disclosures, is one of the most frequently cited applications of artificial intelligence and for good reason. Annual reporting requires integrating disparate data sources, aligning disclosures across multiple frameworks and continuously adapting to evolving regulatory standards. These requirements create a compelling case for AI deployment and the value proposition appears straightforward: automate data aggregation processes, accelerate calculation workflows, streamline disclosure preparation and liberate reporting teams from what has become one of the most resource-intensive compliance obligations organizations face.

In an era characterized by compressed reporting timelines and expanding regulatory requirements, pursuing efficiency gains is critical for organizational sustainability. However, without proper governance and oversight, the risks from AI-enabled reporting can outweigh potential efficiency gains. With environmental and social claims facing growing scrutiny from regulatory bodies, investors and employees, adding AI can potentially amplify credibility risks, which few companies can afford.

Poorly governed AI-enabled reporting can expose organizations to greenwashing allegations, ESG rating downgrades, regulatory penalties, and perhaps most damaging in the long term, the erosion of stakeholder trust and customer confidence in the integrity of corporate commitments. So, what can companies do to leverage AI in their sustainability and governance disclosures *without exposing themselves to excessive risk*?

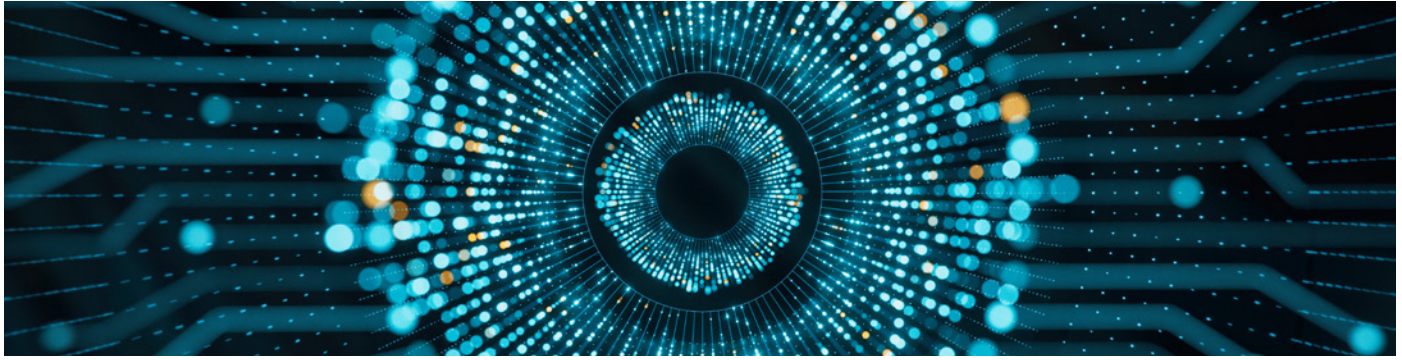
AI: Amplifying Old Risks, Creating New Opportunities

Sustainability reporting has historically suffered from a lack of consistent, controlled, decision-grade data. Practically speaking, this deficiency stems from data being housed across different systems and sources that typically do not feed into formal external reporting systems. When reporting processes were largely human-driven and subject to manual verification at multiple stages, these structural weaknesses were manageable.

When AI is used to gather and analyze data that is either difficult to aggregate or flawed from the outset, however, the underlying risk grows considerably. AI is incredibly adept at developing credible-sounding outputs from fragmented, incomplete, and contradictory inputs. And, in many cases, AI is more likely to mask and then amplify bad data across the reporting infrastructure. Errors can replicate with greater velocity and unexamined assumptions can embed more deeply into analytical outputs. The resulting sustainability claims can easily outpace the evidentiary data needed to verify them, creating material disclosure risk that may not surface until regulatory scrutiny intensifies or stakeholder challenges emerge.

But the reality is that AI does not need to be a liability within the reporting ecosystem. When deployed with appropriate governance structures and controls, AI can serve as a powerful enabler of stronger, more defensible disclosures. With the right implementation, AI systems can enhance data traceability across complex operations, flag anomalies that warrant human review and strengthen internal control environments through continuous monitoring capabilities.

