

ESG and What It Might Mean for Me

Accounting & Business Update

October 19, 2022

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Here with you today

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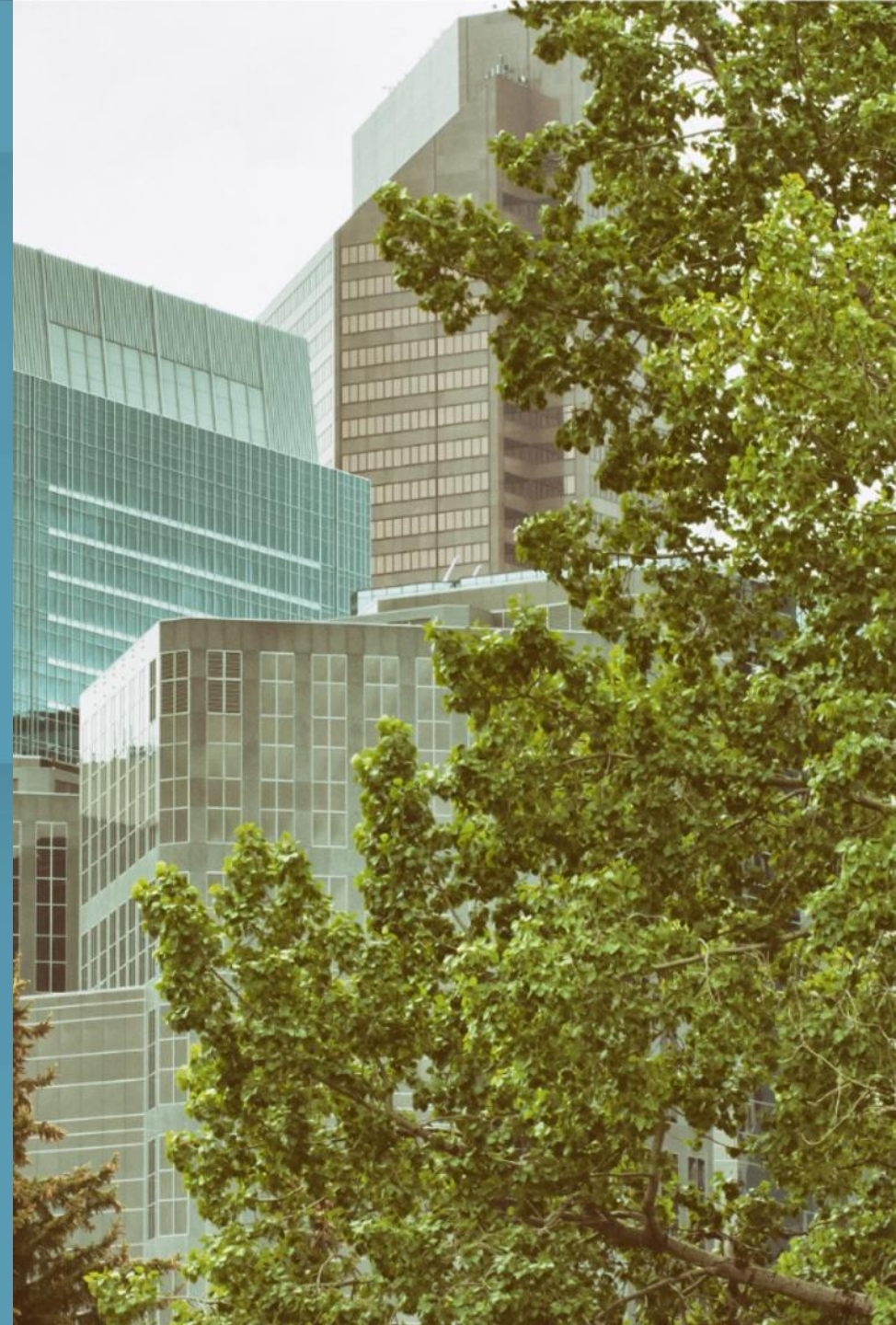
What you'll hear today

- 1 Fundamental Concepts
- 2 ESG Planning Considerations
- 3 Stages of ESG Maturity
- 4 Why Might a Company Pay Attention to ESG?
- 5 SEC Proposal

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Fundamental Concepts



What is ESG?

