Big shifts, small steps: Sustainability reporting in Latin America 2022

Advances and challenges regarding corporate management in ESG matters in Latin America

Sustainability ● January 2023

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About the study

Big shifts, small steps:

Sustainability reporting in Latin America 2022
This document presents an excerpt from KPMG's global report on corporate sustainability reporting 2022 "Big shifts, small steps: Study of Sustainability Reports 2022", with a focus on the results for Latin America.

Note:
The countries included in the study are: Argentina, Brazil, Colombia, Chile, Costa Rica, Mexico, Panama, Peru, Uruguay and Venezuela.

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Introduction

The 2022 edition is the twelfth of KPMG's study on corporate sustainability reporting, which, since 1993, has analyzed global trends in reporting on environmental, social and corporate governance (ESG) issues. Throughout these decades, sustainability reporting has generally been voluntary, and the objective of the study was to provide relevant information that would improve transparency mechanisms. Today, we find ourselves in a different moment.

The ESG reporting landscape has changed dramatically and reporting is becoming mandatory and regulated in almost all geographies. The findings in this edition present these changes and shed light on the gaps that must be overcome to adapt to this new regulatory landscape, as well as the considerations that companies must take into account to respond to market expectations.

This document presents a summary of the global results and offers a special look at the Latin American context, including information from ten countries in the region (three countries more than in the study carried out in 2020): Argentina, Brazil, Colombia, Chile, Costa Rica, Mexico, Panama, Peru, Uruguay and Venezuela.

The study provides a detailed vision of global and regional trends in sustainability, based on the review of the reports of more than 5,800 companies (1,000 of them Latin American) in 58 countries, offering information that is useful for investors, asset managers and rating agencies that increasingly attribute greater importance to ESG issues in their performance and risk assessments. At the same time, it provides relevant information for those who are responsible for evaluating and preparing their own organization's sustainability reports.

In addition to analyzing how the topics evaluated in previous editions have evolved (sustainability reporting rates, biodiversity loss, climate risk and decarbonization goals, among others), this year's study includes some additional topics, such as the use of materiality assessments, and reporting on social and governance risks.

KPMG's most comprehensive sustainability reporting study.

- 5800 companies
- 58 countries
- New countries added to the study: Estonia, the Philippines, Uruguay, Venezuela and Vietnam. Chile and Israel rejoined the survey, having not participated in 2020.
- 1000 Latin American companies
- 10 countries in the region

Methodology

Professionals from 58 KPMG member firms conducted extensive research, including reviewing annual financial (or integrated) and sustainability reports published between July 1, 2021 and June 30, 2022 of the top 100 top-revenue companies in their respective countries. In cases where no reports from that period were found, reports published after July 1, 2020 were included in the review.

With data from 5,800 companies, this year's study is the most comprehensive in the series. The results are based solely on the analysis of available public information.

The study is based on two research samples:

N100: The 100 companies with the highest revenue from each of the 58 countries included in the work (5,800 companies in total). In this document this category is called "World".

G250: The 250 highest-revenue companies around the globe, according to the Fortune 500 2021 ranking. Most of the G250 companies were also included in the N100 sample. Only 11 companies were not included as they are based in countries not covered in the N100 sample.

Note: Although Brazil and Mexico have companies within the G250 sample, the analysis focused primarily on the N100 sample for Latin America.

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Global executive summary

96%
of G250 companies report on sustainability or ESG matters

64%
of the G250 acknowledge climate change as a risk to their business

Less than half of companies report on **biodiversity loss**

GRI, TCFD and SDGs
form the most commonly used anchors for sustainability reporting

TCFD adoption nearly doubled in 2 years, going from **37% to 61%** among the G250

49%
of the G250 acknowledge social elements as a risk to their business, with Western Europe as the leading region

71%
of N100 companies identify material ESG topics

Fewer than half of G250 companies have leadership level representation for **sustainability**

Regional executive summary

69%
of Latin American companies generate sustainability reports

39%
of Latin American companies recognize climate change as a business risk

GRI, SASB, ODS and TCFD
are the frameworks that companies mostly follow for their reports

50%
of companies in the region recognize and report the loss of biodiversity as a risk to their business

TCFD The adoption of the recommendations doubled between 2020 and 2022 in Latin America

35%
of Latin American companies recognize the social component as a potential risk for business

74%
of Latin American companies identify materiality in their reports

Only 26% of Latin American companies have **ESG** leadership in senior management, represented by members responsible for **sustainability** issues on the Board of Directors

Big shifts, small steps

While ESG reporting initiatives in the region are seemingly unrelated to each other, we are seeing a recent trend to link economic, social and governance reporting to regulatory bodies. Mandatory reporting is linked to the size and industry of the company.

March 2008
Promotion of socially and environmentally responsible and sustainable behaviors by publishing a Social and Environmental Responsibility Balance Sheet (BRSA) in Argentina

December 2015
Superintendencia del Mercado de Valores de Lima ("SMV"), the regulator of the Peruvian stock exchange, issued a resolution SMV N° 033-2015-SMV/01 which forces regulated companies to issue a corporate sustainability report

October 2021
GRI standards updated

November 2021
The Commission for the Financial Market (CMF) approved the General Rule (NCG461) that requires regulated companies to publish ESG Reports, aligned with SASB, GRI and TCFD. Likewise, voluntary reporting practices have been advancing for almost a decade in Chile

December 2021
Colombian financial regulator requires PFAs, insurance companies and PVF managers to disclose in their investment policies the ESG and climate risks to which their portfolios are exposed, as well as the strategies for incorporating these issues into their investment and risk management processes

April 2022
Dec. No. 136/022 was promoted in April 2022, legally creating Collective Benefit and Interest (BIC) companies and trusts. BIC companies and trusts must prepare annual reports, deliverables to Auditoría Interna de la Nación (AIN) in Uruguay

December 2021
The Singapore stock exchange issues mandatory disclosure recommendations on climate and board diversity

2008 2015 2021 2022

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What can business leaders do?

The world is facing complex climate, social and geopolitical issues and addressing ESG priorities is more important than ever.

As we publish this edition, the looming threat of a recession is raising concerns that ESG issues may be put on the back burner in favor of financial survival. But the world has changed since the last recession and ESG provides insights into the long-term sustainability of a business. The COVID-19 pandemic placed a spotlight on the need for business resiliency and disclosure is necessary to communicate how you are prepared for the future. The findings in this report provide a roadmap to the following key trends you should know as you plan your approach to ESG reporting. We have seen much progress over the past few years in climate-related reporting — the E in ESG — but this now needs to translate to social and governance. Companies continue to find it challenging to strike a balance in sustainability reporting, with a continued slant towards positive reporting and qualitative descriptions of impact and limited insight into the impact of the environment and society on the business itself. Companies must find a way to address both their positive and negative impacts.

Uncertainty has become the new normal for businesses and our advice to business leaders is to prepare now on sustainability reporting as change is coming at a rapid pace.

In light of the trends highlighted in this survey, here are some tangible ways businesses can begin to navigate the sustainability reporting landscape:

- Understand stakeholder expectations using stakeholder materiality assessments to inform your business strategy and prioritize your focus.
- Determine strategic imperatives against key ESG topics and define key metrics, considering impending regulations.
- Establish a cross-functional governance structure to collect, report and approve sustainability and ESG information.
- Consider investing in quality non-financial data management, including documenting process and testing controls over the information, or system implementation.

Each company's sustainability reporting journey will be unique. Whether you report on climate-risk or biodiversity, align with the SDGs or SASB, or choose to report on 10 or 100 metrics, a successful program will comply with mandatory reporting rules, accurately and reliably reflect the material impacts the company has on the environment and society, and effectively describe how the company integrates ESG risks and opportunities into its business strategy. As we continue to see big shifts, you can be confident that KPMG is ready to walk alongside you as you take your next steps.

Top 5 trends

The results of the 2022 study indicate five major trends in sustainability reporting.

1 Sustainability reporting is gradually growing with a move towards the use of standards framed by stakeholder materiality assessments

Reporting rates among the globe's 250 leading companies has reached 96%. Reporting rates are expected to increase as new regulations on non-financial information are introduced.

While there is still a need for global consistency in ESG reporting, existing standards have increased in use. The GRI remains the most dominant standard used around the world, although some regions have a clear preference for SASB or local stock exchange guidelines.

For the first time, the survey looked at how many companies carry out materiality assessments, finding that around three-quarters in both the N100 and G250 use materiality assessments.

2 Increased reporting on climate-related risks and carbon reduction targets, in line with the TCFD

The survey found that almost three quarters of companies report their carbon targets, although 20% do not disclose any link to an external target (such as a 1.5°C scenario). The number of companies reporting under TCFD recommendations has nearly doubled, leading to more consistent and comparable climate disclosure.

3 Growing awareness of biodiversity risk

2022 is a pivotal year for nature and biodiversity, with international efforts intensifying to halt biodiversity loss. Despite the growing awareness of the criticality of this risk, less than half of companies recognize this loss as a business risk. On the positive side, most of the sectors today recognize this risk, even among those considered "low risk". The launch of the Task Force for Nature Disclosures (TNFD) and Corporate Sustainability Reporting Directive (CSRD) frameworks is expected to boost reporting in the immediate years.

4 UN SDG reporting prioritizes quantity over quality

While most companies report SDGs, just 10 percent report on all 17. Three SDGs remain the most popular for companies: 8: Decent work and economic growth; 12: Responsible consumption and production; and 13: Climate action.

5 Climate risk is the topic on which most reports are reported, followed by social and corporate governance risks.

Since 2017, there has been a marked improvement in the number of companies recognizing climate change as a risk to their business. However, less than half of companies report on social and governance risks to their business. In general, they acknowledge these risks, but do not provide information on the possible financial impacts to the company or society.

Sustainability continues to become a priority for the company's leadership, but there is room for improvement. Only a third of companies in the N100 have a dedicated member of their board of directors or leadership team responsible for sustainability matters. Compensation conditions related to sustainability results for leadership teams prevail for only 40% of G250 companies.

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Sustainability reporting rate

Sustainability reporting rates continue to grow globally and are approaching 100% in the G250.

Sustainability reporting has become standard practice for many companies, with sustained growth over the past decade. This year's study shows that N100 companies have continued to steadily increase their reporting rates. Ten years ago, only 64% of N100 companies were reporting. In 2022, this figure has already climbed to 79%.

Regionally, North America has the highest reporting rate (97%), well above the global rate (79%).

Although reporting rates in some **Latin American** countries are high, the region as a whole shows a decline at this point since 2015, reaching 69% in 2022.

This is largely due to the fact that, successively, new countries with lower reporting rates have been incorporated into the regional sample, thus generating a drop at the aggregate level.

Figure N° 1

Global sustainability reporting rates. 1993-2022

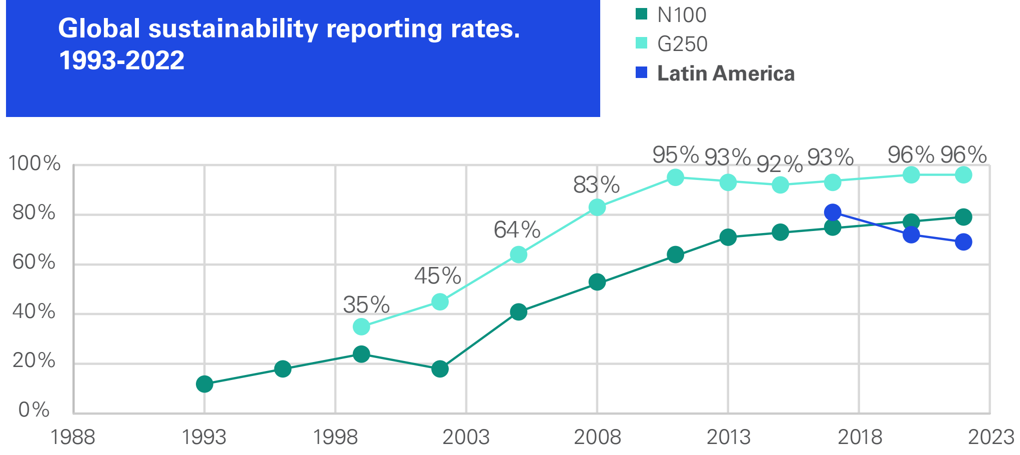
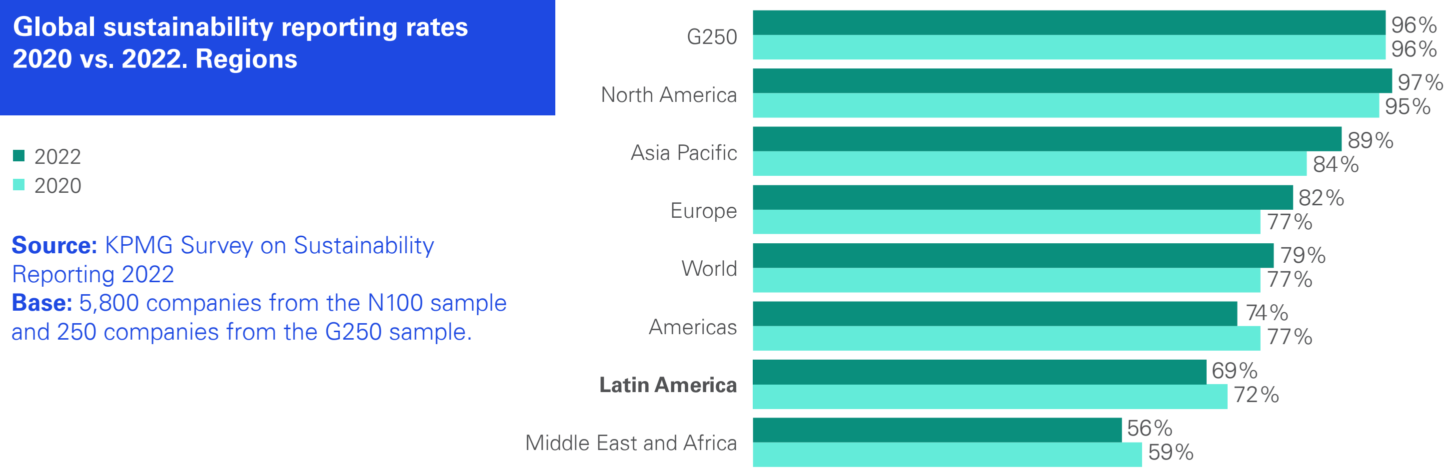


Figure N° 2

Global sustainability reporting rates 2020 vs. 2022. Regions



Source: KPMG Survey on Sustainability Reporting 2022
Base: 5,800 companies from the N100 sample and 250 companies from the G250 sample.

