KPMG

Big shifts, small steps for Ireland

KPMG Survey of Sustainability Reporting

2022

Welcome to KPMG's biennial Survey of Sustainability Reporting 2022

First published in 1993, this 2022 survey marks the twelfth edition, examining sustainability reporting trends around the world. Over the past two decades, sustainability reporting has been largely voluntary, so the purpose of this survey was to offer meaningful insights about how to improve levels of disclosure by business leaders, sustainability professionals, and company boards. Today, we are on the precipice of adopting mandatory and regulated sustainability reporting and the reporting landscape is poised to change drastically. The findings in this report reflect on the current state of reporting today, the gaps that should be filled to meet regulatory requirements. They also reflect the overarching business strategy considerations that can allow companies to meet increasing regulatory expectations while still creating impact and generating value.

KPMG professionals analysed financial reports, sustainability and Environmental, Social and Governance (ESG) reports, and websites for 5,800 companies in 58 countries, territories, and jurisdictions. The survey provides information and insights for those preparing their own organisation's sustainability report, as well as for investors, asset managers and ratings agencies who now factor sustainability and ESG information into their corporate performance and risk assessments.

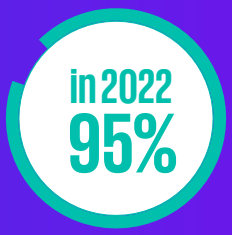
The 2022 survey includes a number of new topics, including the use of materiality assessments, reporting on social risks, and reporting on governance risks.

Read the full global report here.

This KPMG Ireland report outlines how Irish companies performed in the global context and includes insights on various aspects of the survey from our subject matter experts (SMEs) to answer the big questions on sustainability reporting.

Who is reporting?

The share of companies reporting on sustainability in the Republic of Ireland has steadily increased in the last 5 years in line with the global average of 96%.



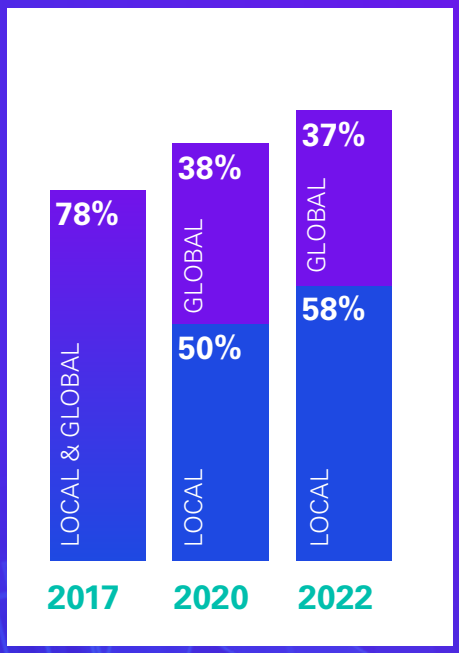
KPMG sees three key drivers behind the increasing rate of reporting:

01. **Regulatory changes** - With the introduction of Sustainable Finance Disclosure Regulation (SFDR) for financial market participants, the launch of the EU Green Taxonomy and the widening scope of the Non-Financial Reporting Directive (NFRD) into the Corporate Sustainability Reporting Directive (CSRD), non-financial metrics will achieve an equal relevance to financial metrics. In response, organisations have focused attention to collecting, analysing, assuring and reporting sustainability-related information.

02. **Investor pressure** - Corporates, asset managers and investment managers are under increasing pressure to report on their ESG performance. Investors are becoming more aware of the potential future valuation impact of ESG factors on investment decisions made today.

03. **Market maturity** - The Irish market has driven a substantial shift in the focus of companies towards sustainability, primarily driven by new stakeholder pressures, such as the changing expectations of Gen Z employees entering the market and the shift of consumer sentiment towards sustainable products and services.

