KPMG

Big shifts, small steps

Survey of Sustainability Reporting 2022

Executive Summary

KPMG Sri Lanka

About the survey

Welcome to KPMG's biennial Survey of Sustainability Reporting 2022

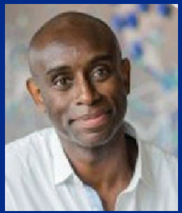
First published in 1993, this 2022 survey marks the twelfth edition, examining sustainability reporting trends around the world. Over the past two decades, sustainability reporting has been largely voluntary, so the purpose of this survey was to offer meaningful insights about how to improve levels of 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 and the overarching business strategy considerations that can allow companies to meet increasing regulatory expectations while still creating impact and generating value.

This is our most extensive survey to date, with five new member firms contributing to the research: Estonia, the Philippines, Uruguay, Venezuela and Vietnam. While Chile and Israel return to the survey after not reporting in 2020, Ecuador — a 2020 participant — has not participated this time. KPMG professionals analyzed 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 organization'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.

Visit home.kpmg/sustainabilityreporting for more information about the survey and to explore the data in more detail using an interactive online tool.

Foreword



John McCalla-Leacy
Head of Global ESG KPMG International and Partner, KPMG in the UK

As business owners and professionals, we know that what gets managed gets measured. Today's corporate sustainability reporting requirements provide solid frameworks that make reporting consistent and relative, as well as enable us to measure and compare our impacts and outcomes. Established requirements like GRI have traction, and new and emerging frameworks such as the TNFD are necessarily expanding the reporting landscape. Leading practices and lessons learned accelerate our capabilities to maximize the frameworks effectively and efficiently. Together, these tools help us achieve our shared goal of greater consistency and consolidation in this reporting realm.

But it can't be just a casual tick-the-box exercise. Companies need to continue to make urgent progress with ESG reporting in a way that supports their short- term and long-term business objectives. A robust sustainability reporting ecosystem will help businesses not only measure progress on executing their ESG strategy, but also support businesses in driving value while mobilizing capital markets to help support innovative and much-needed solutions to the many societal issues we face. Corporate sustainability reporting can — and should — start driving a different conversation such that business owners stretch their thinking and ensure, from the top down, leadership across our organizations are making principled and strategic decisions that take the climate, as well as broader ESG considerations, into greater and sustained account. These HQ conversations become less about what a company 'must' do (comply) and more about what a company 'wants' to do (bring change). This is a good thing.

And it's not free. Without question, this modern and holistic approach will include sustained discretionary spending with ESG remaining a line item on the annual financial plan.
Company leaders should budget the required human and financial resources to face our global ESG predicaments head-on — with grit and zeal — continuously. There is no one-and-done. This is a long-term commitment; an annual expenditure we should get comfortable with if we genuinely intend to effect real change within and across our borders.

With significant concerns of the changing climate, increased conflict, rising inflation subsequently escalating the cost of living, and the looming threat of another recession in less than two decades, this has become a critical intersection for leaders. Those with vision and an unyielding focus on the future will likely seek and embrace business opportunities for long-term value creation in a purpose-led, sustainable, low-carbon economy.

We have tools. We have knowledge and awareness. We have responsibility. Let's commit.

Pyumi Sumanasekara
Partner – Climate Change & Sustainability Services, Global Assurance, KPMG Sri Lanka

The drive for sustainability reporting in Sri Lanka is voluntary. Currently, 76 percent of the N100 companies have some form of sustainability reporting based on GRI, SDGs and Integrated Reporting. The convergence of global reporting frameworks can be a challenge for Sri Lanka as financial reporting disclosures are encouraged in the upcoming ISSB disclosures, seemingly modelled after the TCFD and SASB. As of now, only 2 of the N100 report on TCFD and 4 report on SASB.

Globally, countries with the highest growth in reporting are driven by an element of regulatory adoption with increasingly growing pressures. Sri Lankan companies that interact with the international community as part of the supply chain or attracting investments will feel the pressure with such global shift.