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While Latin America has mostly high reporting rates, some decline has occurred since 2020.

Figure N° 3

Sustainability reporting rates.
2020 vs. 2022. Latin American countries.

- 2022
- 2020

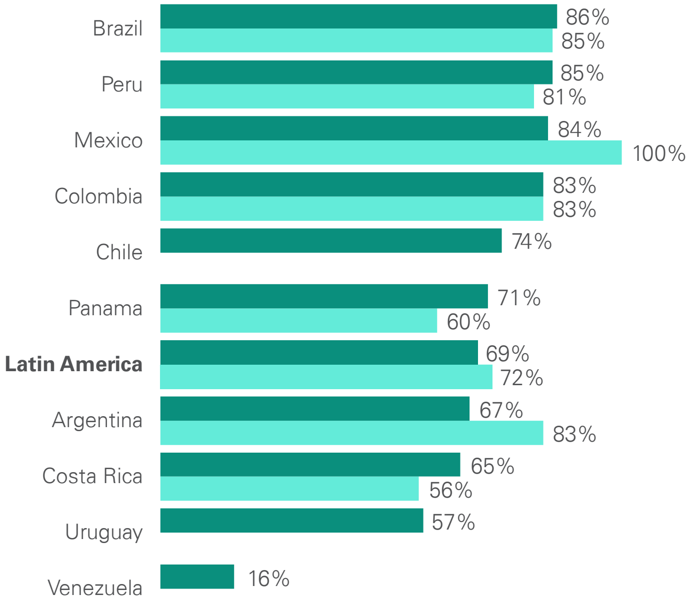
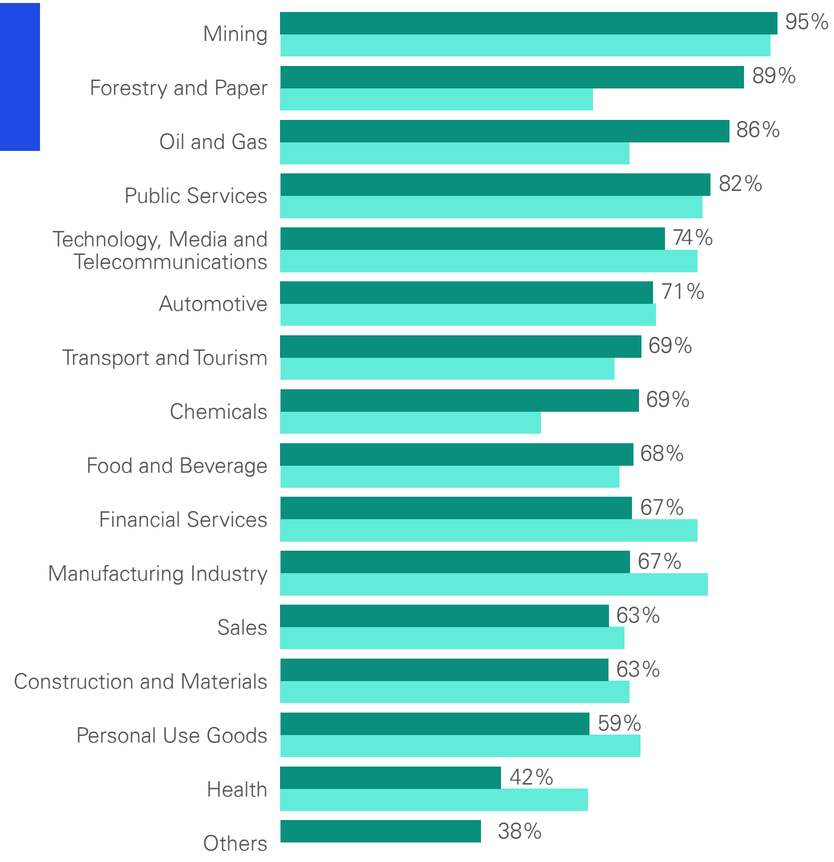


Figure N° 4

Sustainability reporting rates.
2020 vs. 2022. Sectors. Latin America.

- 2022
- 2020

Source: KPMG Survey on Sustainability Reporting 2022.
Base: 1,000 Latin American companies from the N100 sample.



The reporting rate in sustainability reports has grown in some countries and decreased in others, **especially in Central America, where Mexico and Costa Rica** have shown the most significant decline between 2020 and 2022.

While **Brazil** appears as the new leader in 2022, other countries such as **Peru, Colombia and Panama** show figures above the regional average.

Argentina, Uruguay and Venezuela have the lowest rates in **South America.**

At the sector level, the highest reporting rates in the region are found in Mining, Forestry and Paper, Oil and Gas, and Public Services, among others. All above 80%. Between 2020 and 2022, the Oil and Gas and Forestry and Paper sectors showed the highest growth (29 and 19 percentage points respectively).

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Sustainability reporting rates In annual financial reports

Only 42% of Latin American companies report sustainability in their annual reports.

With 60% of companies reporting by 2022, the number of N100 companies including sustainability information in their annual financial reports has leveled off since 2017.

The Asia Pacific region is a leader in this regard.

Only **42% of the Latin American** companies analyzed in this study declared having reporting with sustainability information in their annual reports.

Colombia, Mexico, Chile, Peru and Brazil are the leaders in the region, all with reporting rates above the regional average.

Figure N° 5

Sustainability information in annual financial reports. Regions

Source: KPMG Survey on Sustainability Reporting 2022.
Base: 5,800 companies from the N100 sample and 250 companies from the G250 sample.

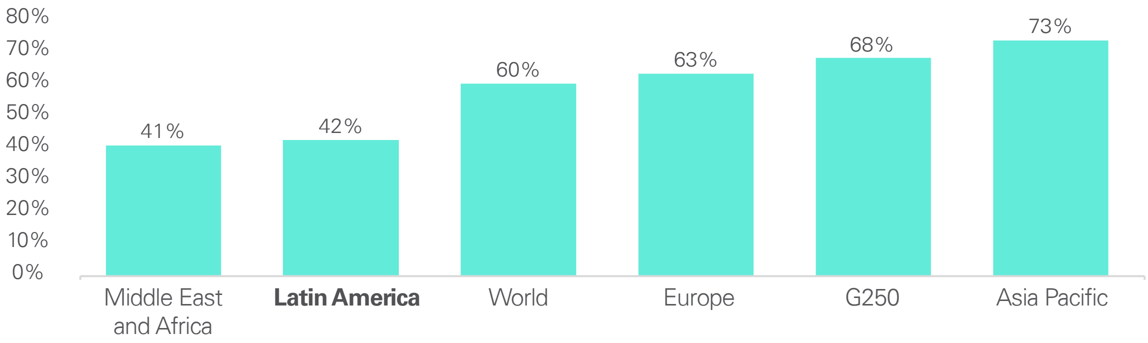
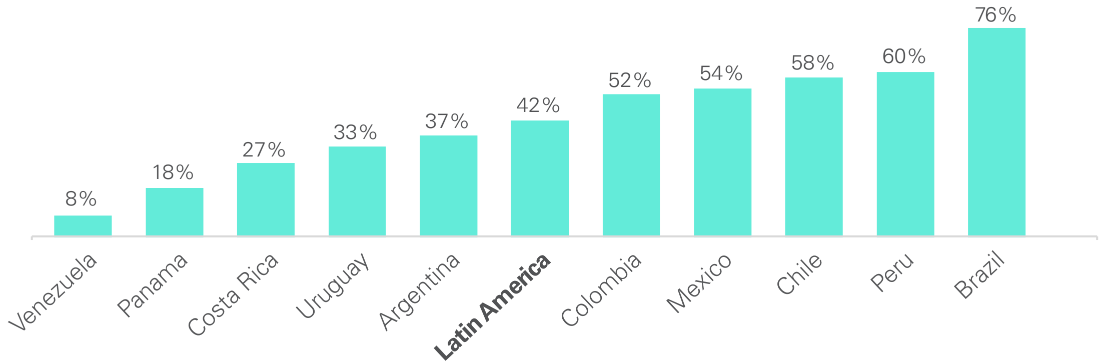


Figura N° 6

Sustainability information in annual financial reports. Latin America. countries. 2022



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Sustainability integrated reporting rates

Integrated reporting shows significant growth globally and, especially, in Latin America.

Integrated reporting, that is, reports that combine financial and non-financial data into a single annual report, has taken hold among the N100. In 2022, KPMG professionals assessed whether companies specifically declared whether they followed the International Integrated Reporting Framework or IIRC (International Integrated Reporting Council) guidance.

While the Middle East and Africa lead the N100 sample with a growth of 12 percentage points compared to 2020, and Asia Pacific reached 30% percent (+5 percentage points), **there is notable growth in Latin America,** where the rate of integrated reporting increased 12 percentage points between 2020 and 2022 (from 16% to 28%).

Strengthening of integrated reporting may be driven by regulation and investor influence to encourage greater transparency in non-financial data.

Figure N° 7

Integrated reporting rates. Regions. 2022

- 2022
- 2020

Source: KPMG Survey on Sustainability Reporting 2022.
Base: 5,800 companies from the N100 sample and 250 companies from the G250 sample.

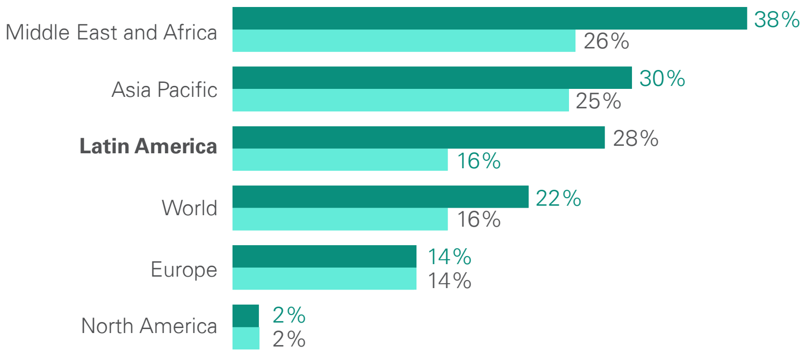
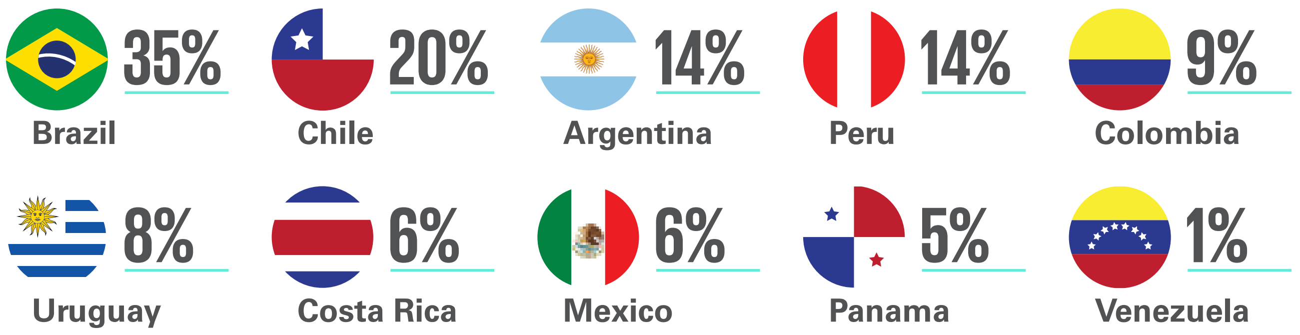


Figure N° 8

Reports integrated by country. Latin America 2022

Source: KPMG Survey on Sustainability Reporting 2022.
Base: 1,000 Latin American companies from the N100 sample.