Number of Irish N100 companies reporting on sustainability



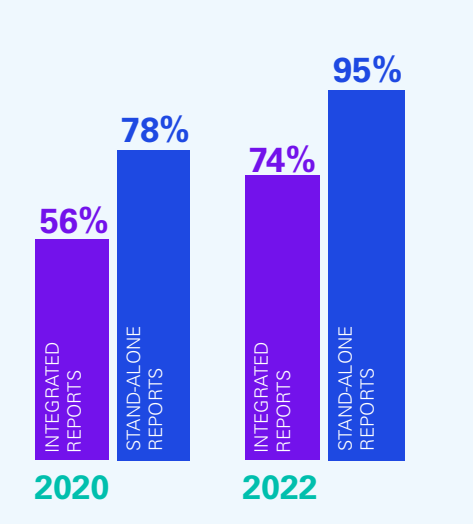
Base: ROI N100 companies
Source: KPMG Survey of Sustainability Reporting 2022
Definitions: 'Local' report includes specifically Irish data
'Global' report includes Irish information aggregated with global data and information

How are companies communicating their sustainability ambitions?

In 2022 all Irish companies that report on their sustainability activities do so in a stand-alone reports, while in 2020 only 78 of 88 N100 companies did. The publication of stand-alone sustainability reports shows the elevation of the topic within the material topics for management to consider and communicate.

In some cases, we see examples of stand-alone reports being extracts of the sustainability / ESG chapters of annual reports. It also shows that sustainability information is a topic that stakeholders expect to be informed on independently from the annual report.

We are also seeing an increase in the share of integrated reports, i.e., annual reports that include sustainability / ESG information, from 56% to 74% among Irish N100 companies. This trend is driven by both investors and regulators (e.g., the SFDR came into effect in 2021) as stakeholders are giving more weight to receiving holistic information about companies' performances.



Share of Irish N100 companies publishing integrated and stand-alone reports

Base: ROI N100 companies
Source: KPMG Survey of Sustainability Reporting 2022
Definitions: Integrated reports are annual reports that contain sustainabilty-related information
Stand-alone reports are dedicated reports that contain information on sustainability progress

"Sustainability reporting is rapidly moving to an equilibrium with financial reporting. As we get closer to the adoption of the CSRD, entities need to start taking steps now to understand what their mandatory requirements will be and whether they have gaps that need to be addressed. This will be the biggest impact on corporate reporting since the introduction of IFRS."

Conor Holland
Principal
ESG Reporting & Assurance SME

What frameworks are companies choosing to align with?

The last two years have seen a significant increase in the number of sustainability reports aligned to any reporting framework, from 37 reports in 2020 to 62 in 2022 among the Irish N100.

GRI (Global Reporting Initiative) is still the dominant framework being used, with the number of reports aligned increasing from 34 to 50, however, the greatest increase was in reports referencing alignment with SASB (Sustainability Accounting Standards Board) which jumped from 8 in 2020 to 45 in 2022.

It is likely that this increase in alignment is driven by the 'onestop-shop' offered by SASB. SASB provides specific material disclosure topics for over 75 industries and this convenience is likely to appeal to companies who are increasingly faced with complex reporting requirements and may not have the resource to carry out a materiality assessment (as expected for GRI reporting). Industry-specific standards are also likely to increase as seen with GRI's new standard for Agriculture, Aquaculture, and Fishing Sectors 2022 (GRI 13).

Number of Irish N100 reports aligned to reporting framework

Base: ROI N100 companies
Source: KPMG Survey of Sustainability Reporting 2022

"Companies are under pressure to improve the quality of their ESG performance disclosures driven by various stakeholders' interest and emerging regulatory requirements. The crackdown on greenwashing and exaggerated ESG credentials is rapidly gaining momentum in the Irish market – companies are becoming more conscious about what they report on, including using recognised frameworks and selecting the right metrics for reporting."

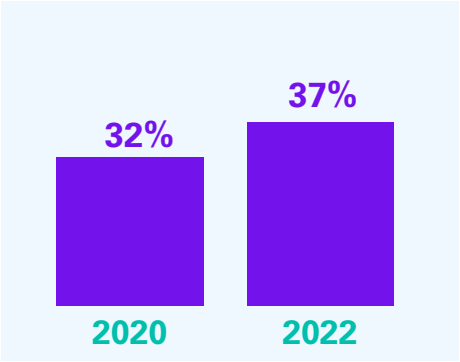
Gunarani Ganasagaran
Associate Director
Sustainability Reporting SME

What about assurance?

The share of Irish N100 sustainability reports being assured by independent parties has increased. This still lags significantly behind the global average of 47%.