Only 11 percent of the N100 have set carbon reduction targets and have dedicated members of the Board and/or leadership team responsible for sustainability matters. Further, only 2 percent acknowledge that sustainability is included in compensation at leadership level. While Sri Lanka is enthusiastic in reporting, there is a need to work towards impactful change which can highlight risks that may be avoided and provide insight on opportunities that can help companies springboard growth. With reporting disciplines high, companies can take this next step fairly easily with a few steps in the right direction.

Our survey highlighted that 36 percent of the N100 obtained assurances which is a decline from 46 in 2020 in line with global trends in assurance. However, the introduction of further regulation is expected to drive the numbers up in the future.

Defining targets and incorporating them into businesses as measurable indicators creates awareness and responsibility. Accountability through external assurance plays a key role in driving impactful change.

The impacts of climate change are inequitable and not proportionate to the greenhouse gases each country emits Defining responsibility and creating accountability through increased reporting plays a key role in mitigating these impacts. The message is clear: No matter what hemisphere you live in or whether your country is at the higher or lower end of per capita gross domestic product (GDP), we must take collective action to overcome this hurdle together.

Let us work together for impactful change.

Glossary

CSRD:
Corporate Sustainability Reporting Directive

ESG:
Environmental, social and governance

EU:
European Union

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

GRI:
Global Reporting Initiative

IPCC:
Intergovernmental Panel on Climate Change

ISSB:
International Sustainability Standards Board

N100:
Worldwide sample of the top 100 companies by revenue in 58 countries, territories and jurisdictions

SASB:
Sustainability Accounting Standards Board

SDG:
United Nations Sustainable Development Goals

TCFD:
Task Force on Climate-related Financial Disclosures

TMT:
Technology, media and telecommunications

TNFD:
Taskforce on Nature-related Financial Disclosures

US SEC:
United States Securities and Exchange Commission

Big shifts, small steps

The survey's title 'Big shifts, small steps' acknowledges the many ways in which the world has changed over the past 2 years. Regulators and non-profit standard-setters around the world have taken significant action around non-financial disclosure during this period, as shown below. More importantly, corporations are evolving in real time with shifting priorities in the world around them. Events like the IPCC 'Code Red for Humanity' report, the COVID-19 pandemic, the Black Lives Matter movement, and the Russian government's invasion of Ukraine have drawn strong reactions from the public, but now the public expects corporations to react to such events as well.

Over the past 3 decades, our surveys have shown that sustainability reporting has become an accepted part of disclosure and transparency for many large companies, with a continued uptake of sustainability reporting globally and increasing integration into mainstream financial reporting. With this increased transparency comes greater accountability for action around reducing carbon emissions, halting biodiversity loss, and tackling societal inequality. Yet, this work is challenging and growth in reporting has slowed as companies focus inward, assessing the investment necessary to mitigate their risks and take advantage of the opportunities that have come to light.

March 2021

Sustainable Finance Disclosure Regulations (SFDR) go into effect for asset managers and financial advisers operating in the EU

April 2021

European Commission adopts the CSRD proposal, which will require large companies to report on social and environmental impacts starting in 2024

October 2021

- GRI standards updated

November 2021

- IFRS® Foundation announces the formation of its global reporting standardization initiative through the ISSB.
- UK Financial Conduct Authority releases Sustainability Disclosure Requirements discussion paper
- Hong Kong Stock Exchange publishes mandatory climate disclosure guidance

December 2021

- Singapore Stock Exchange issues mandatory disclosure recommendations on climate and board diversity
- The European Commission published the first delegated act on sustainable activities for the first two environmental objectives of the EU Taxonomy

February 2022

- The EU adopts a proposal for a Directive on Corporate Sustainability Due Diligence with rules for companies to respect human rights and the environment in their global value chains
- Targeted revisions issued for the CSRD proposal

March 2022

- US SEC announces climate disclosure proposal
- ISSB releases exposure draft for public commentary

April 2022

- European Financial Reporting Advisory Board issues exposure draft of the European Sustainability Reporting Standard (ESRS) for public commentary

June 2022

- China's voluntary Guidance for Enterprise ESG Disclosure takes effect
- Johannesburg Stock Exchange publishes guidance documents on voluntary sustainability and climate
- change disclosure Council of the EU and European Parliament reach agreement on CSRD

Note: This timeline is intended to provide a sample of developments in non-financial disclosure and is not intended to be provide a complete or comprehensive view.