The question facing organizations is not whether they should leverage AI to support their disclosure priorities, but how to deploy it in a manner that strengthens credibility and withstands scrutiny rather than undermining the evidentiary foundation on which their sustainability claims depend.



Six Necessary Steps

So, how can firms move forward with confidence in an era of increasingly AI-powered ESG reporting? To ensure that AI serves as an asset, and not a liability, we recommend the following steps:



- 1 **Treat sustainability reporting with the same governance rigor as financial reporting.** Errors in sustainability disclosures carry real financial, legal and reputational risk. Boards should oversee AI adoption in this domain the same way they oversee changes to financial reporting systems.
- 2 **Assign clear ownership for AI-enabled disclosures.** Designate accountable leaders across sustainability, legal and IT. Require formal sign-off before any AI-generated or AI-assisted content is released publicly.
- 3 **Define permitted use cases before deploying AI.** Decide where AI adds value without bringing undue risk (e.g., data aggregation, drafting, scenario modeling) and where human judgment must remain primary (e.g., materiality assessments, forward-looking statements, stakeholder commitments).

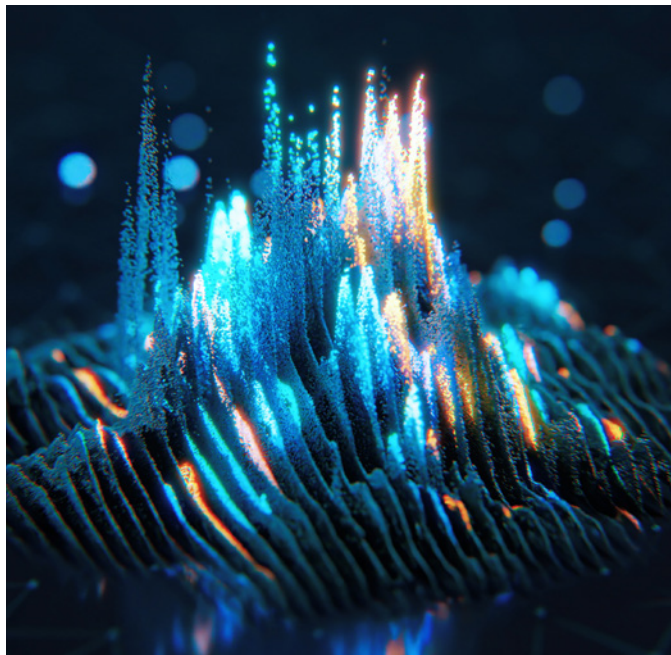


- 4 **Map data sources to owners and standardize validation procedures.** Before automating anything, ensure the underlying data governance is sound. Automation can amplify bad data just as much as good data.
- 5 **Document AI's role in the reporting chain of custody.** Record where AI is used, what inputs it receives, how outputs are generated and who reviews them. Every AI-driven step should be auditable.
- 6 **Train teams on responsible use.** Train teams on prompting practices, bias awareness, output validation and limitations of AI-generated content. Require rigorous assessment of tools with an eye towards data protection, treatment of confidential information and alignment with both ESG and AI governance and regulations. All are essential risk mitigants.

A Critical Turning Point

Organizations have long contended with sustainability disclosures vulnerable to fragmented data systems, manual workflows and insufficient governance oversight. These structural weaknesses are no longer tenable in an environment in which regulators are tightening scrutiny, *ratings agencies are demanding verifiable evidence and investors are differentiating between substantive performance and superficial transparency.*

AI presents a critical turning point. Deployed without rigorous governance, it risks accelerating credibility gaps; but deployed with appropriate controls and human oversight, it can strengthen defensible disclosures. The organizations more likely to succeed will not regard AI as a shortcut to efficient compliance, but as a tool that demands even more disciplined data governance and accountable decision-making than the manual processes it replaces.



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