Due to the increased pressure put on companies by regulators and investors, we expect that the assurance of sustainability data will become as common as audited financial statements in the next few reporting cycles. In fact in the EU, assurance of sustainability information will become compulsory for companies falling under the CSRD for reporting on 2024 data.

The possible reason for the current low share of assurance is that reporting regulations either have just come into effect (e.g. the SFDR came into effect in 2021 for financial institutions) or will be coming into effect over the next few years (for CSRD), and companies are still working on ensuring that the data being collated and compiled is complete and reliable before they subject them to formal assurance process.



Share of Irish N100 sustainability reports being assured by indepentent parties

Base: ROI N100 companies
Source: KPMG Survey of Sustainability Reporting 2022

"The expectations from investors, regulators, companies, consumers and other stakeholders are requiring greater accountability for ESG data. Irish companies need to consider the current ESG data challenges including: weaknesses in ESG data feeds, independence and inconsistency of data providers, backward looking/point in time data and lack of standardised data – especially for smaller companies. Taking into account these current challenges, Irish companies will need invest in ESG data transformation. By doing so they will be able to take advantage of opportunities in strategy, supply chains, product development, shareholder value and in helping their customers."

Luke Gibbons
Associate Director
ESG Data & Infrastructure SME

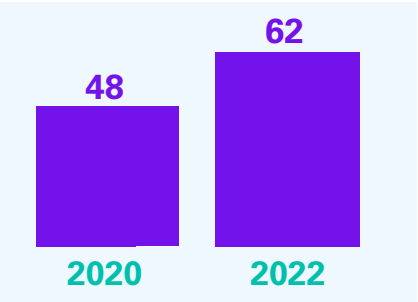
Are the UN SDGs still on the agenda?

Reporting on contributions to UN Sustainable Development Goals (SDGs) in Irish corporates is growing year on year, as shown by the number of Irish N100 companies doing so increasing

There are ever increasing mandatory elements of non-financial reporting coming into force, but SDGs remain a key voluntary component of reporting that non-technical readers of the ESG agenda can quickly understand.

On average, reports identify approximately 7 SDGs as most relevant to their operations. The depth of reporting on how companies contribute to SDGs varies greatly, for example only 7 reports included both the positive and negative impact of their operations on SDGs. Many do not link specific goals to SDGs, merely list which are the ones they consider most relevant.

We expect reporting on relevant SDGs to become not just more prevalent, but also more meaningful. The universal nature of SDGs makes it possible that no matter the industry or the profile of the company, companies can contribute to at least a few, which creates further benchmarking opportunities for comparison. While we do not expect reporting aligned to SDGs to become the universal norm of sustainability reporting, it is a great tool for companies to showcase how they contribute to national and global goals, and therefore it is a great tool to show the impact of their operations on greater society. **Read more here.**



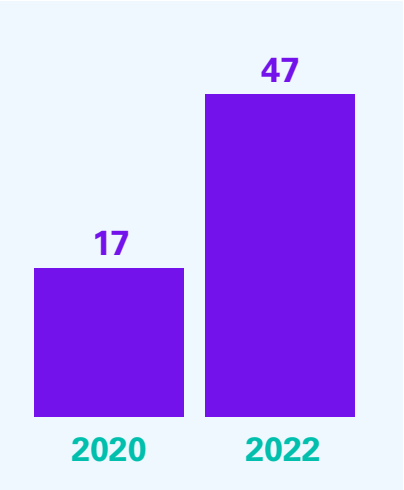
Number of Irish N100 reports that identify relevant SDGs

Base: ROI N100 companies
Source: KPMG Survey of Sustainability Reporting 2022

Are TCFD recommendations being adopted?

The last two years have seen great uptake in the number of reports in line with the TCFD.

The key driver for this increase is due to many Irish corporates operating in markets outside the island, where TCFD is more established as a benchmark for climate related performance, as well as TCFD becoming a standard bearer when comparing to peers.



Number of Irish N100 reports in line with TCFD recommendations

Base: ROI N100 companies
Source: KPMG Survey of Sustainability Reporting 2022

"The benefits are clear. Our clients at Board and executive leadership are more engaged on the climate agenda as a result. They in turn are supporting finance functions in their development of climate risks and opportunities which is making the business more resilient in terms of risk management and overall corporate strategy."