What can you 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.

About the lead authors

John McCalla-Leacy
Head of Global ESG
KPMG International and Partner,
KPMG in the UK

John has more than 20 years of experience in senior and leadership roles at KPMG, and is a strong external advocate for the 'S' in ESG driving inclusion, diversity, and social equality outside of the firm. John is very experienced in leading rapid, complex change. He is a former senior leader within KPMG's Global Center of Excellence Mergers & Acquisitions team. To date, he has led both the overall and technology aspects of some of the largest multi-billion-dollar client mergers, acquisitions and divestments that KPMG has ever supported across multiple sectors and geographies.

John focuses on inspiring and driving rapid ESG-related change for KPMG firms and their clients.

Jennifer Shulman
Global Lead for the ESG Advisory Hub,
KPMG International and Partner,
KPMG in Canada

Jennifer works at the intersection of economics, finance and ESG. She has more than 20 years of experience helping clients with complex economic analyses, value and cost/ benefit issues in multiple settings, including ESG strategy and business transformation, ESG measurement and impact analysis, and ESG reporting.

Jennifer helps clients with multiple stakeholders to develop and implement funding and costing methodologies and strategies, thereby bringing together elements of economics, statistical modeling, cost accounting, and game theory.

Richard Threlfall
Head of Global Infrastructure,
Government and Healthcare,
KPMG International

Richard is Global Head of Infrastructure, Government and Healthcare. He has almost 30 years of experience in policy, governance, strategy and financing, advising both public and private sector clients in the UK and overseas.

Richard has an extensive network of contacts across the infrastructure, transport, utility and construction markets and the related political, financial and legal communities, in the UK and internationally. He has a long-standing reputation for leading clients through complex and politically high-profile transactions and providing strategic, financial and governance advice.

Richard is Chair of the International Coalition for Sustainable Infrastructure, and KPMG's representative on the World Business Council for Sustainable Development.

Executive summary – Global and Sri Lanka

Global
96%
of G250 companies report on sustainability or ESG matters

Sri Lanka
76%
of N100 companies report on sustainability or ESG matters

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

Sri Lanka
31%
of the N100 acknowledge climate change as a risk to their business

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

Sri Lanka
7% of the N100 companies **biodiversity loss**

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

Sri Lanka: GRI, IIRC and SDGs
form the most commonly used anchors for sustainability reporting

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

Sri Lanka
TCFD adoption has fallen in 2 years, going from
4% to 2%
among the N100

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

Sri Lanka
54%
of N100 companies report on sustainability or ESG matters

Global
71% of N100 companies identify material ESG topics

Sri Lanka
56% of N100 companies identify material ESG topics

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

Sri Lanka: Only 11% of the N100 companies have leadership level representation for **sustainability**

The 2022 survey findings indicate five major trends in sustainability reporting:

1.Sustainability reporting grows incrementally with movement towards the use of standards framed by stakeholder materiality assessments

The rates of sustainability reporting among the world's leading 250 companies are at an impressive 96 percent. Reporting rates are expected to grow territories as new regulation on non-financial reporting is introduced. Locally we see a similar trend, with CASL releasing its Non-Financial Reporting Directive in June 2022 and inaugurating the Sustainability Disclosure Standards Committee on August 2022. For the first time, the survey looked at how many companies carry out materiality assessments, finding that around three-quarters across both the N100 and G250 use materiality assessments.

