



ESG: Environmental, Social, Governance

An introductory guide for businesses



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kpmg.ch/sustainability

Executive summary

The consideration of ESG (Environmental, Social and Governance) factors has become critical to the success of businesses across all sectors. Customers, employees, shareholders, lenders, rating agencies and regulators are demanding companies consider how their business impacts the world, their contribution to society and how they conduct themselves.

Businesses not taking ESG seriously are beginning to lose customers, employees and financing; eventually they will become unviable. Market leaders are taking a strategic response to ESG, changing their products and services, processes, operations and supply chains.

The first step to embed ESG into a business must be taken by the Board, taking on the responsibility and accountability to drive the transition towards becoming an environmentally and socially responsible business.

Stakeholders are pushing for increased transparency and it's working. New mandatory reporting standards are approaching fast and, where it's not mandatory, lenders and investors are still withdrawing funding from, and voting against, businesses not considering ESG.

However, being part of the solution and taking on a lead role on the way to transform critical business activities that are essential for society will help to grow your business. Opportunities arise from change-disrupting sectors like energy, transportation and mobility, real estate, products and materials or health and wellbeing, to name just a few.

ESG is not just window dressing. Its impact is already profound and it's a critical factor for businesses that want to be ready for further fundamental changes coming down the line. ESG is no longer a choice; it is an imperative.



What are E, S & G?



Environmental

Your impact on the world

- Climate change & Greenhouse gas (GHG) emissions
- Water & marine resources
- Circular economy, waste and pollution
- Deforestation
- Hazardous materials & pollution
- Biodiversity & natural resource depletion



Your **commitment** to future generations



Social

Your contribution to your communities

- Working conditions, including child labour and workforce in the supply chain
- Human rights
- Impact on local communities
- Conflict regions
- Health and safety
- Employee relations and diversity
- Product misselling
- Data protection



How returns are **shared**



Governance

How you conduct yourself

- Executive pay
- Bribery and corruption
- Political lobbying and donations
- Board diversity and structure
- Tax strategy
- Data breaches
- Relationships with stakeholders
- Organisation & innovation
- Reputation & brand management



Your **licence** to operate

Why should you act now?

As consumers, society and shareholders are increasingly demanding change, these ESG megatrends are set to shape the business landscape.

COVID-19

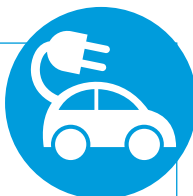
The pandemic has placed greater scrutiny on the ethical performance of businesses and highlighted the value of resilience over efficiency. The transformation to the New Reality is an unprecedented opportunity to embed ESG at the core of organisational purpose and operations.



Transition to a Low Carbon Economy

Global energy demand will grow by at least **26%** over the next 20 years²

Current ways of generating power are unsustainable and natural resources are becoming increasingly scarce. Industries need to become more energy efficient and reduce their carbon footprint. Various countries have committed to net-zero targets by 2050 in alignment with the Paris Agreement.



Risk Management

Climate change may cost **USD43tn**³

6°C of warming represents present value losses worth **USD43tn** or **30%** of the world's entire stock of manageable assets.



Investor and Social Pressure

~ **USD30tn** in AUM is dedicated towards ESG investing¹

Investors and customers are recognising their ability to impact corporate activities and to hold corporates accountable for not managing ESG risks. Investors are also increasingly recognising that ESG risk equals long-term investment risk. This will trigger a fundamental reshaping of finance dealing with fossil fuel and other high-carbon heavy businesses triggering higher costs of capital.



Regulation

Regulators are showing increasing interest in this topic: in Switzerland through requirements under the indirect counterproposal to the Responsible Business Initiative, in the European Union with the proposed CSRD and the EU Taxonomy, amongst others.

Going forward, climate-related financial disclosures will be harmonised across industries and become mandatory for all industries, as also proposed by the Swiss Federal Council.



Sources: 1) J.P Morgan Asset Management: How is ESG affecting the investment landscape, 2019. 2) International Energy Agency: World Energy Outlook Report, 2019 3) The Economist, The cost of inaction: recognising the value at risk from climate change, 2015

Decoding the ESG alphabet soup: What does it mean and is it relevant for me?

Companies are increasingly subject to a suite of mandatory reporting requirements to prove that they are taking ESG seriously. Our guide below breaks down some of the commonly used terms in ESG reporting.



What is TCFD?

Taskforce for Climate Related Financial Disclosures is a way of disclosing the impact of the environment on a company, in terms of climate risk. This helps investors understand a company's exposure to climate risk. The Swiss Federal Council has asked the authorities to come up with mandatory requirements.