Shane O'Reilly
Director
ESG Strategy SME

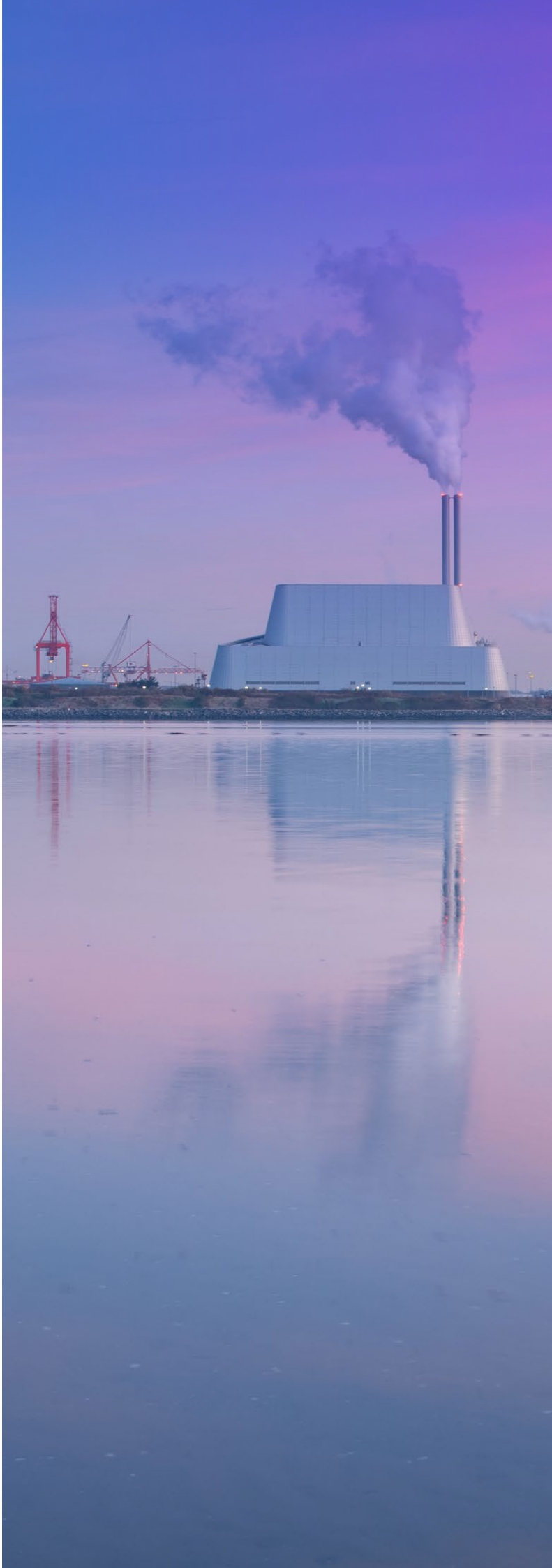
How are companies reporting their carbon reduction targets?

Most sustainability reports now include carbon reduction targets, as seen in the increase in numbers across the Irish N100.

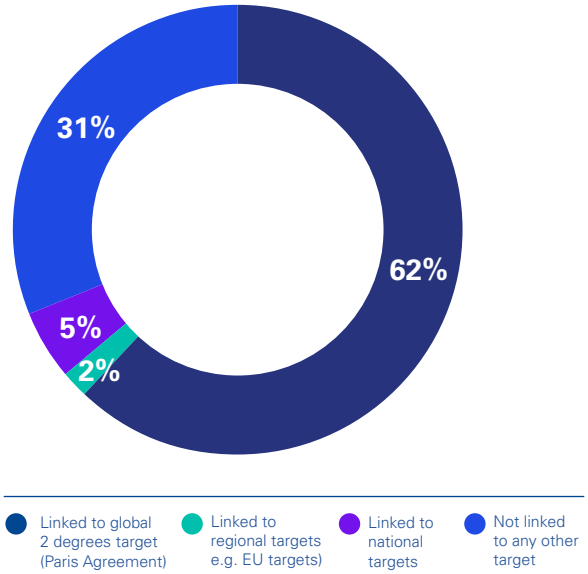
Over 60% of carbon reduction targets in the N100 are linked to the global 2-degree target, as defined by the Paris Agreement; only 5% of the targets are linked to national targets; and, nearly a third of these targets are not linked to any other (national or global) targets.