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Widespread use of reporting standards

Companies, including in Latin America, continue to prioritize the GRI framework for their reporting.

While sustainability reporting will continue to rely on voluntary frameworks such as GRI and SASB, regional and national reporting regulations are expected to rapidly evolve towards mandatory reporting in the coming years.

The **GRI standard continues to be the most widely used around the world.** Singapore, Taiwan, **Chile and Brazil** lead the use of this standard. **Latin America is the region with the highest use of this standard,** almost on par with the G250 group of companies.

The GRI has longevity and reputation on its side. It has remained the prevailing standard for non-financial information since 1997.

The **SASB,** framework, on the other hand, is the main information standard among companies in the US, Canada and Brazil. Other countries like **Argentina, Chile, Uruguay and Mexico** are also using it.

Figure N° 9

Reporting rate under GRI. Regions. 2022

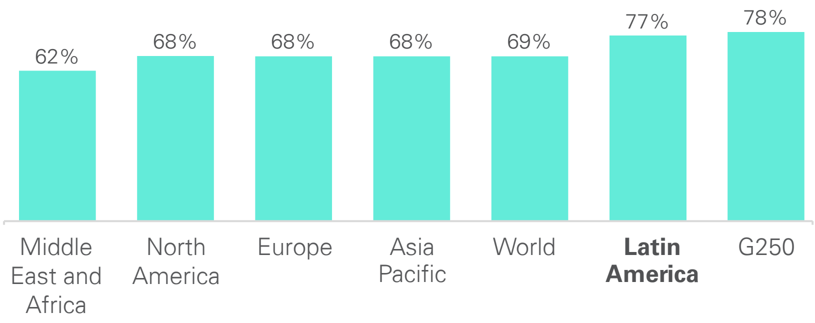


Figure N° 10

Reporting rate under SASB. Regions. 2022

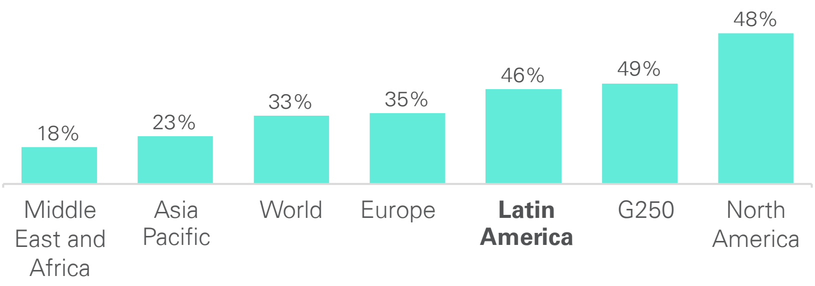
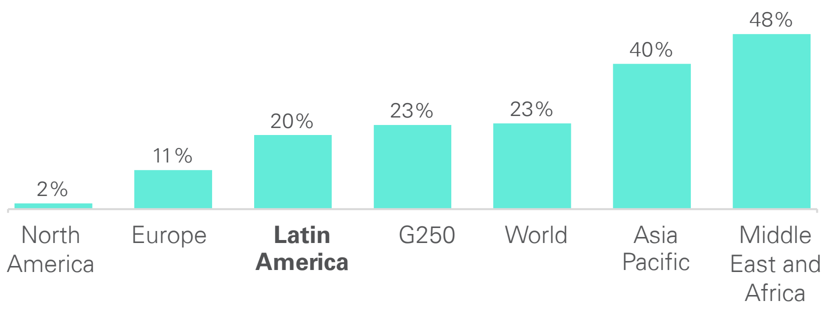


Figure N° 11

Reporting rate under Stock Exchange. Regions. 2022



Source: KPMG Survey on Sustainability Reporting 2022.
Base: 4,581 companies from the N100 sample and 240 from the G250 that report on ESG/Sustainability

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SASB enables specific, comparable, and industry-consistent disclosure on ESG matters that are financially material and relevant to investors. As investor pressure has increased, the popularity of the SASB standards has increased as it has been adopted as one of the "gold" standards.

Finally, around a quarter of the sample of N100 **companies use the guidelines or standards provided by the domestic Stock Exchange. In Latin America, this proportion is somewhat lower (20%). The trend shows since 2017 that these guidelines or standards seem to be largely adopted as an alternative to GRI or SASB standards in particular regions.** In the case of Latin America, and beyond the fact that a large part conforms to the GRI voluntarily, the low incidence of use of stock exchange guidelines may be due, above all, to the absence of an obligation to report information on sustainability for publicly traded companies.

The diverse range of reporting standards currently in use around the world makes comparison between companies and markets challenging. As the world collectively tries to address issues like climate change and inequality, **it is increasingly important that everyone speak "the same language" on sustainability.** Fortunately, alignment is in progress, spurred on by initiatives such as the ISSB and CSRD[1].

Figure N° 12

Reporting under GRI standard. Global top-10. 2022

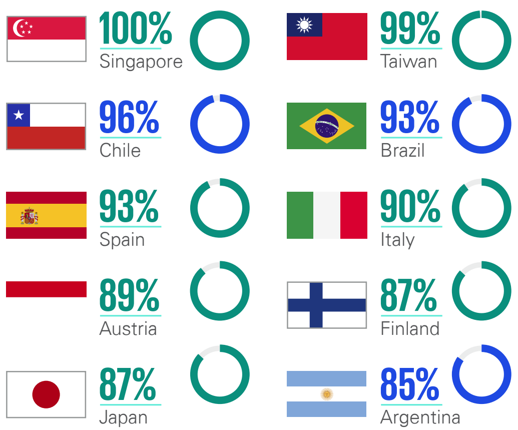


Figure N° 13

Reporting under SASB standard. Global top-10. 2022

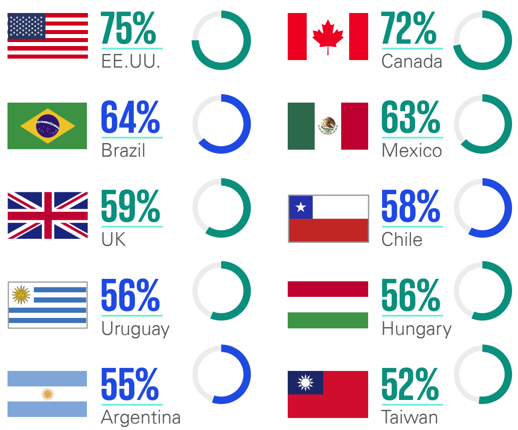
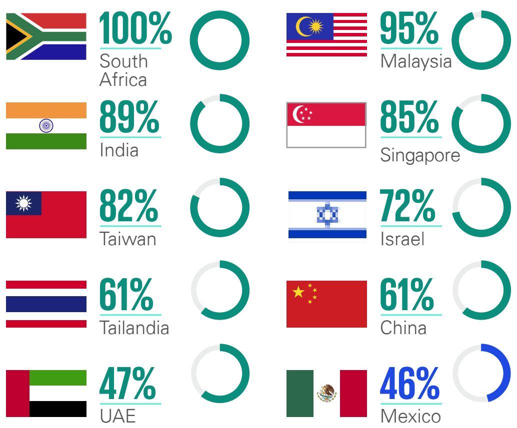


Figure N° 14

Reporting under Stock Exch. standard. Global top-10. 2022



1 For more information, refer to the glossary at the end of this work.

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GRI growth among G250 companies and in Latin America has been substantial between 2020 and 2022.

GRI reporting in Latin America has grown over the last two years, gaining 4 percentage points, **with particularly significant growth in Latin America (+4 percentage points)**

The other standard that has shown an accelerated adoption rate in the region has been SASB, **which in 2022 registered a 46% incidence among Latin American companies.**

It should be noted that SASB is currently the reference standard adopted by some regulators in the region. In Colombia, for example, circular 31 of 2021 of the Financial Superintendence issues instructions to issuers of securities for the disclosure of ESG information and adopts SASB as one of the reporting standards along with TCFD.

Figure N° 15

GRI Evolution. Groups and Latin America. 2020-2022

- 2022
- 2020

Source: KPMG Survey on Sustainability Reporting 2022.
Base: 4,581 companies from the N100 sample and 240 from the G250 that report on ESG/sustainability.

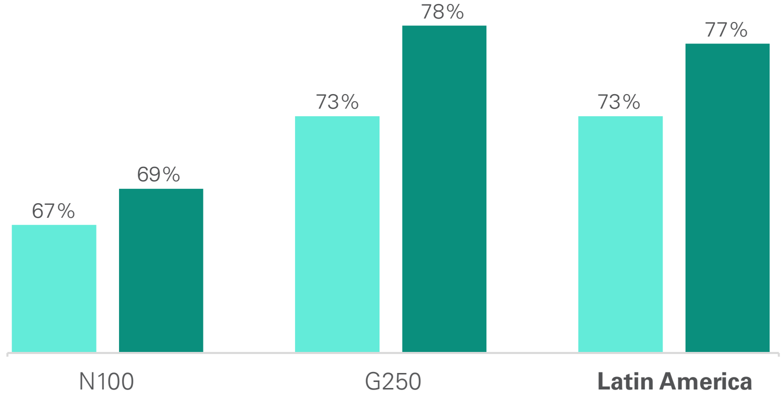
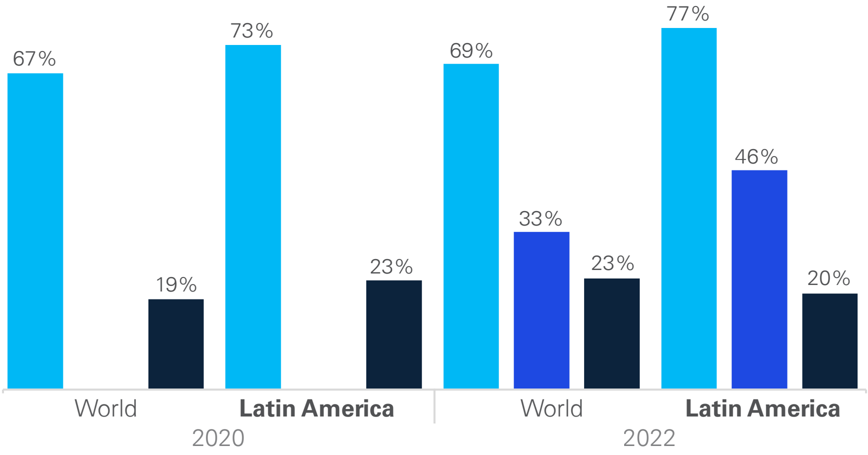


Figure N° 16

GRI vs SASB vs SE. World vs. Latin America 2020-2022

- GRI
- SASB
- Stock Exch



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Materiality

Most companies use some materiality assessment in their reporting.

Materiality is the cornerstone of reporting and a useful tool as a starting point for the sustainability management approach that supports reporting. It is the process by which the impact that an ESG-related issue will have in a specific context is assessed. For the purposes of this study, it was analyzed how companies evaluate their material issues based on their impact for the company, for its stakeholders or for society in general. Worldwide, a significant majority of reporting companies conduct materiality assessments (71%). **In Latin America, that figure is 74%.**

The outstanding materiality topic is the one that refers to the impact "on the company and on the interested parties", both globally (N100) and in **Latin America.** However, **Latin America** reports the highest percentage of companies that also report the impact of ESG aspects on society (25%).

Of the 10 countries with the highest materiality assessment reporting rates, Singapore leads the ranking with 100%.

As we move towards mandatory reporting schemes, we expect to see an increase in the use of materiality analysis. In particular, we see growing market pressure for transparency regarding the impacts a company generates for society.