Environmental

- Encompasses how a company is exposed to and manages risks and opportunities related to climate, natural resource scarcity, pollution, waste, and other environmental factors.

Social

- Includes information about the company's values and business relationships.
- For example, social topics include labor and supply-chain standards, employee health and safety, product quality and safety, privacy and data security, and diversity and inclusion policies and efforts.

Governance

- Information about a company's corporate governance.
- This could include information on the structure and diversity of the board of directors; executive compensation; critical event responsiveness; corporate resiliency; and policies on lobbying, political contributions, and bribery and corruption.

What is ESG reporting?

- **Qualitative** discussions of topics as well as **quantitative** metrics used to measure a company's performance against ESG risks, opportunities, and related strategies.
- Companies report ESG information for many reasons. The terms ESG, sustainability, and corporate social responsibility (CSR) often are used interchangeably to describe nonfinancial reporting.

ESG reporting enables companies to:

- Communicate key ESG risks and opportunities and how these issues are managed.
- Organize business dependencies and impacts on the environment and society.
- Communicate their resiliency to shifts in the environment and society.

Why is ESG reported?

Some SEC requirements

Some industry regulatory requirements

More and more companies are voluntarily reporting...

For example, the EPA requires major fuel and industrial gas suppliers to report greenhouse gas emissions.

To describe their long-term value creation strategies

To meet the demands of investors and other stakeholders

Key takeaways



The need for reporting is increasing.



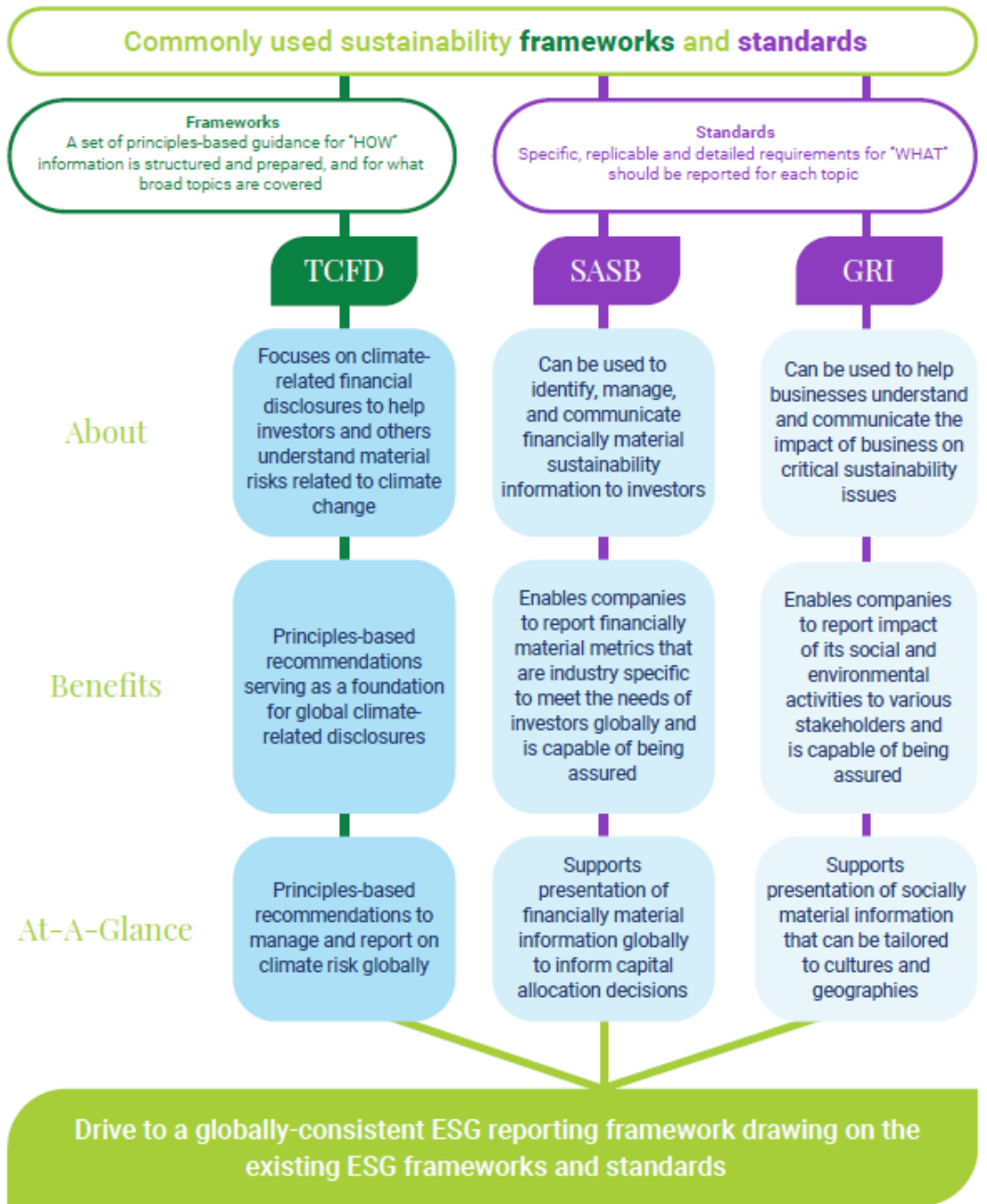
Stock investors increasingly want to understand the climate risks of the companies they are researching or own.