The fact that so many carbon reduction targets are linked to the Paris Agreement, but not to regional or national targets shows how disjointed the carbon reduction target setting process is – simultaneously following a top-down logic with national and regional targets, and a bottom-up process with companies setting their targets in line with the Paris Agreement. One key reason for this approach is that the Paris Agreement target was established in 2016, while Ireland's first national decarbonisation targets were published in 2021, aligning with the EU target for reaching climate neutrality by 2050. As such, we expect to see a shift in setting targets in the future, as companies will need to ensure they abide by the national targets first.

Of the 87 companies that report carbon reduction targets, 51 plan on achieving those targets only by decreasing emissions, and 27 would reach their targets by both reducing emissions and financing carbon credits. We expect to see an increase in the share of companies investing in carbon credits in the future as the market further matures.

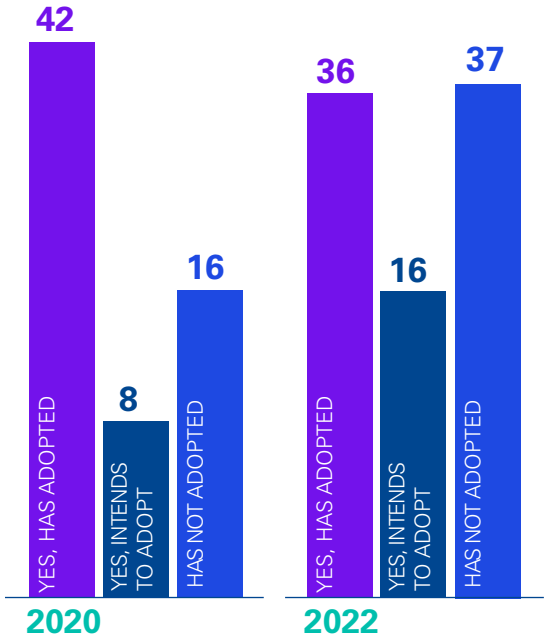


The Science Based Target Initiative (SBTi) was set up to support companies and organisations in setting emissions reduction targets in line with the Paris Agreement. While the majority of the Irish N100 companies did not adopt the SBTi target in 2020, by 2022 over 40% of them had adopted SBTi targets, with another 18% intending on adopting them. While this is a substantial increase, it is still below the 62% of companies reporting targets in line with the Paris Agreement. As reporting against the SBTi framework ensures greater validity of the decarbonisation targets, KPMG expects that Irish firms will continue to adopt the SBTi framework in increasing numbers in the future.



Share of linked carbon reduction targets for Irish N100 reports

Base: ROI N100 companies
Source: KPMG Survey of Sustainability Reporting 2022



Number of Irish N100 companies adopting SBTi targets

Base: ROI N100 companies
Source: KPMG Survey of Sustainability Reporting 2022

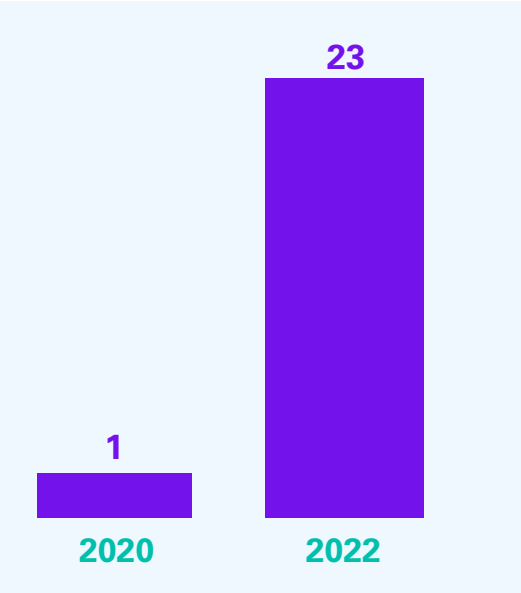
"The trends in target setting are positive. However, key to the success of achieving these targets is having in place ambitious, short- and medium-term interim targets and bold action planning that support and enable long term, science-based targets to be achieved. These interim targets will allow for action and performance to be tracked, monitored and disclosed on a regular basis, holding people accountable, enhancing motivation as well as increasing likelihood of success."