Figure N° 17

Materiality reporting rate. Regions. 2022

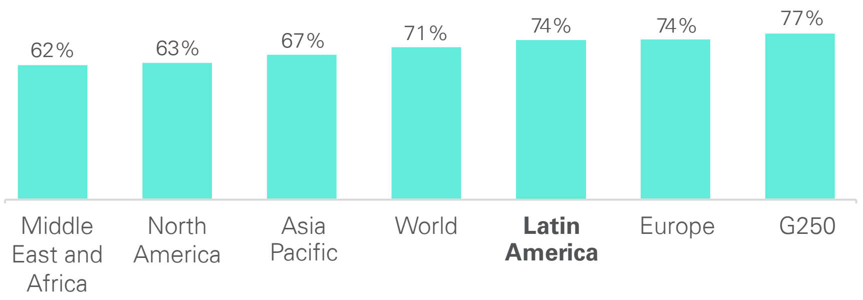
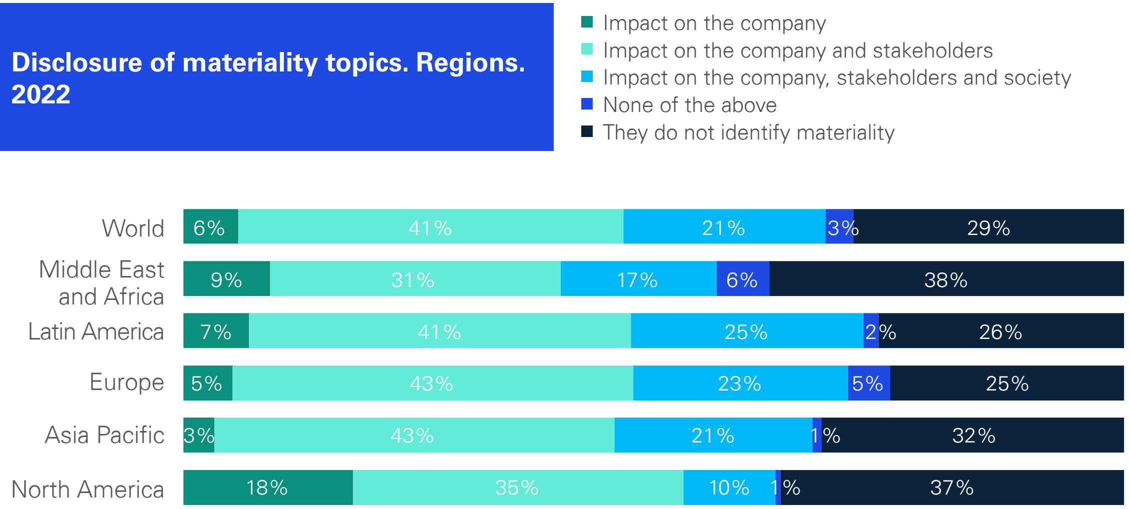


Figure N° 18

Disclosure of materiality topics. Regions. 2022



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External assurance

Latin America assurance rates have declined amidst stability elsewhere globally.

External and independent verification or assurance of the information contained in sustainability reporting increases their credibility. In 2020, the assurance rate was close to 50% among the N100. In 2022, although the rate decreased globally, greater regulation could increase the figure in the coming years.

The G250s historically have the highest assurance rates.

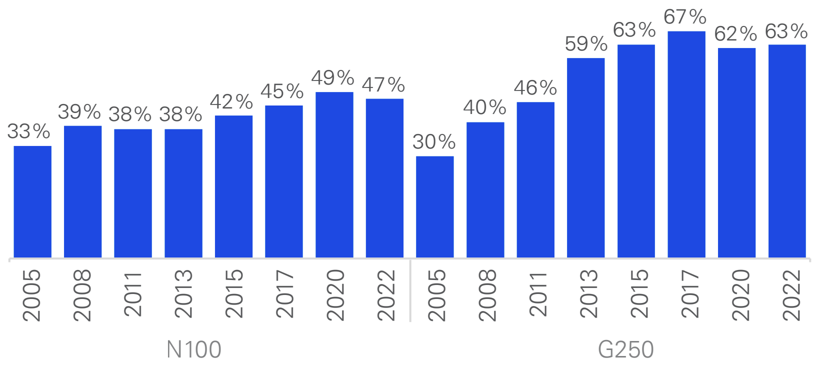
France and Taiwan had the highest rates in 2022 (89% and 86% respectively).

In **Latin America,** despite being around the global average, assurance rate has shown a noticeable decline since 2017, reaching 44% in 2022. This could be explained by the fact that the sample has been enlarged, but the state of reporting maturity of the companies that start doing business is still low.

Brazil (Top-10), Chile, Mexico, Colombia and Argentina are the countries in the region with the highest assurance rates in 2022.

Figure N° 19

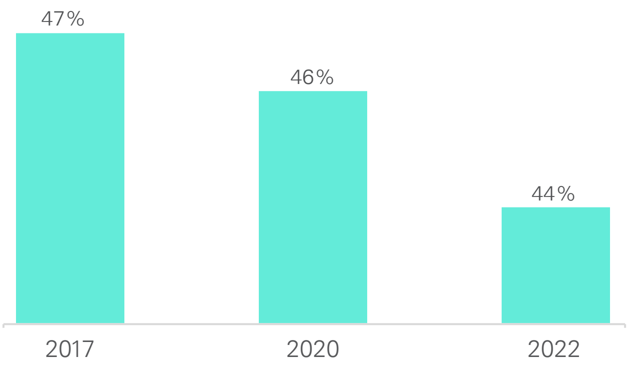
Sustainability reporting rates with formal assurance. World. 2005-2022



Source: KPMG Survey on Sustainability Reporting 2022.
Base: 4,581 companies from the N100 sample and 240 from the G250 that report on ESG/sustainability.

Figure N° 20

Sustainability reporting rates with formal assurance. Latin America. 2017-2022



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Chemicals, Automotive and Mining sectors have the highest assurance rates in ESG reports.

By comparison, **Latin America** lags in the ranking of assurance rates by region, and below the global average (47%).

By sector, the Chemical, Automotive and Mining industries are the ones that mostly report sustainability issues with external and independent assurance or verification of the information they disseminate, surely because they are more exposed or under greater pressure from social scrutiny. It also has increased pressures from investors, regulators and stakeholders.

Other sectors, such as Financial Services, the Food and Beverage sector, and the Manufacturing Industry in general show assurance rates below the regional average.

Figure N° 21

Sustainability reporting rates with formal assurance. Regions. 2022

Source: KPMG Survey on Sustainability Reporting 2022.
Base: 4,581 companies from the N100 sample and 240 from the G250 that report on ESG/sustainability.

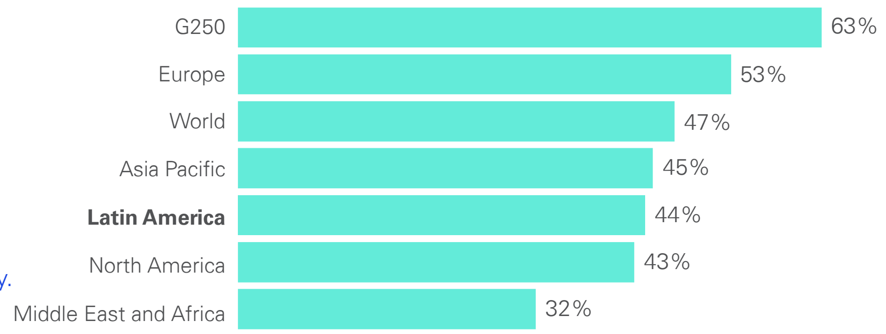
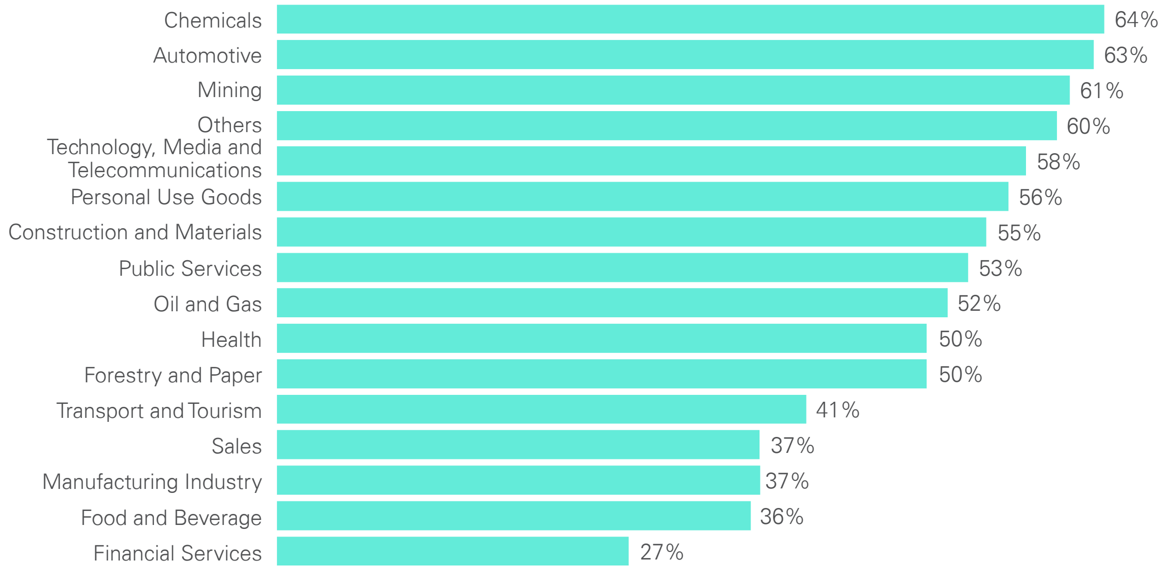


Figure N° 22

Sustainability reporting rates with formal assurance. Latin America. Sectors. 2022



Latin America lags in the ranking of assurance rates by region, and below the global average (47%)

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Climate risk and decarbonization

In 2022, 72% of Latin American companies disclosed their decarbonization goals.

Five years after the establishment of the TCFD (Task Force on Climate-Related Financial Disclosures)[2], recommendations, more than half of all companies in the N100 and G250 sample disclosed their climate targets. Among N100 companies, disclosure has increased 6% since 2020 reaching 71% in 2022. Meanwhile, the G250 rose 4 percentage points in the same period, to reach 80%. **Latin America has followed this trend.**

In 2022, 72% of the companies in the region analyzed disclosed their decarbonization goals.

Figure N° 23

Reporting rates on greenhouse gas (GHG) reduction targets. groups. 2017-2022

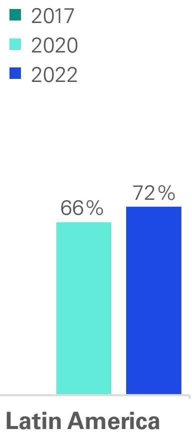


Figure N° 24

Reporting rates on greenhouse gas (GHG) reduction targets. World. Sectors. 2022

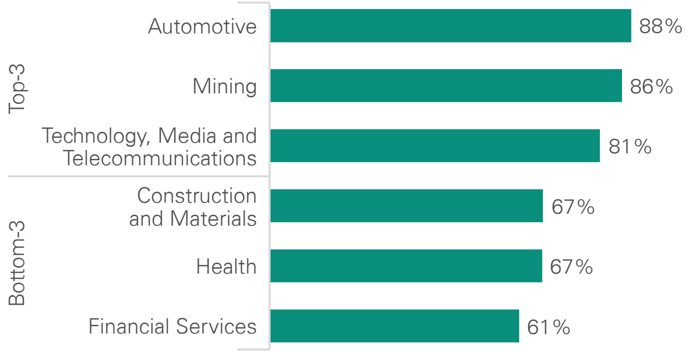
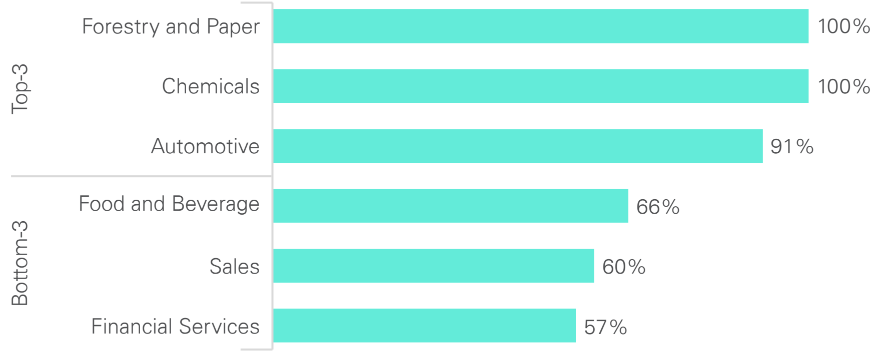


Figure N° 25

Reporting rates on greenhouse gas (GHG) reduction targets. Latin America. Sectors. 2022



2 For more information, refer to the glossary at the end of this work.

Source: KPMG Survey on Sustainability Reporting 2022.
Base: 4,581companies from the N100 sample and 240 from the G250 that report on ESG/Sustainability

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Latin America presents one of the largest increases in the rate of companies that link their GHG emissions reduction targets to global, regional or national targets.

The sectors with the highest disclosure rates in Latin America are Forestry and Paper, Chemicals and Automotive (Top-3). The first two, in 2022 reached 100%.

Noting changes that occurred between 2020 and 2022, **a significant improvement is observed in the rate of companies linking their GHG emission reduction targets to global, regional or national external targets around the world.** Globally, more than half of the companies in the N100 (54%) link them to the Paris Agreement and an increase of 15 percentage points is observed in this trend since 2020.

In **Latin America,** it is no different. Between 2020 and 2022, the proportion of companies that linked their goals to the Paris Agreement grew by 21 percentage points.

Similarly, and as a positive aspect, the proportion of companies that did not link these goals to any policy was reduced from 49% to 24%.