What is reported varies across and within industries and geographies.

If you're going to report...

- The building blocks of reliable, comparable, and relevant ESG information begin with a foundation of quality reporting by company management.
- With a large landscape of multiple frameworks and standards, the challenge for companies to determine how to communicate relevant information and what specific ESG information to report to stakeholders is real.
- There are various frameworks and standards that management can use to determine which ESG information to disclose.







Source: Center for Audit Quality, *The Role of Auditors in Company-Prepared ESG Information: Present and Future* (June 2020)

ESG Frameworks & Standards

- **Framework** - a guideline giving a broad set of concepts for how information should be structured and prepared, with what topics should be covered, aka “How to Disclose”
- **Standards** - specific guidance and detailed metrics, aka “What to Disclose”

Topic	Framework(s)	Standard(s)
Financial Reporting	GAAP	FASB Codification
ESG	TCFD, CDSB	SASB, GRI

ESG Frameworks & Standards (examples)

Framework	Standards	
 <p>Taskforce on Climate Related Financial Disclosure</p> <p><small>Figure 2</small> Core Elements of Recommended Climate-Related Financial Disclosures</p>  <ul style="list-style-type: none"> Governance The organization's governance around climate-related risks and opportunities Strategy The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning Risk Management The processes used by the organization to identify, assess, and manage climate-related risks Metrics and Targets The metrics and targets used to assess and manage relevant climate-related risks and opportunities 	 <p>Sustainability Accounting Standards Board</p> <ul style="list-style-type: none"> ■ ESG Standards and topics targeted to those most relevant for investors and enterprise value creation ■ SASB standards are being incorporated into IFRS' International Sustainability Standards Board 	 <p>Global Reporting Initiative</p> <ul style="list-style-type: none"> ■ More comprehensive ESG standards covering topics across all stakeholders ■ Relate more closely to the broader UN Sustainable Development Goals

ESG Frameworks & Standards (example)

- Sample SASB standards for the Financial Institutions Industry

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Data Security	(1) Number of data breaches, (2) percentage involving personally identifiable information (PII), (3) number of account holders affected ²	Quantitative	Number, Percentage (%)	FN-CB-230a.1
	Description of approach to identifying and addressing data security risks	Discussion and Analysis	n/a	FN-CB-230a.2
Financial Inclusion & Capacity Building	(1) Number and (2) amount of loans outstanding qualified to programs designed to promote small business and community development ³	Quantitative	Number, Reporting currency	FN-CB-240a.1
	(1) Number and (2) amount of past due and nonaccrual loans qualified to programs designed to promote small business and community development	Quantitative	Number, Reporting currency	FN-CB-240a.2
	Number of no-cost retail checking accounts provided to previously unbanked or underbanked customers	Quantitative	Number	FN-CB-240a.3
	Number of participants in financial literacy initiatives for unbanked, underbanked, or underserved customers ⁴	Quantitative	Number	FN-CB-240a.4
Incorporation of Environmental, Social, and Governance Factors in Credit Analysis	Commercial and industrial credit exposure, by industry	Quantitative	Reporting currency	FN-CB-410a.1
	Description of approach to incorporation of environmental, social, and governance (ESG) factors in credit analysis	Discussion and Analysis	n/a	FN-CB-410a.2
Business Ethics	Total amount of monetary losses as a result of legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive behavior, market manipulation, malpractice, or other related financial industry laws or regulations ⁵	Quantitative	Reporting currency	FN-CB-510a.1
	Description of whistleblower policies and procedures	Discussion and Analysis	n/a	FN-CB-510a.2

