The role of finance in environmental, social and governance reporting

Board Leadership Committee

October 2021

The role of finance in ESG reporting

We will discuss on how finance can drive success in environmental, social and governance (“ESG”) and, in the process, enhance the strategic role of chief financial officers (“CFOs”) and chief financial officers (“CAOs”).

ESG becomes an increasingly critical performance metric for investors, consumers, and management

Investors and rating agencies are demanding ESG reports. Strong and outstanding ESG program is perceived by investors as companies with better and more stable performance

Consumers are more willing to buy and pay more for companies which are more environmentally friendly with demonstration of good governance and a stand on social justice

Top leader’s performance (i.e. CEOs) will be measured by their commitment to ESG

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What is ESG

Environment

- Climate change and emissions
- Air and water pollution
- Biodiversity
- Deforestation
- Energy efficiencies
- Waste management
- Water scarcity

Social

- Customer satisfaction
- Data protection and privacy
- Gender and diversity
- Employee engagement
- Community relations
- Human rights
- Labor standards

Governance

- Board composition
- Audit committee structure
- Bribery and corruption
- Executive compensation
- Lobbying
- Political contributions
- Whistleblower schemes

ESG Basics

ESG issues represent the non-financial factors used to evaluate a company's practices around –

- the conservation of the natural world;
- the consideration of people and relations; and
- the standards of running a company.

Consumers and investors expect companies to take positive action on issues such as climate change, social justice, diversity and inclusion, and exploitation of workers. ESG refers to topics that are important to stakeholders and commonly cited in corporate responsibility and sustainability reporting

Challenges of ESG

- Poor ESG practices pose environmental, legal and reputation risks to the company.
- Difficulties in measuring the ESG outcomes, reporting metrics on ESG priorities and performance.
- The lack of well-defined corporate-wide strategies for ESG and established programs to act on the Broad commitments or measure result.
- Failure in connecting ESG performance to business strategy or link ESG metrics to other quantitative performance measures.

Finance: the right place for ESG

The CFO, CAO and the finance team are the organization's "reporting gatekeeper" and their roles are expanding to more than reporting financials.

Finance team has the experience compiling and reporting on metrics to stakeholders and shareholders. CFOs and CAOs also have deep experience in other forms of regulatory and compliance filings.

Finance is ideally positioned to track the information needed for ESG strategies and reporting and to see data on sales, supply chain, customers, and other types of information that help assess ESG performance.

Finance works across functions and business units, and is in a position to lead an organization's ESG reporting and data management programs.

The financial planning and analysis organization can connect ESG information, drive insights, and report on progress.

Advantages of finance management of ESG

Finance can leverage its existing skills and framework to drive the organization's ESG agenda

- Internal and external reporting
- Cross functional integration
- Financial management
- Governance and risk management
- Process efficiency
- Investor relationships

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Finance: the right place for ESG

Companies demonstrating commitment to ESG are in a better position to secure capital investments

- Increasing top-line growth
- Reducing costs
- Decreasing investor, regulatory and legal interventions

4 Investment

ESG should be part of overall enterprise risk management to monitor, mitigate and address ESG risk

CFOs and CAOs should understand the financial risks and non-financial risks of ESG issues but also aware the opportunities that come with recognizing and managing ESG risks

Corporate Strategy 1

3 Risk

Incorporating ESG into strategy and value management by:

- Establishing sustainability guiding principles that will steer investment decision to create value
- Prioritizing strategic initiatives by incorporating ESG drivers into business cases and quantifying sustainability impacts
- Driving ownership, accountability and organizational influences across the business

Reporting 2

Demonstrating ESG efforts to stakeholders

Finance enables non-financial metrics to carry the same weight as financial results when evaluating ESG Process.

Common ESG metrics:

- **Air quality:** greenhouse gas emissions
- **Water management:** total water withdrawn from sources and consumed
- **Environmental footprint:** total energy consumed and percentage of renewable energy use

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Evolving ESG standards

The Sustainability Accountability Standards Board (SASB):
Provides industry-specific standards used to identify risks and opportunities most likely to attract a company's financial condition, operating performance, or risk profile.