What is CSRD?

The EU Commission's proposal for a Corporate Sustainability Reporting Directive (CSRD) will extend the scope of companies covered, install a mandatory audit requirement for non-financial information and more detailed reporting requirements along a EU sustainability reporting standard.



What is an SDG?

The 17 Sustainable Development Goals (SDGs) were set up by the United Nations as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030.



What are GHG Emissions?

Greenhouse Gas Emissions are the emissions associated with energy and fuel use. They are split into Scope 1 (direct combustion – e.g. gas), Scope 2 (indirect e.g. electricity) and Scope 3 (typically travel).



What are the WEF Metrics?

The World Economic Forum (WEF), together with the International Business Council, have worked with the Big Four to build a list of ESG metrics every company should be able to report on.

Questions from our clients

ESG sets a clear strategic imperative for real and lasting change and it sits firmly on the C-suite agenda. Climate change topped the “threats to growth” in our last Global CEO Outlook and the ESG agenda is only increasing in its urgency. ESG challenges each member of the C-Suite – both in their functional areas of expertise, but also as a strategic growth and resilience priority.

“

Which ESG opportunities should we prioritise and what risks are critical to mitigate?”



Strategy

What are the lessons learned from COVID-19 and how can we become a more sustainable business in the New Reality?

What is our relative ESG maturity?

Which ESG opportunities should we prioritise and what risks are critical to mitigate?

How do I set a strategy to respond to climate change?

How do I engage and ensure stakeholder buy-in for my ESG strategy?



Finance and Reporting

How are other businesses in my industry incorporating ESG into their investment approaches and risk management?

What kind of ESG reporting are investors looking for?

What disclosures are mandatory?

How do I both confidently and efficiently manage ESG reporting with requirements increasing?

Can I embed ESG into my debt financing and will it lower my funding costs?



Operations

How do I optimise the ethical and sustainable footprint of my supply chain?

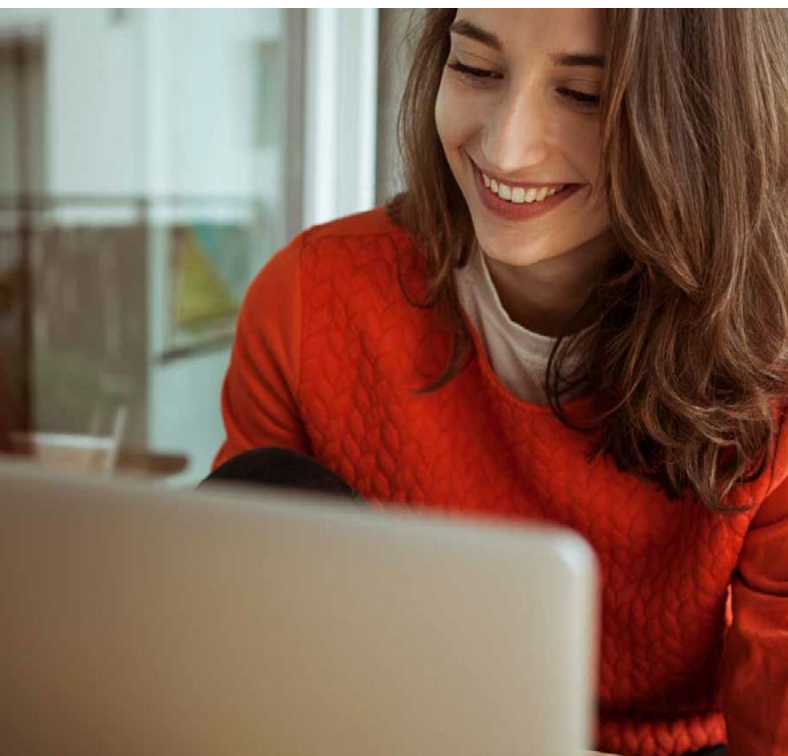
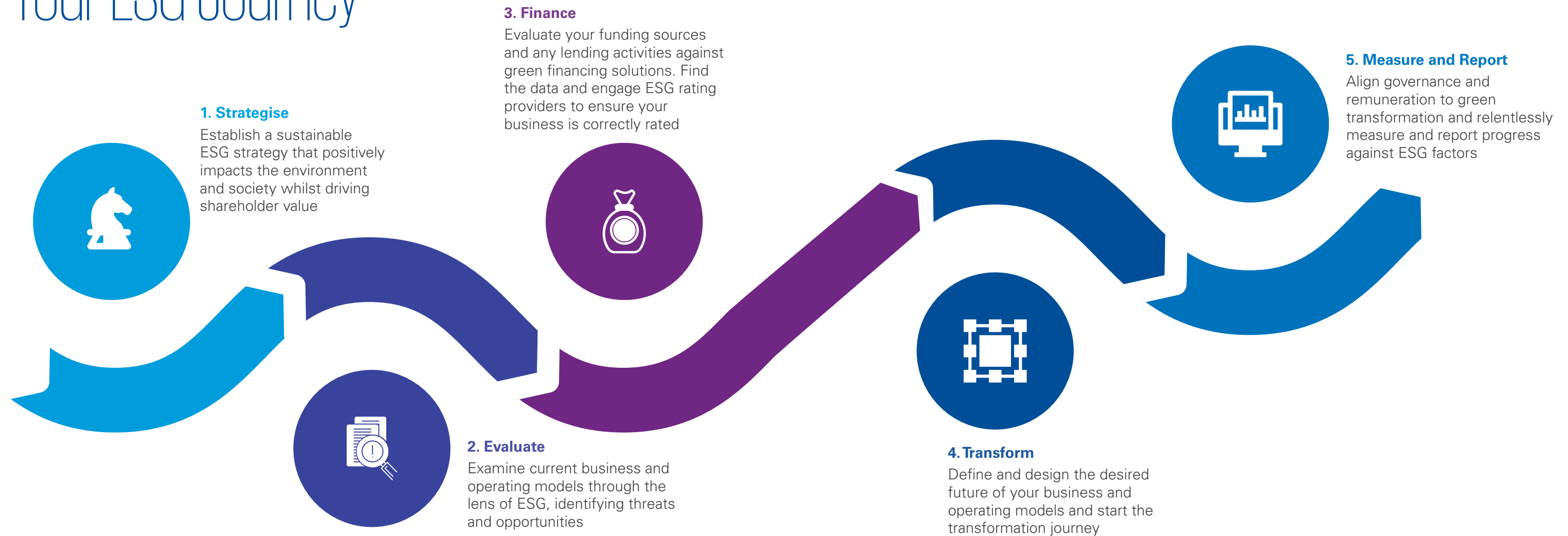
How can being ethical and environmental improve my resilience and profit margins?