Figure N° 26

Linking carbon reduction targets with global, regional or national reduction targets. Latin America and World. 2020-2022

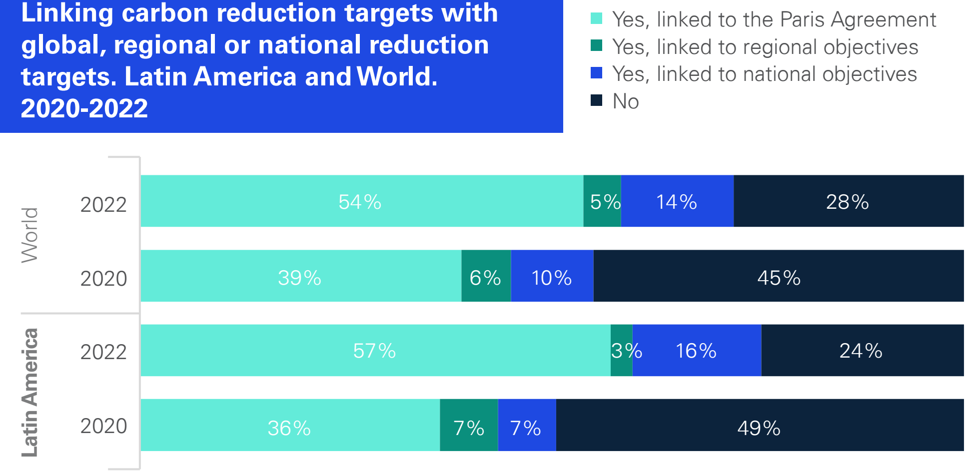
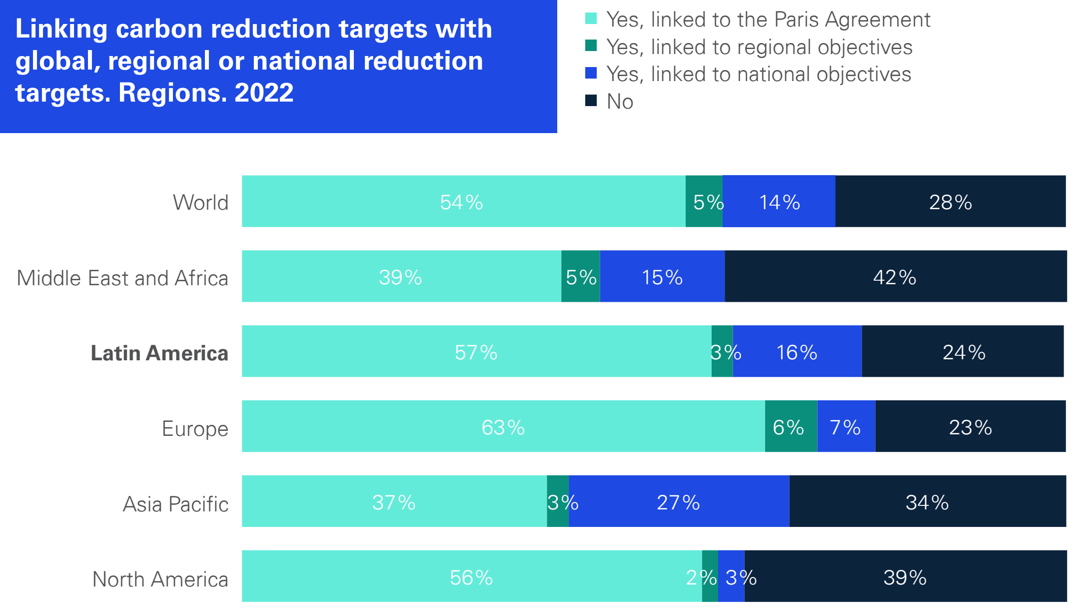


Figure N° 27

Linking carbon reduction targets with global, regional or national reduction targets. Regions. 2022



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TCFD recommendations on the financial impact of climate risk

Marked increase in Latin America in the adoption of the TCFD recommendations.

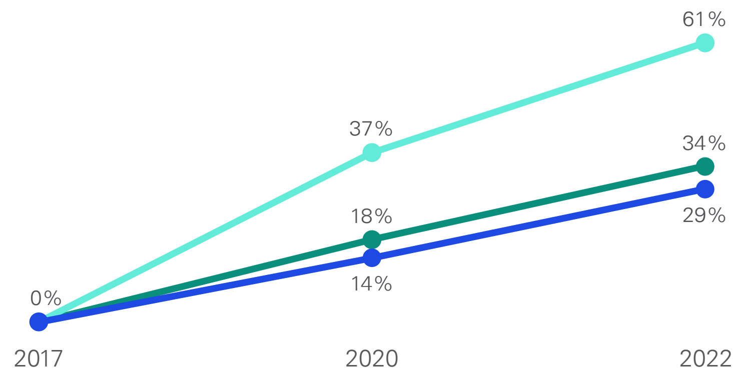
The results of the study show a notable increase in the adoption of the TCFD recommendations on a global scale. In line with the trend, the number of companies in **Latin America adopting it has doubled. Brazil, Mexico, Colombia, Argentina and Chile** lead in the region.

The adoption of the TCFD recommendations has experienced strong growth in all sectors, particularly in resource-intensive sectors such as the Automotive industry and the Mining sector. The Automotive and Chemical Industry sectors stand out in the region.

Figure N° 28

Report based on TCFD recommendations. Groups. 2017-2022

- World (N100)
- G250
- **Latin America**



Source: KPMG Survey on Sustainability Reporting 2022.
Base: 5,800 companies from the N100 sample and 250 companies from the G250 sample.

Figure N° 29

Report under TCFD. countries. Top-10 Global and Latin America 2022

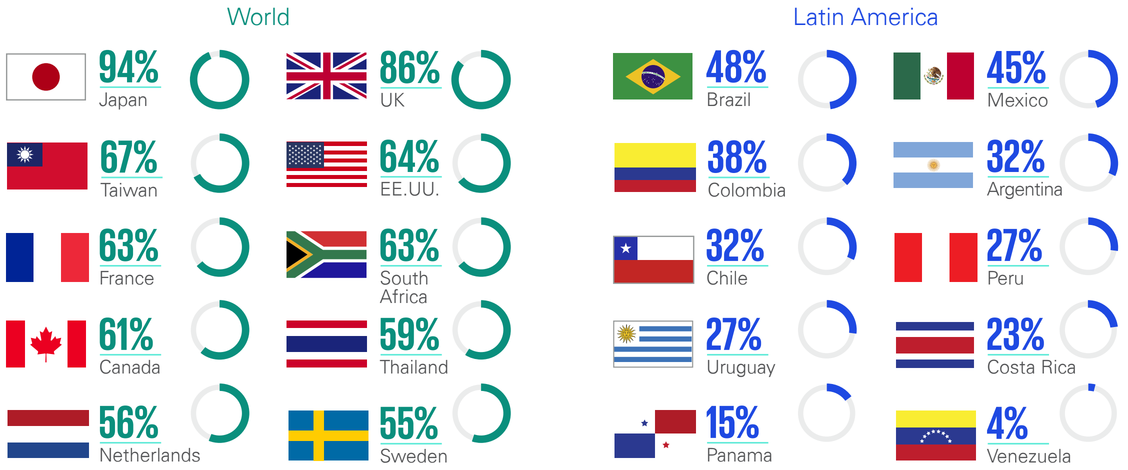


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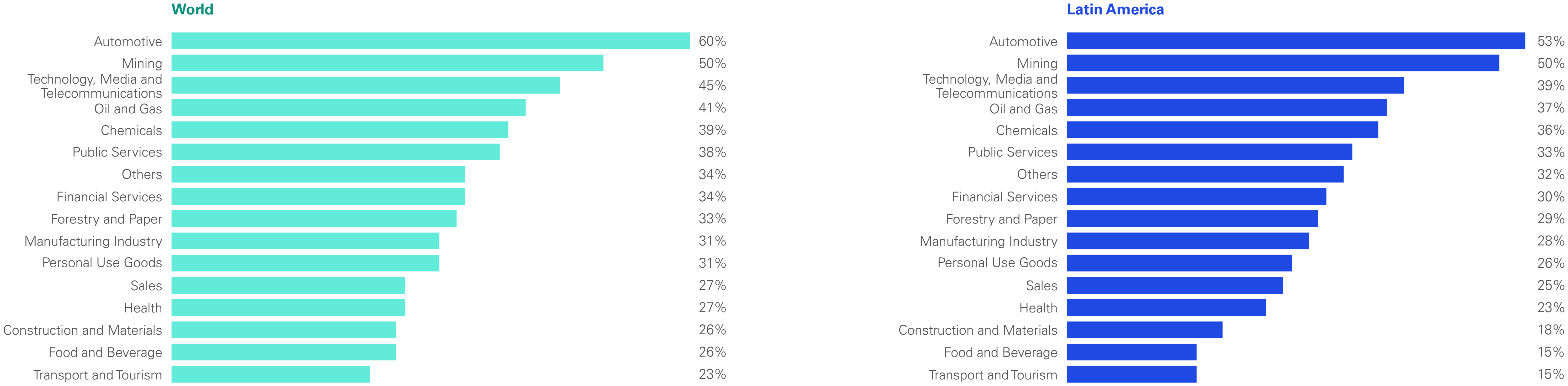
Figure N° 30

Reporting in line with TCFD recommendations



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Business risks associated with biodiversity loss

Latin America continues its regional leadership in biodiversity reporting.

Latin America includes some of the most biodiverse areas on the planet, but is suffering massive biodiversity loss due to mining, land use change, and deforestation. Currently, **half of Latin American companies report risks associated with the loss of biodiversity.**

Although there is a significant increase compared to 2020 - the reporting rate on this topic grew by close to 20% - only half of the companies still recognize the risk to the business of biodiversity loss. It is hoped that ongoing initiatives such as TNFD[3] will promote a greater understanding of the issue that will drive further management.

UK, Thailand, South Africa and Japan are the leaders in 2022 (77%, 68%, 68% and 64% respectively).

Regionally, Latin America still dominates in biodiversity reporting with two countries (Brazil and Peru) ranked among the top 10 global reporters.

Figure N° 31

Sustainability reporting rates with formal assurance. Regions. 2022

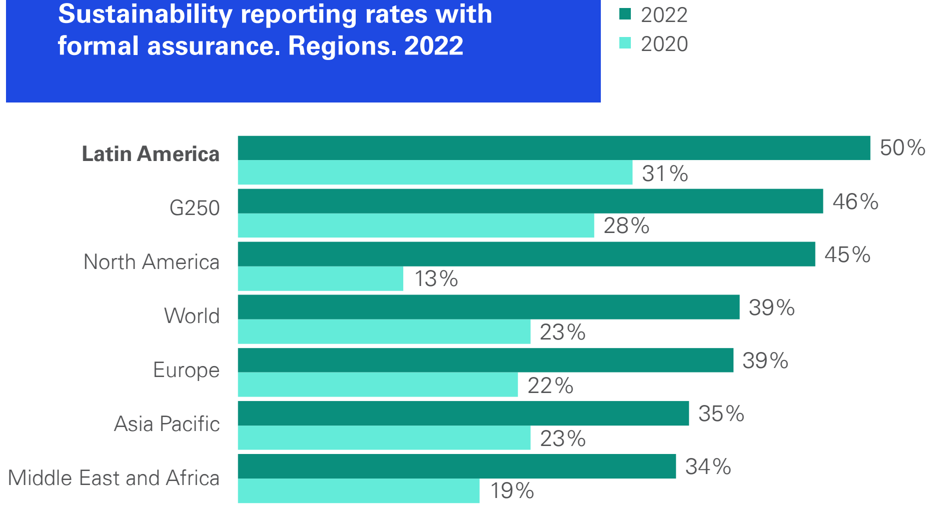
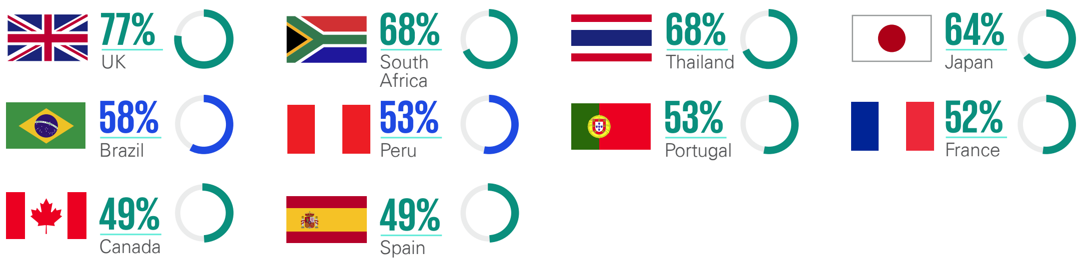


Figure N° 32

Business risk reporting rate related to biodiversity loss. Countries, 2022



3 For more information, refer to the glossary at the end of this work.

Source: KPMG Survey on Sustainability Reporting 2022.
Base: 5,800 companies from the N100 sample reporting on ESG/sustainability.

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Extractive activities and public services lead the reporting rate in Latin America.

