Integrating Sustainability into Financial Reporting

Enabled by KPMG x Workday

Various sustainability pressure points drive the need for organisations to demonstrate progress against the achievement of sustainability-related public commitments and GHG emissions reduction targets to strengthen their ESG data and controls environment. Finance departments have a critical role to play in enabling ESG reporting across the firm.

Workday's Sustainability Reporting Solution enables organisations to programmatically classify ESG-relevant deals for detailed trend analysis & projections for better portfolio & risk management against any set sustainability-related targets & goals.

Meet Current & Future Regulatory Requirements

- In the US, the SEC is in the process of providing ESG reporting guidelines that will cover loans, investments, and funds
- EU-linked operations will need to comply with the EU Taxonomy or SFDR reporting requirements
- Various regulatory requirements include disclosures on sustainability-related commitments and GHG emissions targets, as well as progress against these commitments and targets

Need to Track Public Commitments

- Measure and track progress against public commitments around sustainable financing and GHG emissions reduction targets for high-impact sectors
- Classify deals to provide transparency and demonstrate commitment to decarbonisation from own operations and across lending / financing portfolio

Important to Standardise Views for Measurement

- Apply consistent portfolio KPIs to measure progress and deal performance across various regions / sectors
- Enable deal comparison within and across various portfolios

Helps Drive Sales & Marketing

- Mitigate reputational risks by demonstrating commitment to ESG investing and progress against the achievement of sustainability goals and targets
- Drive deal flow with performance metrics and benchmarks
- Enable "diligence on-demand" within deal teams to act at market speeds and pre-screen deal opportunities
- Forecast impacts of new deals / clients on portfolio performance and progress against sustainability-related targets & goals

Ensures Alignment to Internal Policies & Standards

- Monitor alignment with internal sustainability-related exclusion policies for activities in high-impact sectors

Scope of ESG Labelling

Back book	Back Lookback labeling of existing book of business
Front book	Classify new deals as they come into the organisation. For example, a banker needs to know if the deal meets the firm's requirements from an ESG perspective
Financial events	M&A – Acquired loan books need to be analysed to conform with the acquiring firm's internal sustainable finance classification standards and meet any necessary regulations. New Regulations or Updated internal policies – need to re-label to meet current standards / regs / policies
Multiple Asset Class Types	Loans (Commercial, Bank, Agricultural, etc.) Investments (ABS, Muni, Sovereign, Corporate, etc.) Funds (Mutual Funds, ETFs, etc.)

Business Opportunities Exist in the Pathway to decarbonise the Planet

Record inflows of investment and an influx of new investors

The green bond market reached $2 trillion at the end of Q3 2022, with a total of $3.5 trillion in total issuance across sustainable bond labels (green, social, sustainability-linked, etc.)

Higher margin on the investment on decarbonisation technologies

70%-80% of decarbonisation technologies are estimated to have higher Net Present Value than high-carbon alternatives

Reduced Business Risk

More sustainable companies have a lower credit risk due to lower reputational, financial, regulatory and event risks and thereby have a lower average cost of risk

Large investment opportunity

Contributing to a potential $220 billion in bank revenues in the form of credit spreads on green and sustainable lending products

US Inflation Reduction Act

Contains $500 billion in new spending and tax breaks that aim to boost clean energy, reduce healthcare costs, and increase tax revenues.

Find out more information:

Visit our webpage to find out more about KPMG x Workday