Julie Stokes
Associate Director
Decarbonisation SME

Is biodiversity being considered?

23 companies in the Irish N100 sample recognise biodiversity loss as a risk to their business, compared with the global average of 40%. This is up from 1 company in 2020, showing that biodiversity is rising up the agenda of Irish corporates. However, the vast majority of companies have still not acknowledged the risks that biodiversity loss could pose to their businesses, including companies in highly exposed sectors such as Food and Construction, and financial institutions which have indirect exposure through their lending and investments.

As momentum gathers behind the Taskforce on Nature-Related Financial Disclosures (TNFD) and the world prepares for the UN biodiversity negotiations in Montreal this December, we expect that the issue of biodiversity loss will become the next major ESG focus for corporates. It took climate risk reporting and accounting almost a decade to become mainstream (TCFD guidelines were launched in 2015), but we do not have the luxury of time in addressing the biodiversity crisis. Corporates must rapidly improve their understanding of biodiversity risks and opportunities and move towards action to halt and reverse nature loss.



Number of Irish N100 companies recognising loss of biodiversity as a risk to their business

Base: ROI N100 companies
Source: KPMG Survey of Sustainability Reporting 2022

"It is positive to see an increase in the number of Irish companies recognising biodiversity and nature loss as a business risk since the last survey. This could reflect the increased focus on biodiversity in Ireland, with initiatives such as the All-Ireland Pollinator Plan helping corporates to take meaningful action. However, as the CSRD requirements and TNFD guidance come into play, many more companies will need to assess the risks that biodiversity loss poses to their business model. Businesses must begin work now to map their value chains and understand how and where their activities interface with nature"

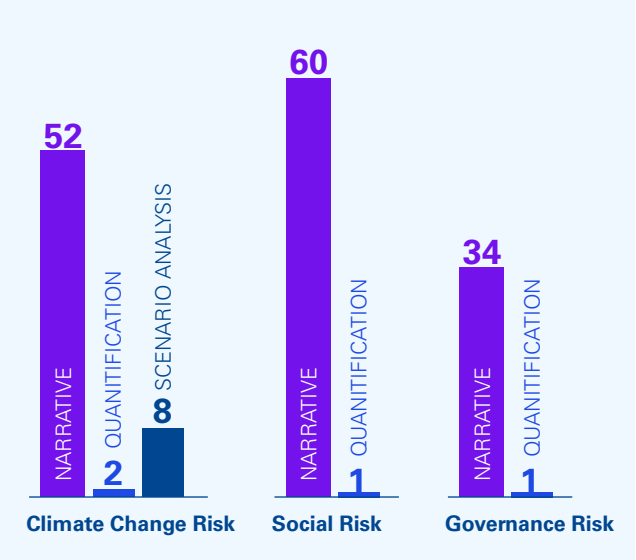
Orlaith Delargy
Associate Director
Biodiversity SME

What about risk-reporting?

Nearly two-thirds of the Irish N100 companies that report on sustainability identify climate change risks in their annual or financial reports. The majority of reports only include a narrative description of climate change risks, however 10 reports included either a quantification of those risks or a scenario analysis of the impacts of the risks. As we see an increased rate of reporting against TCFD and as companies' climate risk assessment mature, we expect the share of companies reporting climate change risks to reach nearly 100% in the future.

Risks related to social elements have been included in over 60 annual or financial reports by Irish N100 companies, mostly related to employee health and safety, recruitment and employee retention, and in some cases, risks related to ethical behaviour and brand / reputation are also mentioned. We expect social risks to be included on the radar of companies' approach to manage and mitigate risks.

Governance-related risks are least represented in annual reports from the three areas studied by the Survey. In general, we see that governance is considered part of the way of doing business and may not garner additional spotlight within the ESG topic. KPMG expects an increase in the rate of considering and reporting on governance risks as regional (EU level) regulations put an emphasis on reporting such structures and practices.