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ESG Frameworks & Standards (example)

- Sample SASB standards for the Professional & Commercial Services Industries

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Data Security	Description of approach to identifying and addressing data security risks	Discussion and Analysis	n/a	SV-PS-230a.1
	Description of policies and practices relating to collection, usage, and retention of customer information	Discussion and Analysis	n/a	SV-PS-230a.2
	(1) Number of data breaches, (2) percentage involving customers' confidential business information (CBI) or personally identifiable information (PII), (3) number of customers affected ²	Quantitative	Number, Percentage (%)	SV-PS-230a.3
Workforce Diversity & Engagement	Percentage of gender and racial/ethnic group representation for (1) executive management and (2) all other employees ³	Quantitative	Percentage (%)	SV-PS-330a.1
	(1) Voluntary and (2) involuntary turnover rate for employees	Quantitative	Rate	SV-PS-330a.2
	Employee engagement as a percentage ⁴	Quantitative	Percentage (%)	SV-PS-330a.3
Professional Integrity	Description of approach to ensuring professional integrity	Discussion and Analysis	n/a	SV-PS-510a.1
	Total amount of monetary losses as a result of legal proceedings associated with professional integrity ⁵	Quantitative	Reporting currency	SV-PS-510a.2

Source: <https://www.sasb.org/>

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Source: <https://www.sasb.org/>

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ESG Planning Considerations



Understand key ESG risks and opportunities






Types of risks

The SASB has three categories of climate risk.

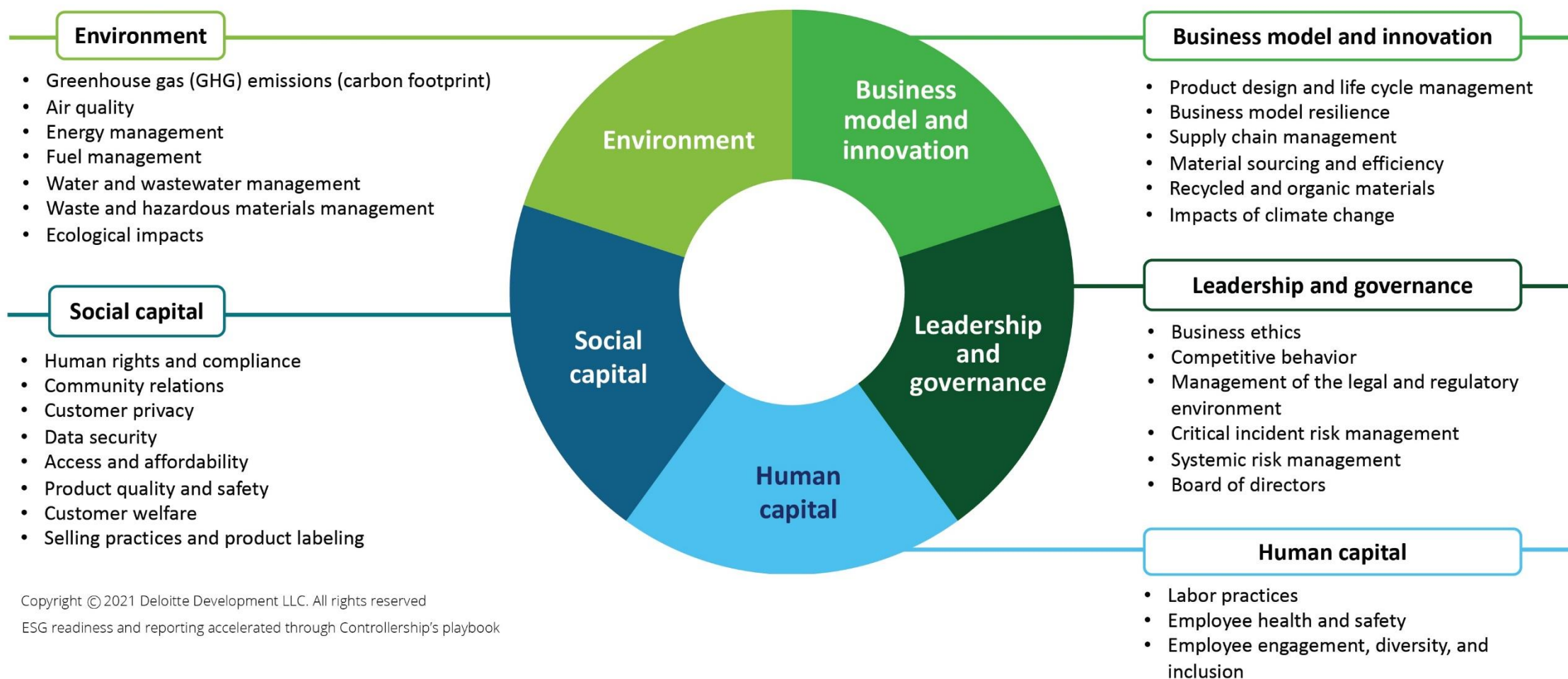
Physical Risk	Transition Risk	Regulatory Risk
<ul style="list-style-type: none"> • Effects of climate risk on the physical environment • Examples: Floods, hurricanes, wildfires, drought, rising temperatures and sea levels, changes in weather patterns 	<ul style="list-style-type: none"> • Risks arising from transition to a low-carbon economy • Examples: Stranded assets, changing customer behavior, availability of capital, stigmatization of industries 	<ul style="list-style-type: none"> • Legal and regulatory issues arising from climate risk • Examples: Environmental laws, exposure to litigation, fees tied to GHG emissions, emissions reporting obligations