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

The survey found that nearly three-quarters of companies report their carbon targets, although 20 percent do not disclose any link to an external target (such as a 1.5˚C scenario). The latest findings reveal that businesses are increasingly recognizing that they have a role to play in helping to achieve climate targets, with an impressive 71 percent of the N100 and 80 percent of the G250 setting carbon reduction targets. Reassuringly, most companies recognize that they must reduce their own emissions to achieve their carbon targets rather than rely solely on carbon credits. Most local companies are yet to define targets and report in line with TCFD. While globally the number of companies reporting against Task Force on Climate-related Financial Disclosures (TCFD) guidance has nearly doubled, locally this area is one where Sri Lankan Companies would require awareness, to report.

The number of companies reporting against TCFD 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 stepping up to halt biodiversity loss. The report reveals that while 64 percent of G250 companies formally acknowledge that climate change is a risk to their business, less than half of the companies currently recognize biodiversity loss as a risk. The launch of the TNFD and CSRD frameworks are expected to drive up reporting in the immediate years.

4. UN SDG reporting prioritizes quantity over quality

The majority of companies report on SDGs, with 10 percent of companies reporting against all 17 SDGs. 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 reporting leads, followed by social and governance risks

Since 2017, there has been a marked improvement in the number of companies that acknowledge 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, the description of these risks are overwhelmingly narrative-driven and do not quantify the financial impact of these risks on companies or on society.

Sustainability continues to become a priority for company leadership but there is room for improvement. Only one-third of companies in the N100 have a dedicated member of their board or leadership team responsible for sustainability matters. Compensation conditions related to sustainability outcomes for leadership teams are prevalent for only 40 percent of G250 companies.

Research samples: G250 and N100

Our 2022 report is based on data from two different research samples: the G250 and the N100.

The G250 refers to the world's 250 largest companies by revenue based on the *2021 Fortune 500* ranking. Large global companies tend to lead in sustainability reporting and provide a useful gauge for broader trends that are eventually adopted more widely.

The N100 refers to a worldwide sample of the top 100 companies by revenue in 58 countries, territories and jurisdictions researched in this study. These N100 statistics provide a broad-based snapshot of sustainability reporting.

See page 73 for more details of these research samples and the research methodology.

The representation of Chinese companies in the G250 has grown from 61 companies to 74 companies.

China now represents the largest contributor to the G250.

Contacts

For more details, reach out to our local Sri Lanka contact point:

Pyumi Sumanasekara
Partner – Climate Change & Sustainability Services, Global Assurance
KPMG Sri Lanka

T:+94 115 426 102
M:+94 770 031 708
E: psumanasekara@kpmg.com

Angola
Martim Santos
E: martimsantos@kpmg.com

Argentina
Romina Bracco
E: rbracco@kpmg.com.ar

Australia
Adrian King
E: avking@kpmg.com.au

Austria
Peter Ertl
E: pertl@kpmg.at

Belgium
Steven Mulkens
E: smulkens@kpmg.com

Brazil
Nelmara Arbex
E: narbex@kpmg.com.br

Canada
Doron Telem
E: dorontelem@kpmg.ca

Chile
Karin Eggers
E: karineggers@kpmg.com

China
Patrick Chu
E: patrick.chu@kpmg.com

Hong Kong (SAR), China
Pat Woo
E: pat.woo@kpmg.com

Colombia
Juanita Lopez
E: juanitalopez@kpmg.com

Costa Rica
Luis Rivera
E: lgrivera@kpmg.com

Cyprus
Antonis Bargilly
E: antonis.bargilly@kpmg.com.cy

Czech Republic
Miroslava Prokesova
E: mprokesova@kpmg.cz

Estonia
Siim Kannistu
E: skannistu@kpmg.com

Finland
Tomas Otterström
E: tomas.otterstrom@kpmg.fi

France
Jeremie Joos
E: jeremiejoos@kpmg.fr
Fanny Houlliot
E: fhoulliot@kpmg.fr

Germany
Jan-Hendrik Gnändiger
E: jgnaendiger@kpmg.com
Johann Schnabel
E: jschnabel@kpmg.com