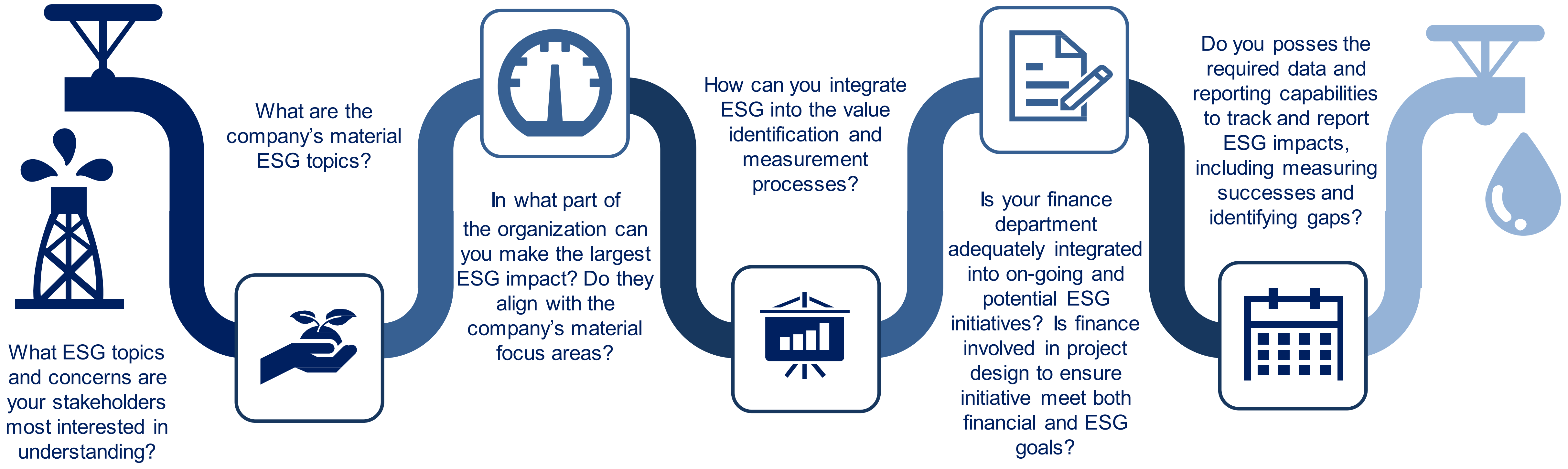
Global Reporting Initiative:
Provides a framework, supporting standards and contributions towards sustainable development.

Taskforce on Climate-related Financial Disclosure:
Provides voluntary, consistent climate-related risk disclosures.

As these standards continue to be refined, some companies have already begun to report their ESG activities in their sustainability reports and integrated reports.

Guidelines for what ESG metrics should be reported are still evolving. However, the momentum towards standardizing ESG reporting is becoming stronger and more urgent.

How to begin ESG reporting and strategy



Organizations can start with an assessment of their operations regarding ESG and begin by choose 3 – 5 areas to focus on. It may be that the organization's reporting systems can't accurately capture the data needed.

Moving forward with this commitment may require an investment to acquire the tools, technology, and professionals to understand, capture, analyze and report on relevant ESG data, metrics, and KPIs.

How KPMG helped clients with ESG problems?

Helping a retailer improve its ESG reporting

A KPMG team with in-depth knowledge of the company and industry (and familiarity with the Global Reporting Initiative reporting framework) worked with the client's CFO and CAO.

The team identified key areas for improvement in the company's data collection and reporting processes. Leveraging experience and knowledge gained. From similar engagements, KPMG provided practical suggestions to improve the way data is collected and how it is analyzed and communicated to enhance overall reporting.

These new protocols enabled the company to adjust policies and procedures and implement better practices to ensure future reporting is more accurate and substantial.

How KPMG IMPACT can help

KPMG IMPACT has developed a framework for organizations to quickly understand where they are on the ESG maturity scale. Below is **the ESG maturity model.**

calculated ← Fundamental

	Stakeholder Engagement	Strategy & Objective-setting	Governance, Culture &People	Risk Assessment & Infrastructure	Communication & Reporting
Beginning	Tactical and Reactive stakeholder engagements	No ESG vision/goals; No financial/ resource commitments to ESG; No materiality testing/ identification of issues undertaken	No defined roes/ responsibilities/ processes for managing ESG impacts; No board awareness/ executive buy-in of ESG risks.	Little or no quantitative/ qualitative assessment of ESG risks; A lack of dedicated systems/ tools	No reporting & communication oversight structure; No result are communicated internally/ externally; Unidentified data quality gaps.
Proficiebt	Consideration of stakeholder issues and concerns (not prioritized according to materiality); Key stakeholders engaged in strategic, proactive initiative	Clear ESG strategy with specific, measurable & targeted goals; General understanding of material issues	The Board is aware of a selection of ESG impacts with cross-functional collaboration on ESG impacts; No clear organization/ ownership on ESG initiatives.	Goals & KPIs are defined with risks. Infrastructure in place with mostly repeatable processes; Only ad-hoc systems to meet specific demands	Some communications on ESG impacts to stakeholders; Processes in place to enhance the quality of data for ESG disclosures
Leading	Formal & documented materiality testing to identify stakeholder issues; Complex stakeholder partnerships are regularly developed and monitored	Integrate ESG vision into enterprise mission statement; Formal process to review goals on a regular basis; Integrated thinking to understand ESG impacts & deficiencies	Designate leadership to corporate-level sustainability leader, BU or functional-level leaders; Clear ownership & PMO structure for all ESG initiatives. ESG included in Board Charter	ESG risk criteria include adaptability & speed; Business cases include ESG risk context; ESG processes are integrated into core planning & key business processes	Formally documented & approved reporting & communications strategy; ESG disclosures are provided to stakeholders & customers on a timely & regular basis; ESG data is verified & assured