Regulatory risk is part of transition risk under TCFD.

Risks by industry



 <p>Finance</p>	 <p>Energy</p>	 <p>Transportation</p>	 <p>Material, Buildings</p>	 <p>Agriculture, food, forestry products</p>
<ul style="list-style-type: none"> ▪ Banks ▪ Insurance companies ▪ Asset owners ▪ Asset managers 	<ul style="list-style-type: none"> ▪ Oil and gas ▪ Coal ▪ Electric Utilities 	<ul style="list-style-type: none"> ▪ Air freight ▪ Passenger air transportation ▪ Maritime transportation ▪ Rail transportation ▪ Trucking services ▪ Automobiles and components 	<ul style="list-style-type: none"> ▪ Materials and mining ▪ Chemicals ▪ Construction materials ▪ Capital goods ▪ Real estate management and development 	<ul style="list-style-type: none"> ▪ Beverages ▪ Agriculture ▪ Packaged foods and meats ▪ Paper and forest products

Risks by industry



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ESG readiness and reporting accelerated through Controllershship's playbook

ESG opportunities

-  Growth in markets served
-  Cost efficiencies
-  Eased regulatory oversight
-  Improved employee retention and efficiency

Source: *How the E in ESG Creates Business Value*, McKinsey Sustainability

Implement governance and oversight

Implement governance and oversight



Implement ESG reporting process

Common reporting challenges



Implement ESG reporting process



Identify relevant information

What ESG issues are your stakeholders most interested in?

What standards / frameworks are stakeholders asking you to report against?

What rankings & ratings are most important to your brand / reputation?

What metrics & disclosures are required? Where should they be reported?

What regulatory reporting requirements are applicable?