How can digitalisation help me track and trace my products, enhance operational performance, and predict ethical and sustainable risks to my business?

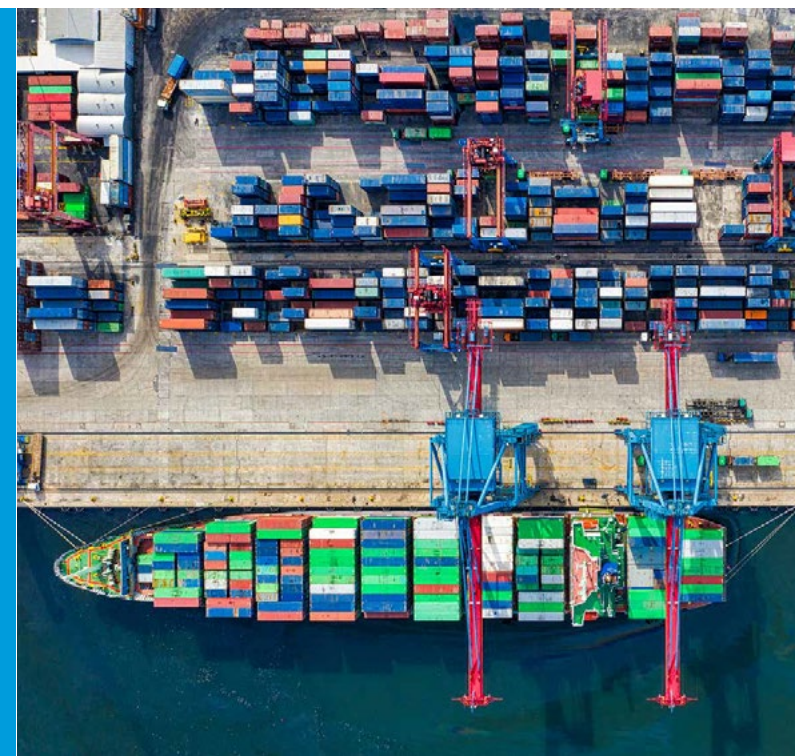
How do I ensure that my third parties are compliant with existing and incoming regulation?

How do I adapt my operations to meet my business and ESG priorities?

Your ESG Journey



“ COVID-19 has highlighted the social and governance elements within ESG as businesses seek to protect jobs, support efforts to control the spread of the virus and ‘do the right thing’. ”



“ A strategic change in the operating model needs to consider the entire value chain, and as you transform, they need to follow your lead. ”

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