Number of Irish N100 companies including climate change, social and governance risks in their annual reports

Base: ROI N100 companies
Source: KPMG Survey of Sustainability Reporting 2022

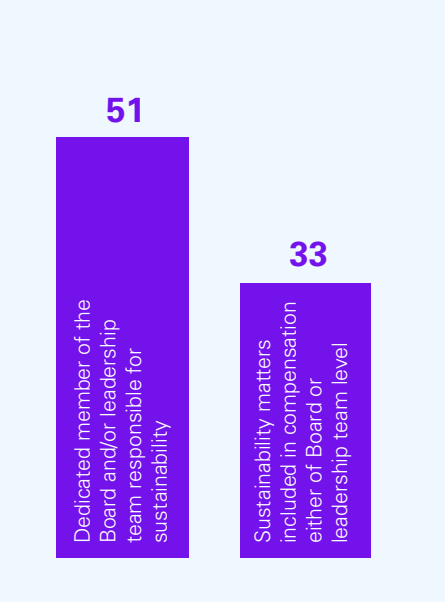
"The increasing recognition of climate risk as an issue for Irish companies is positive. However, to fully understand and assess business-related climate risks, quantification of the financial impacts of these risks to the bottom line is essential and forms the logical next step for many businesses."

Barry O'Dwyer
Associate Director
Climate Risk SME

How are companies showing leadership on sustainability matters?

Over half of the annual reports of the Irish N100 companies identify a dedicated member of the Board of Directors and / or the leadership team responsible for sustainability or ESG. Most frequently CEOs are being identified as having ultimate responsibility for sustainability, and in some cases, Boards have set up sustainability / ESG Committees to review and supervise companies' sustainability or ESG progress.

About a third of the Irish N100 companies' annual reports explicitly state that sustainability matters are included in the compensation of the Board of Directors or the leadership team. Most frequently this means that sustainability-related KPIs are considered for company-wide objectives, which then impact the compensation of the leadership team. But we have also seen examples of sustainability KPIs being added to personal objectives of members of the leadership team.



Number of Irish N100 reports identifying sustainability within leadership

Base: ROI N100 companies
Source: KPMG Survey of Sustainability Reporting 2022

"While historically sustainability was a CSR agenda item, often overseen by the PR or marketing teams in an organisation, the past three years has seen it transformed into a strategic priority for organisations. It is no surprise that our survey has found that it is now most frequently owned and championed by the C-Suite, with direct links to executive remuneration becoming more common"

Russell Smyth
Partner
KPMG Sustainable Futures

How we can help

What should you include in your ESG disclosures?

Sustainability reporting is a rapidly evolving field with a variety of reporting frameworks, with some overlapping requirements but no global consistency. The range of ESG metrics and disclosure frameworks used is vast and varies by sector, size and complexity, as well as location. Your performance is being ranked by many different indices, scores, and benchmarks which can make it harder for organisations to clearly articulate what is being doing in key ESG areas.

How we support your ESG reporting

KPMG firms are at the forefront of sustainability reporting, helping our clients develop responsible and sustainable strategies, business models, operations and investments. We combine ESG know-how with technical accounting and reporting expertise. And we have experience supporting listed and private businesses, across all sectors and at all levels of maturity. There are tangible ways businesses can invest in sustainability reporting:

Understanding what your stakeholders expect you to report on can help to articulate your ESG performance clearly.

- Create effective corporate ESG reporting. We can provide training to your team and undertake materiality assessments or benchmarking. We also support content identification and development, providing advice on data requirements and the best reporting structure, as well as undertaking compliance reviews.
- Align your ESG reporting with key mandatory and voluntary reporting frameworks. These could include the GRI Standards, SASB, and the EU's CSRD.
- Improve the quality and efficiency of ESG non-financial reporting. We help you identify data requirements, prepare methodology statements and to assess assurance readiness, e.g. for sustainability KPIs.
- Understand the impact of climate change on financial statement disclosures. We can help you review ESG disclosures for compliance with existing reporting requirements and benchmark against good practice.

An increasing number of today's investors take non-financial data just as seriously as financial data. They believe that those companies that measure and report ESG risks are also likely to be managing these risks better and delivering greater long-term value.

KPMG firms know the power of ESG to transform your business. KPMG ESG Advisory can show you how to enhance trust, mitigate risk and unlock new value as you build a sustainable future.

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