There is a significant increase in sectors such as Mining, Public Services and Oil and Gas, generally more regulated compared to environmental authorities that require environmental compensation for licensing. However, there is also a significant improvement in highly exposed sectors such as the Food and Beverage and Chemical Sectors.

Figure Nº 33

Business risk reporting rate related to biodiversity loss. Sectors.

Source: KPMG Survey on Sustainability Reporting 2022.
Base: 4,581 companies from the N100 sample and 240 from the G250 that report on ESG/sustainability.

World

Sector	2022	2020
Mining	79%	40%
Forestry and Paper	76%	31%
Oil and gas	57%	36%
Food and beverage	56%	25%
Public services	51%	28%
Chemicals	50%	29%
Manufacturing industry	40%	25%
Automotive	39%	-
Personal use goods	39%	30%
Sales	39%	20%
Construction and Materials	38%	14%
Transport and tourism	34%	-
Technology, media and telecommunications	30%	-
Financial services	29%	15%
Others	26%	11%
Health	17%	9%

Latin America

Sector	2022	2020
Forestry and Paper	94%	33%
Mining	85%	67%
Public services	70%	47%
Oil and gas	68%	28%
Personal use goods	63%	50%
Construction and Materials	59%	31%
Food and beverage	57%	40%
Chemicals	55%	38%
Automotive	49%	28%
Manufacturing industry	46%	35%
Others	40%	-
Sales	40%	24%
Transport and tourism	37%	11%
Financial services	33%	12%
Technology, media and telecommunications	32%	-
Health	27%	-

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United nations sustainable development goals (SDGs)[4]

At the regional level, Latin America continues to be a leader in SDGs.

The KPMG study has tracked the adoption of the 17 UN SDGs since their launch in 2015. However, and despite its importance, **a growth of only two percentage points** has been observed in the last 2 years, both in the sample of N100 companies (from 69% to 71%) and in that of the G250 (from 72% to 74%).

In 2022, we see 12 countries in which 75 percent or more of the top 100 companies reference SDGs in their sustainability reporting. Four of them are in the Asia Pacific Region, with Thailand leading (93%).

Likewise, in 2022, **78% of Latin American companies** identified specific SDGs relevant to their businesses.

Brazil, with 76%, leads the Latin American region, closely followed by **Peru, Mexico and Chile.**

Figure N° 34

Reporting rates that identify SDGs relevant to business. Regions. 2022

Source: KPMG Survey on Sustainability Reporting 2022.
Base: 4,581 companies from the N100 sample and 240 from the G250 that report on ESG/sustainability.

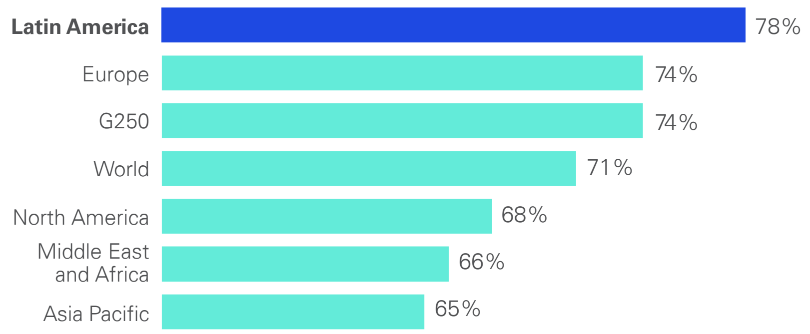
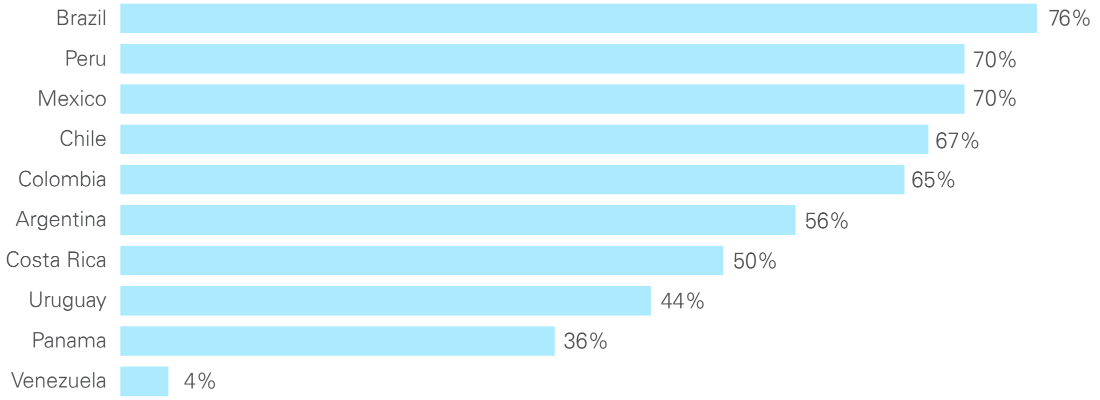


Figure N° 35

Reporting rates that identify SDGs relevant to business. Latin America. 2022



4 For more information, refer to the glossary at the end of this work.

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Although there is a strong geographical dispersion that suggests that the SDGs are integrated around the globe, with high reporting rates in Latin America and Europe (to name just two), **much improvement remains.**

In the G250, 100 percent of German companies reference the SDGs. **The figures among Chinese companies are also impressive, going from 5% in 2017 to 56% in 2022.**

"The report on the actions of the 2030 Agenda [for Sustainable Development] at the objective, goal and indicator level, makes it possible to more precisely identify the level of progress in achieving the global ambitions of peace and prosperity for people and the planet; as well as understanding the creation or subtraction of value for investors, interest groups and society in general."

Juan Carlos Reséndiz
Lead Partner of Governance, Risk and Sustainability of KPMG for Mexico and Central America

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Few companies offer balanced reporting regarding SDG impacts.

KPMG professionals assessed whether companies offer balanced reporting about their SGD impacts. This refers to reporting not only the way in which it seeks to contribute positively towards them, but also being transparent about how the company's impacts negatively affect the goals of the different SDGs and what measures to mitigate these effects. **The vast majority report only positive impacts, both globally and in Latin America.**

The Chemical Industry reached 100% of companies that identify SDGs in **Latin America.**

They are followed by Construction and Materials, Oil and Gas, and Personal Use Goods.

Figure N° 36

Reporting rates that identify SDGs relevant to business. Latin America. Sectors. 2022

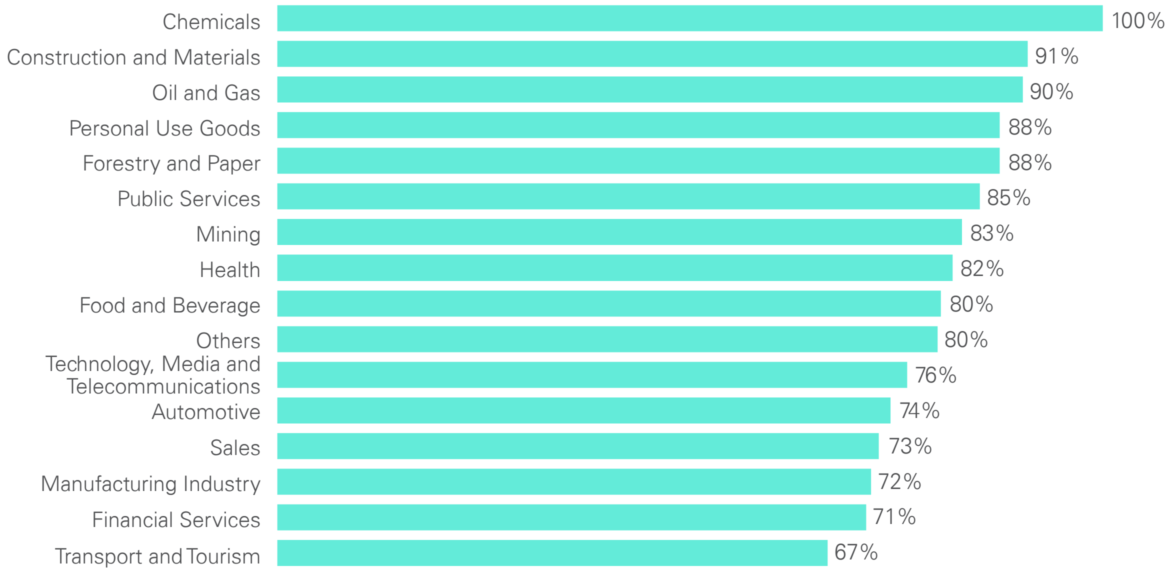
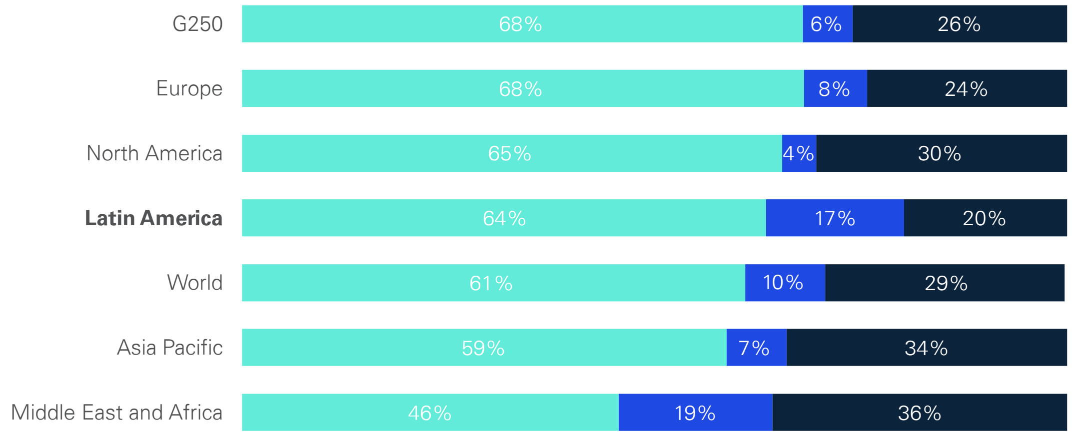


Figure N° 37

SDGs according to the nature of the report. Regions. 2022

Only positive effects
Yes, both
They do not report SDGs



Source: KPMG Survey on Sustainability Reporting 2022.
Base: 4,581 companies from the N100 sample and 240 from the G250 that report on ESG/Sustainability

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“Decent work and economic growth” continues to be the SDG against which companies globally report the greatest alignment.

The research also showed that more and more companies are reporting against specific SDGs, with 10% of companies reporting on all 17 SDGs.

Three SDGs remain the most popular for companies to report on: 8) Decent work and economic growth; 12) Responsible production and consumption; and 13) Climate action.

Few companies prioritize the following three SDGs: 2) Zero hunger; 14) Life underwater; and 15) Life on earth. The low level of reporting on these three topics can be linked to the low understanding that is observed, as mentioned above, regarding the impacts that companies have on diversity and nature, and how these interactions can affect global food systems.

Figure N° 38

Frequency of prioritized SDGs (2022)

Source: KPMG Survey on Sustainability Reporting 2022.
Base: 3,275 N100 companies identify the specific SDGs they consider most relevant to their business

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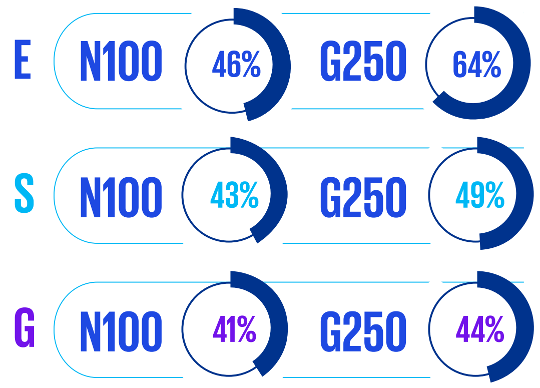
ESG

Companies increasingly recognizing ESG issues as risk areas.

The concept of ESG was first introduced by the United Nations in its 2006 publication *Principles for Responsible Investing,* but has become more prevalent in recent years, with an increasing number of companies using ESG as the anchor for their sustainability reporting. For the first time in 2022, KPMG professionals analyzed the inclusion of E, S and G factors in sustainability reporting. We found that the E in ESG (defined as climate change for the purposes of this survey) is highlighted far more often than the S and G, with a handful of countries leading the charge in this form of reporting, mostly as a result of domestic legislation.