Implement ESG reporting process

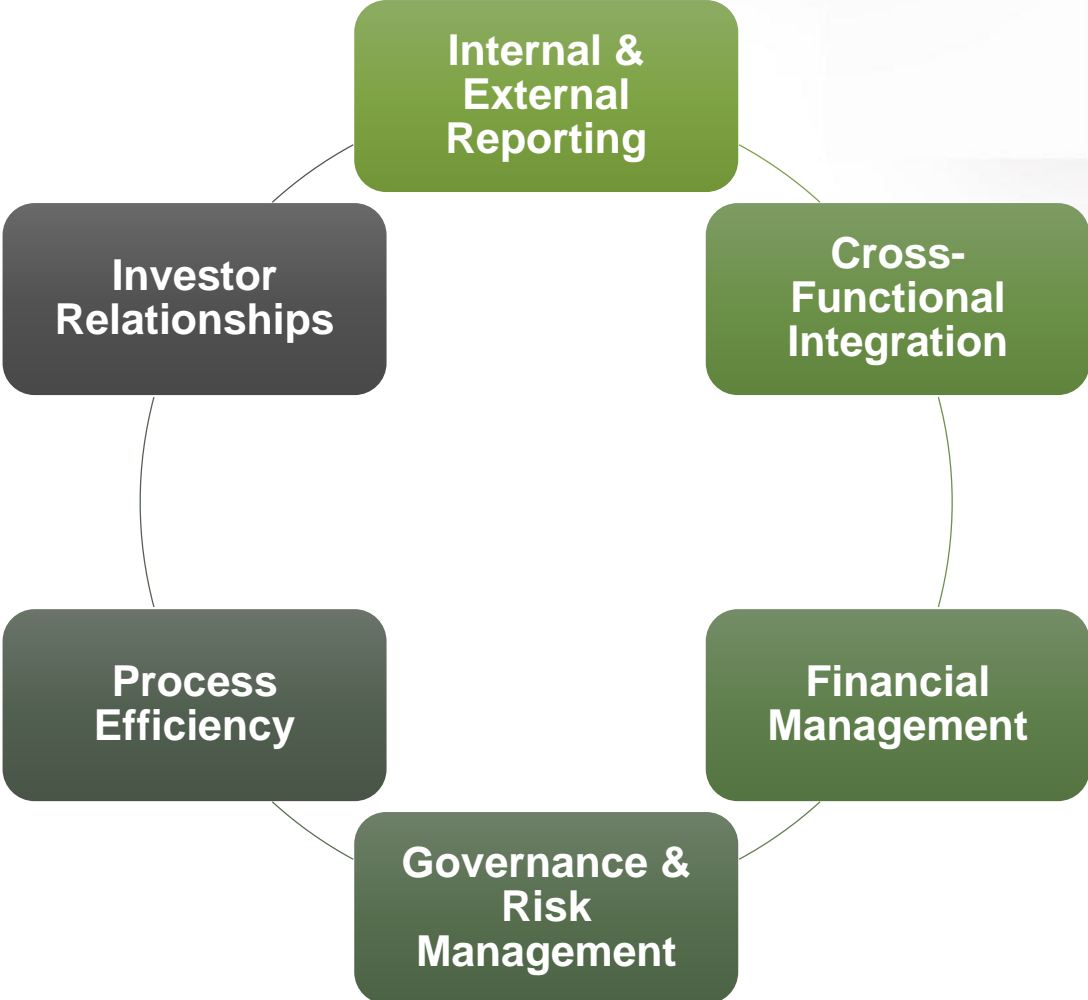


Implement ESG reporting process



- Establish necessary processes, controls and methodology to create the report.
- Integrate financial reporting team into ongoing and potential ESG initiatives.
- Identify or secure IT systems to capture and report the ESG data.
- Clarify the obligations and commitments for your company.
- Designate an individual or team as responsible for ESG reporting.

The role of finance and accounting



Implement ESG reporting process



Where does the company want to go?

Where does the company want to go?

1 What information might be relevant to stakeholders?

2 How has management incorporated ESG into the company's long-term strategy?

3 What are the expectations of stakeholders, and the landscape around ESG?

4 Is the company ready for an attestation of this information?


5 What legal risks and requirements regarding disclosure of ESG information should be considered?

Where does the company want to go?


KPMG Impact


Prepare. Now.