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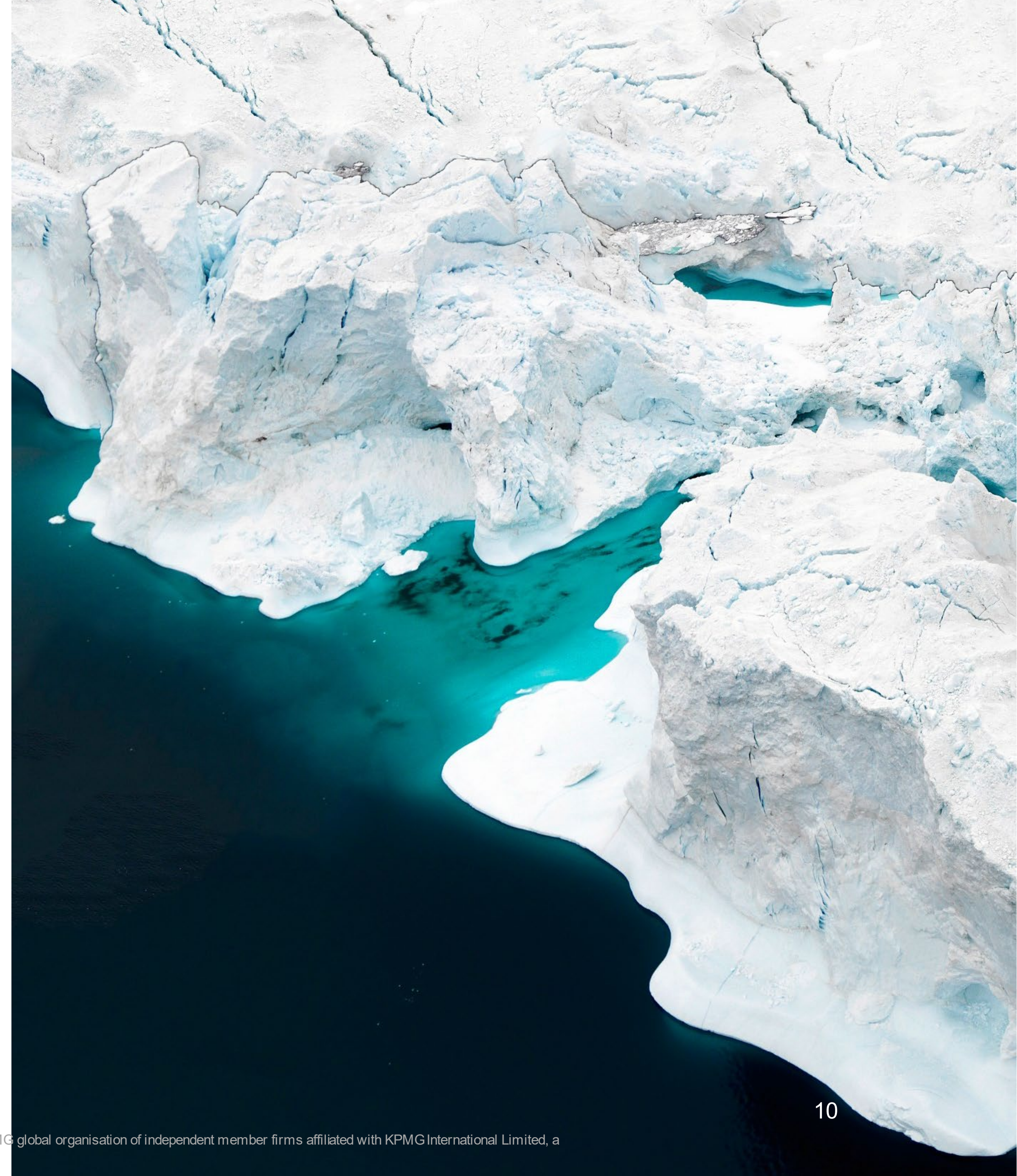
How KPMG IMPACT can help

With the experience and knowledge to help companies define ESG strategy, fulfill ESG commitments, and establish a framework to report on ESG activities.

Building on the wealth of industry-specific experience and knowledge, KPMG is working with clients in a range of industries to develop and integrate ESG and operational strategies.

To help in defining appropriate data collection systems, metrics and targets to monitor, manage and report ESG risks.

To provide advice on how best to disclosure ESG risks in financial disclosure and provide good practice examples to guide reporting



How KPMG professionals can help

- Understand the ESG issues that are material for your organization and your stakeholders
- Align your corporate activities with the United Nation’s Sustainable Development Goals and assess your contributions to achieving the goals
- Choose the right reporting approaches and framework for your business
- Integrate financial and non-financial information in your reporting and report information for specific purposes, such as sustainability indices
- Benchmark the quality of your reporting against industry peers
- Gain independent assurance for your internal and external reporting systems and your sustainability reporting
- Assess sustainability risks of your suppliers

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