Figure N° 39

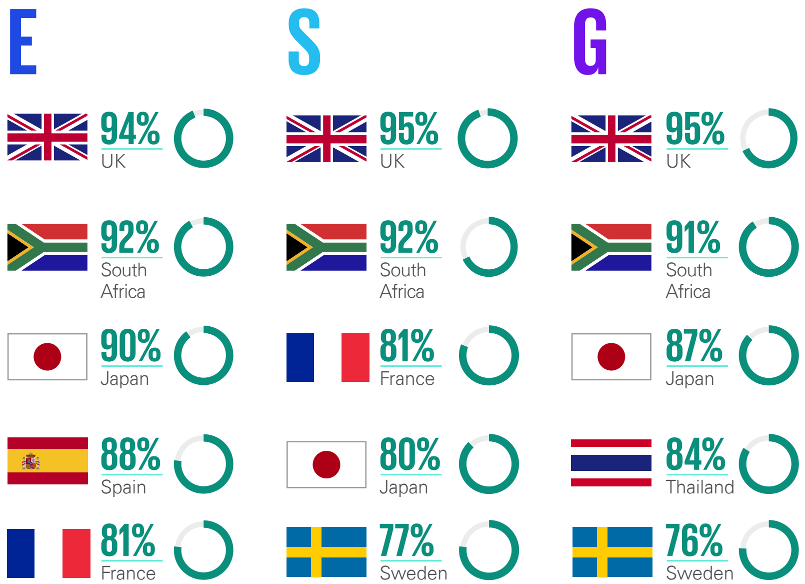
Global reporting rates of E, S and G risks (2022)



Source: KPMG Survey on Sustainability Reporting 2022.
Base: 5,800 companies from the N100 sample reporting on ESG/sustainability.

Figure N° 40

Top five countries by percentage of N100 companies reporting on E, S and G risks (2022)



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ESG: Environmental risks to business

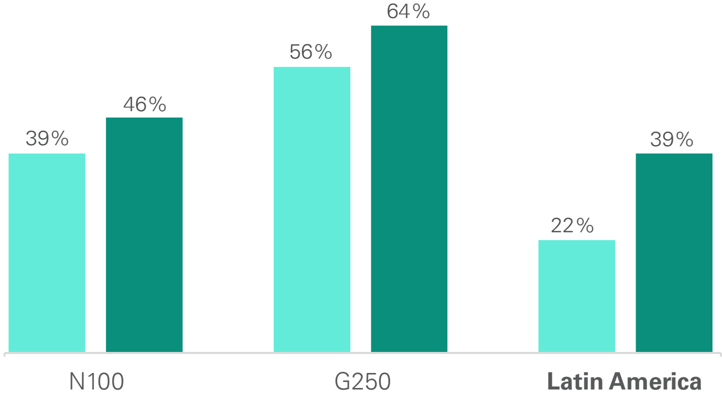
The participation in Latin America in terms of environmental risks to the business rose 17 percentage points.

Recognition among companies that climate change is a business risk has improved markedly since 2017, but its growth does not reflect the urgency expressed in the 2021 Intergovernmental Panel on Climate Change (IPCC) report, which called for urgent action to mitigate climate change. In the last two years, the share of companies in the N100 sample that report environmental issues as business risk has increased by 7 percentage points. **In Latin America, this increase has been 17 percentage points.**

Despite this significant increase, **Latin America continues to lag** behind the rest of the regions in this regard, reaching 39% in 2022, which was the global average in 2020.

Figure N° 41

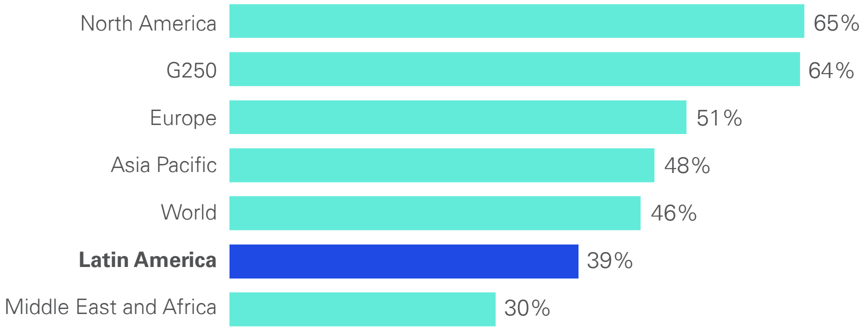
Global reporting on environmental risks. Groups and Latin America. 2022



Source: KPMG Survey on Sustainability Reporting 2022.
Base: 5,800 companies from the N100 sample reporting on ESG/sustainability.

Figure N° 42

Global reporting on environmental risks. Regions. 2022



“Understanding climate change and the energy transition from a risk perspective allows for the adoption of more resilient business models adapted to the changing reality and the challenges involved in the social and cultural transformation necessary to navigate towards a just energy and ecological transition. And it's not just about focusing on how that reality can affect the business. The impacts that the operation and the value chain have on the environment: climate change, water, ecosystems, air, biodiversity, soil quality are not “external” impacts. The management of these impacts directly affects the risk profile, the strategy and the ability to generate value in the long term.”

Nelmara Arbex
Lead Partner of ESG of KPMG Brazil and South America*

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The number of Latin American companies reporting environmental risks based on a description of their effects on business has grown substantially.

Only 13% of the G250 and 6% of the N100 adopt a leading practice of modeling the potential impacts of climate change using scenario analysis. **In Latin America, this figure is 5%.**

Most reporting on this topic is based on a narrative description of the potential impacts, both globally and in **Latin America.**

However, the most relevant data for the region shows that, between 2020 and 2022, both (i) the number of companies that report risks associated with climate change and (ii) the inclusion of a description of their impacts in these reports has grown substantially.

In 2020, 78% of companies did not report this topic, and only 21% included a description of the effects of climate change on business. Today, while the first figure dropped to 61%, the second grew to 31%.

Brazil, Peru, Mexico and Colombia have the highest rates in the region. In Peru specifically, the ones that report the most with models to estimate the potential impacts of climate change use scenario analysis (13%).

Figure N° 43

Nature of global reporting on environmental risks. Regions. 2022

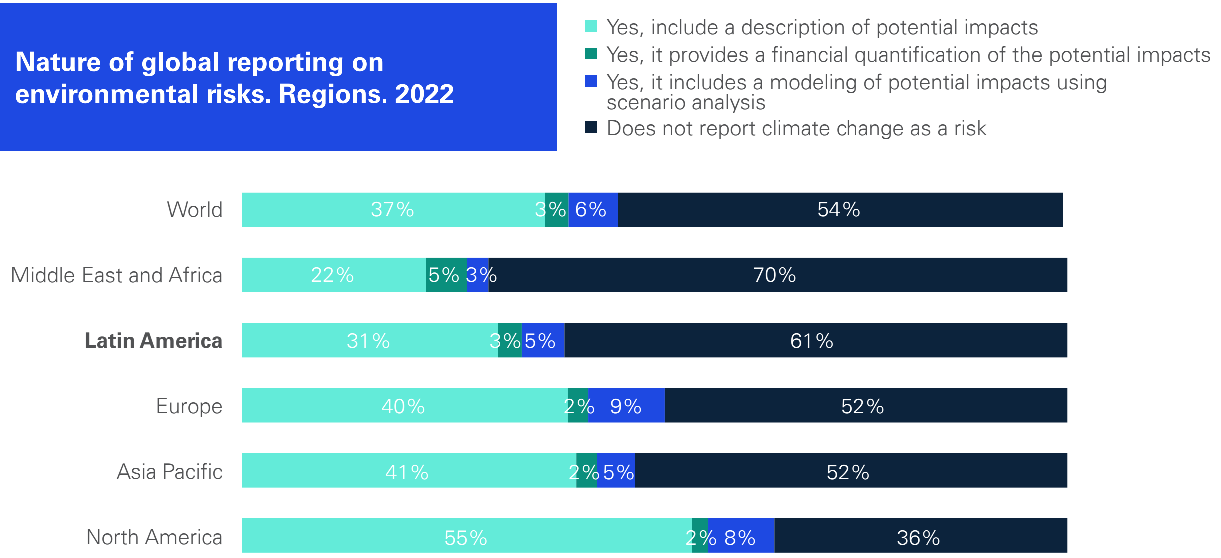
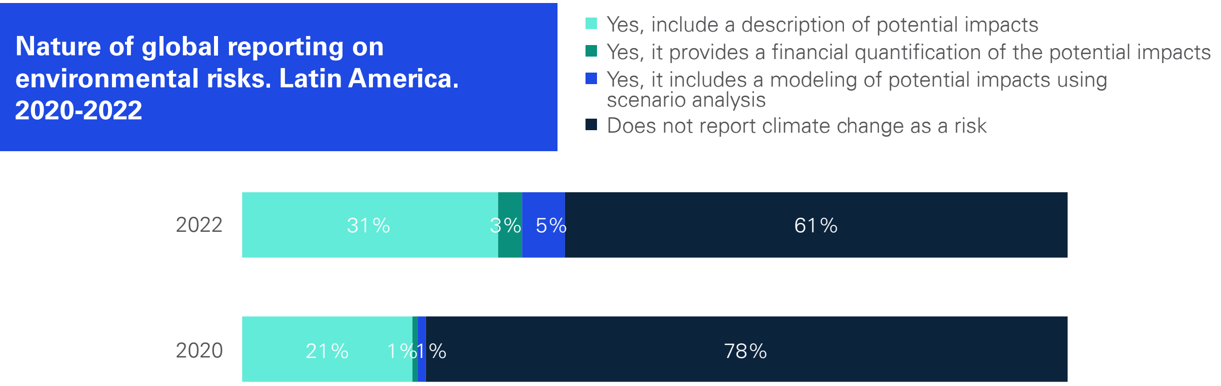


Figure N° 44

Nature of global reporting on environmental risks. Latin America. 2020-2022



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ESG: Risks of the social component to business

Brazil, Peru, Mexico and Colombia are the main references in the region.
The social component of ESG is becoming a focus for companies around the world, especially for the G250 group and the Asia Pacific region.

The global average is 43%. In Latin America, only 35% address the problem of social risks in their reporting. The items generally covered are community involvement and occupational health and safety issues or working conditions, which are crucial to most companies and their businesses.

In general, companies also prefer to use a narrative description to describe social impacts, rather than provide quantitative data.

Once again, Brazil, Peru, Mexico and Colombia are the benchmarks in the region in sustainability reporting with information on business risks associated with the social component.

Figure N° 45

Global reporting on risks of the social component. Regions. 2022

Source: KPMG Survey on Sustainability Reporting 2022.
Base: 5,800 companies from the N100 sample reporting on ESG/sustainability.

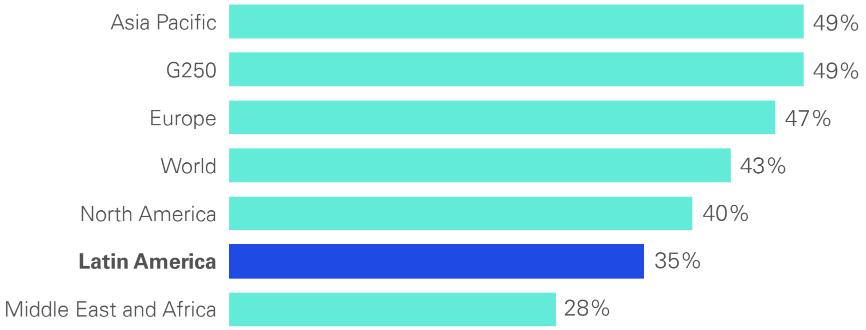
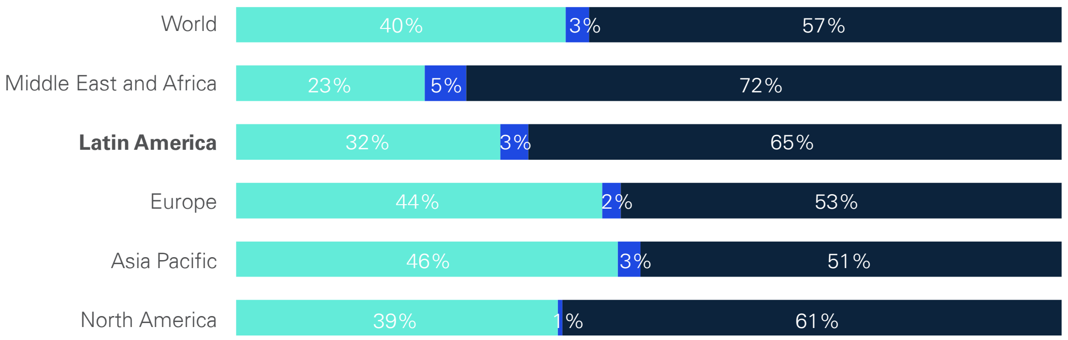


Figure N° 46

Nature of global reporting on environmental risks. Regions. 2022

- Yes, include a description of potential impacts
- Yes, it provides a financial quantification of the potential impacts
- Does not report social risks



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ESG: Corporate governance risks to business ESG leadership

Only a third of Latin American companies report risks associated with corporate governance business.

Corporate governance risks may impact compliance or business integrity. Some clear examples are bribery, corruption or anti-competitive behavior. For the first time in this study, KPMG professionals reviewed whether company reports recognized corporate governance as a business risk.

In this sense, only 41% of companies in the N100 report the risks associated with this element in their sustainability reporting.

At the regional level, Latin America lands in the bottom half (at 33%), rising just above Eastern Europe (30%) and the Middle East (13%).

Brazil and Mexico are the main examples in the region.