Greece
Dimitris Papakanellou
E: dpapakanellou@kpmg.gr

Hungary
István Szabó
E: istvan.szabo@kpmg.hu

Iceland
Hafþór Ægir Sigurjónsson
E: hsigurjonsson@kpmg.is

India
Shivananda Shetty
E: sshetty6@kpmg.com

Ireland
Colm O'Se
E: colm.ose@kpmg.ie
Conor Holland
E: conor.holland@kpmg.ie

Israel
Hadas Mishli
E: hmishli@kpmg.com

Italy
Piermario Barzaghi
E: pbarzaghi@kpmg.it

Japan
Junichi Adachi
E: junichi.adachi@jp.kpmg.com

Kazuhiko Saito
E: kazuhiko.saito@jp.kpmg.com

Kazakhstan

Gabit Musrepov
E: gmusrepov@kpmg.kz

Timur Omashev
E: tomashev@kpmg.kz

Luxembourg

Julie Castiaux
E: julie.castiaux@kpmg.lu

Malaysia

Oy Cheng Phang
E: oychengphang@kpmg.com.my

Mexico

Juan Carlos Resendiz
E: jresendiz@kpmg.com.mx

Netherlands

Marco Frikkee
E: frikkee.marco@kpmg.nl

New Zealand

Ian Proudfoot
E: iproudfoot@kpmg.co.nz

Nigeria

Tomi Adepoju
E: tomi.adepoju@ng.kpmg.com

Norway

Stine Hattestad Bratsberg
E: stine.hattestad.bratsberg@kpmg.no

Pakistan

Syed Ahson Ali Shah
E: ahsonshah@kpmg.com

Panama

Arturo Carvajal
E: acarvajal@kpmg.com

Peru

María Julia Sáenz
E: mariajuliasaenz@kpmg.com

Philippines

Kristine Aguirre
E: kiaguirre@kpmg.com

Poland

Iwona Galbierz-Sztrauch
E: igalbierz@kpmg.pl

Portugal

Martim Santos
E: martimsantos@kpmg.com

Pedro Cruz
E: pqcruz@kpmg.com

Romania

Ramona Jurubita
E: rjurubita@kpmg.com

Saudi Arabia

Fadi Alshihabi
E: falshihabi@kpmg.com

Singapore

Kam Yuen Lau
E: kamyuenlau@kpmg.com.sg

Slovakia

Michal Maxim
E: mmaxim@kpmg.sk

Miroslava Plevova
E: miroslavaplevova@kpmg.sk

South Africa

Poogendri Reddy
E: poogendri.reddy@kpmg.co.za

South Korea

Kim Jung Nam
E: jungnamkim@kr.kpmg.com

Dong-Seok Lee
E: dongseoklee@kr.kpmg.com

Spain

Ramon Pueyo
E: rpueyo@kpmg.es

Sri Lanka

Pyumi Sumanasekara
E: psumanasekara@kpmg.com

Sweden

Torbjörn Westman
E: torbjorn.westman@kpmg.se

Switzerland

Silvan Jurt
E: sjurt@kpmg.com

Taiwan

Niven Huang
E: nivenhuang@kpmg.com.tw

Thailand

Ganesan Kolandevelu
E: ganesan@kpmg.co.th

Turkey

Sirin Soysal
E: ssoysal@kpmg.com

UAE

Fadi Alshihabi
E: falshihabi@kpmg.com

UK

George Richards
E: george.richards@kpmg.co.uk

Uruguay

Italo Elola
E: ielola@kpmg.com

US

Maura Hodge
E: mhodge@kpmg.com

Venezuela

Yanelly Marquez
E: ymarquez@kpmg.com

Vietnam

John Ditty
E: jditty@kpmg.com.vn

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KPMG Sri Lanka   @kpmgsl   @kpmgsl   KPMG Sri Lanka

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