Figure N° 47

Global reporting rate on corporate governance risks. Regions-Groups. 2022

Source: KPMG Survey on Sustainability Reporting 2022.
Base: 5,800 companies from the N100 sample reporting on ESG/sustainability.

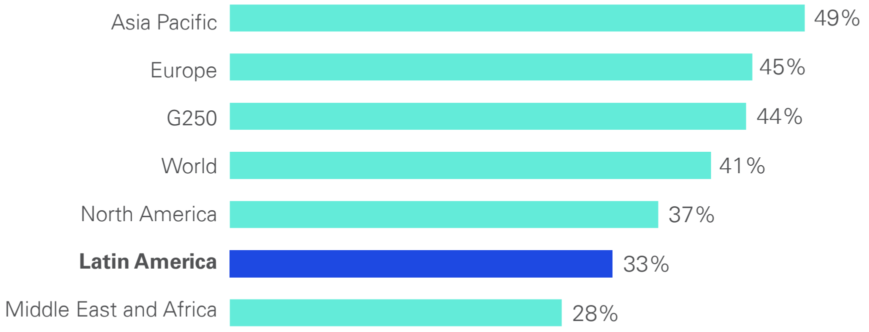
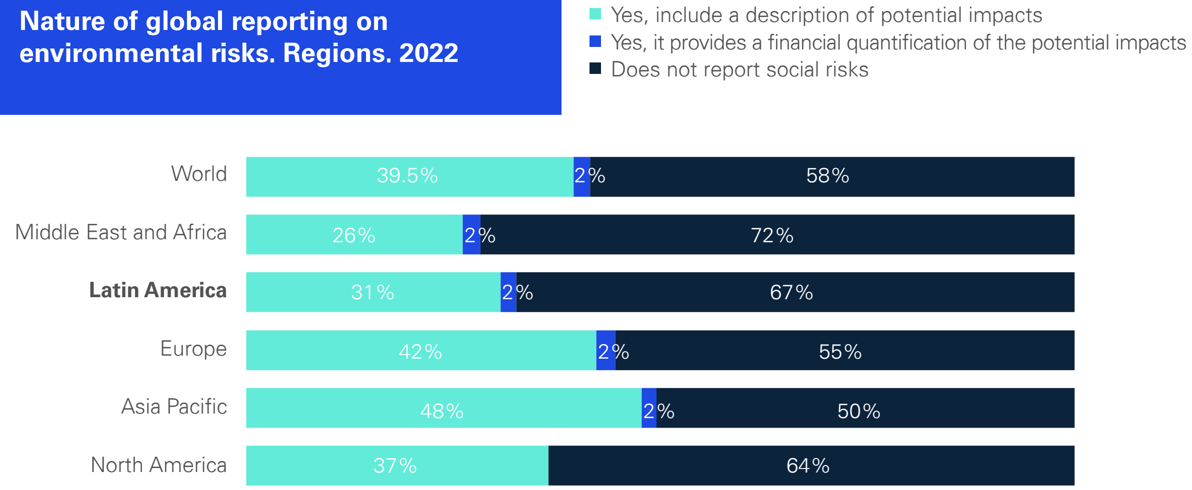


Figure N° 48

Nature of global reporting on environmental risks. Regions. 2022



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Europe and Asia Pacific have the highest levels of disclosure regarding risks related to corporate governance, reaching 49% and 45% respectively in 2022, well above the global average (41%).

As in the previous ESG aspects, the study shows that companies prefer to use narrative descriptions to convey the potential impacts of risks, rather than quantify them.

Japan and Germany are the countries with the highest rates in this regard: 92%

> "Organizations must identify, document, measure, and manage all business risks considering the defined and accepted risk appetite, and provide reliable information in this regard for stakeholder decision-making. To this end, it is necessary to incorporate and integrate ESG risks into risk management programs (ERM) and consider not only current risks but also emerging ones. This is achieved with the support of the Board of Directors and the entire organization."

Romina Bracco
Partner of Risk Consulting and leader of ESG and Sustainability of KPMG Argentina

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ESG leadership

Much remains to be done in Latin America in terms of leadership to promote the ESG agenda.

The study also reviewed whether sustainability was represented in senior management, by having a member or team dedicated to sustainability issues. This can bring sustainability closer to business operations and create greater accountability. A member dedicated to these topics also indicates a company's level of maturity with respect to sustainability.

The practice is not yet common. Currently only a third (34%) of companies have a leader dedicated to these issues. Regionally, Asia Pacific is the one that shows the best figures, **while Latin America and the Middle East and Africa show the lowest.**

Brazil, the country in the region with the best location in the global list, appears in position 16 and Chile, the second, in 28.

Figure N° 49

Rate of global reporting with leaders in sustainability. Regions-Groups. 2022

Source: KPMG Survey on Sustainability Reporting 2022.
Base: 5,800 companies from the N100 sample reporting on ESG/sustainability.

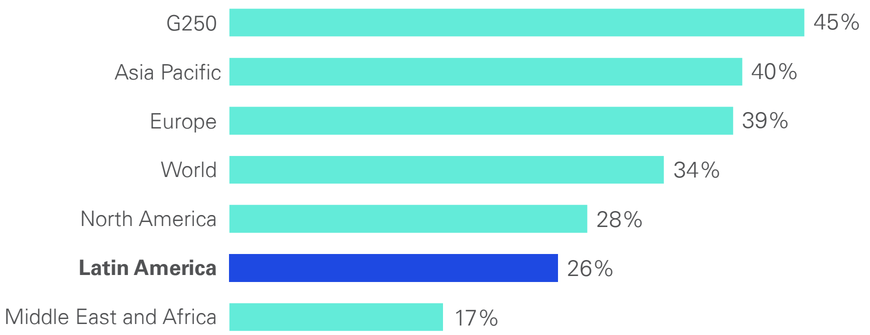
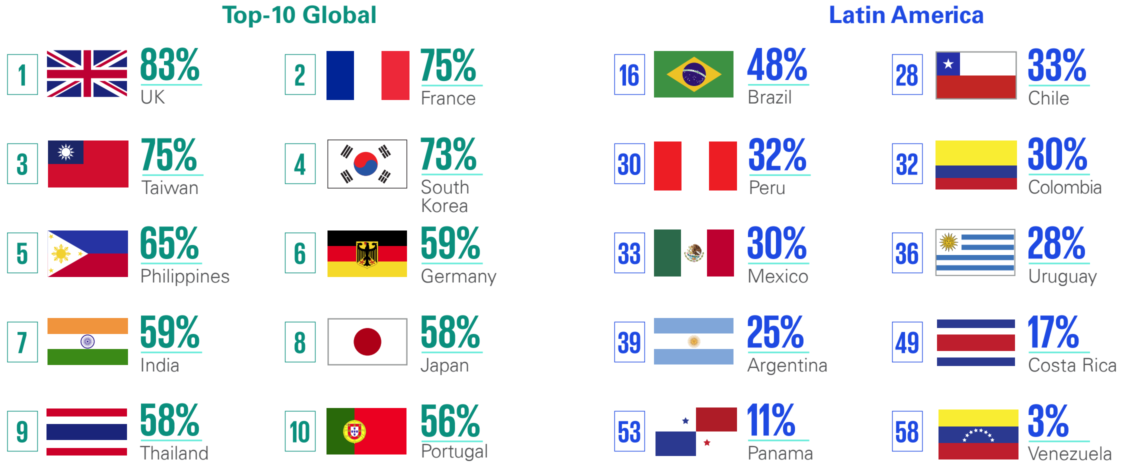


Figure N° 50

Reporting rate with leaders in sustainability. Overall ranking. 2022



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Compensation and ESG

Compensation can help meet ESG goals: Are companies taking advantage of it?.

Finally, KPMG professionals reviewed whether sustainability was "rewarded" at the leadership level.

This element can improve performance in areas such as climate goals and diversity, while also sending a signal to investors and stakeholders that the company takes sustainability seriously. Currently, only 24% of companies link compensation at the leadership level with sustainability goals.

In Latin America, that figure drops to 20%. Again, Brazil, Colombia and Mexico are the greatest exponents in the region, with figures that exceed the regional and global average.

Figure N° 51

Global rates of compensation based on sustainability at the leadership level. Regions - Groups. 2022

Source: KPMG Survey on Sustainability Reporting 2022.
Base: 5,800 companies from the N100 sample reporting on ESG/sustainability.

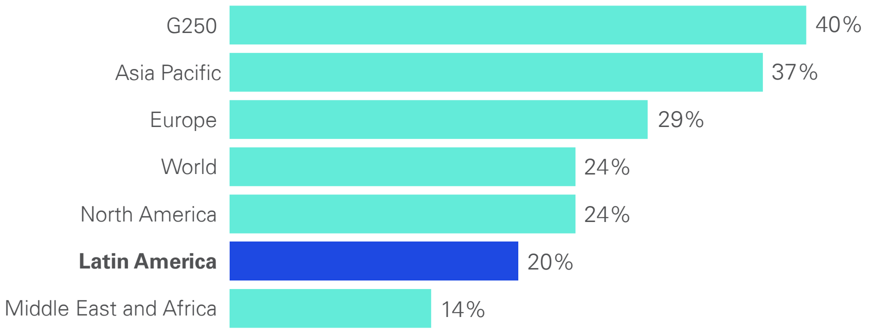
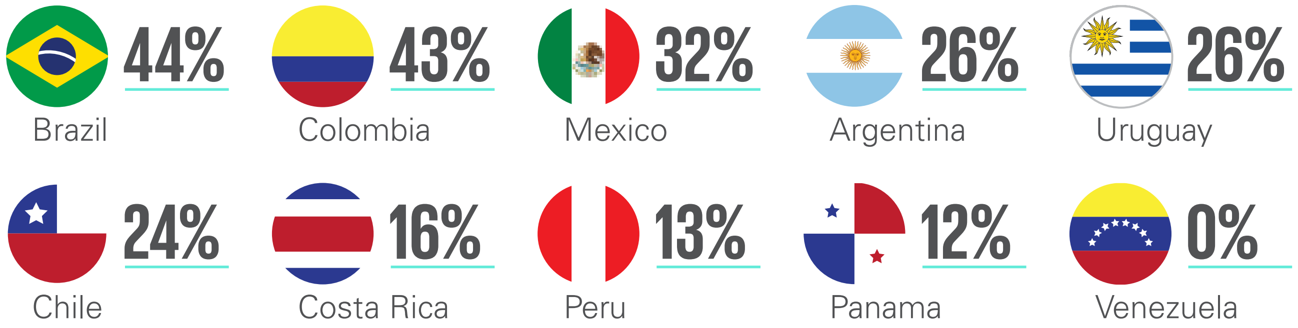


Figure N° 52

Sustainability-based compensation rates at the leadership level. Latin America ranking. 2022



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Glossary and references

CSRD:
Corporate Sustainability Reporting Directive.

ESG:
Environmental, social and governance.

EU:
European Union.

G250:
The world's 250 largest companies by revenue based on the 2021 Fortune 500 ranking.

GRI (Global Reporting Initiative): The Global Reporting Initiative is an international non-profit organization dedicated to promoting sustainability reporting as a standard practice among companies and other organizations. It currently represents the most widely used scheme worldwide for the preparation of sustainability reporting.

IPCC:
Intergovernmental Panel on Climate Change.

ISSB:
International Sustainability Standards Board.

N100:
Worldwide sample of the top 100 companies by revenue in 58 countries.

SDGs
(United Nations Sustainable Development Goals):
The 17 SDGs were presented by the United Nations as a model to follow to achieve a better and more sustainable future for all by addressing the main global challenges, that is, poverty, inequality, climate change, environmental degradation, peace and Justice. Companies find the SDGs useful to align their sustainability initiatives and contribute to solving the most pressing problems facing the world.

SASB (Sustainability Accounting Standards Board): The SASB standards were developed in 2011 to guide companies in disclosing investor-focused sustainability information. In 2022, SASB was consolidated into the IFRS Foundation, with ambitions to become the global standard setter for sustainability disclosure for financial markets.

Stock Market Guidelines:
Guidelines provided by domestic stock markets. Some exchanges / commissions have started making sustainability reporting mandatory.

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TCFD (Task Force on Climate-Related Financial Disclosures):
The TCFD was established in 2015 by the Stability Board (FSB) to respond to the threat of climate change and promote stability in the global financial system. The purpose of this working group is to improve corporate reporting on weather-related risks and to enable stakeholders (investors, lenders, and insurers) to factor these kinds of risks into their decisions. The task force published its recommendations in 2017. KPMG was an early member of the TCFD, and currently advises clients of member firms on adopting the TCFD recommendations.

TMT:
Technology, Media and Telecommunications.

TNFD (Taskforce on Nature-related Financial Disclosures): The Task Force for Nature-Related Disclosures (TNFD) proposes an innovative market-led approach, encouraging its participants to support the development of a nature-related risk management and disclosure framework.

U.S. SEC:
United States Securities and Exchange Commission.

References:
"Big shifts, small steps: Survey of Sustainability Reporting 2022", KPMG International, October 2022.

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