Plan before proposed rules:


01 Understand any climate commitments your company has made (net zero or GHG reductions) 


02 Your current or planned investments or actions taken to act on this commitment 


03 Your current processes and procedures for collecting and reporting greenhouse gas emissions 


04 Identify and understand processes you may have in place to tag or identify green revenues, capital expenditures, and operating expenditures 

How to prepare:

 **Educate**
yourself and your organization on ESG and climate risk

 **Establish**
a governance structure that brings finance and accounting to the table when making commitments, decisions, and reporting on climate-related issues

 **Engage**
with current process owners and understand how information is being defined and where there are control gaps

 **Explore**
your options to create efficiencies and move certain aspects of the data collection and calculation process into systems and processes that may already be SOX controlled



KPMG IMPACT knows the power of ESG to transform your business. Enhance trust, mitigate risk, and unlock new value. Because how you grow matters. Sign up for ESG Alerts at visit.kpmg.us/IMPACT

Source: "The ESG Reporting Journey", presented by KPMG at the AICPA & CIMA ESG Conference, December 13, 2021.

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Stages of ESG maturity



Stages of ESG maturity



ESG Integration Maturity



Stages of ESG Maturity

Integrated

Value enhancing

through established governance, risk management, strategic allocation of resources, data management processes, controls, reporting, and assurance

Enhanced

Performance driven

to enhance internal controls, ESG data collection, and performance management

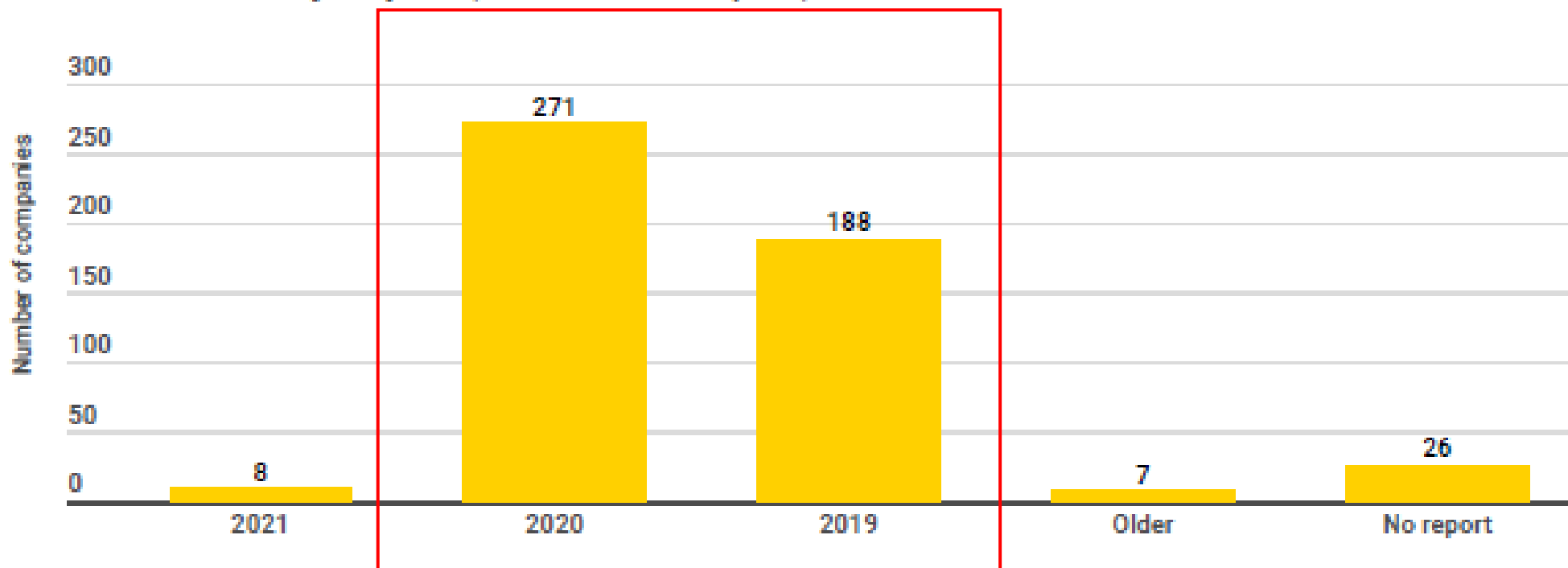
Responsive

Compliance driven

to respond to ESG requirements and changing expectations

Stages of ESG maturity (cont.)

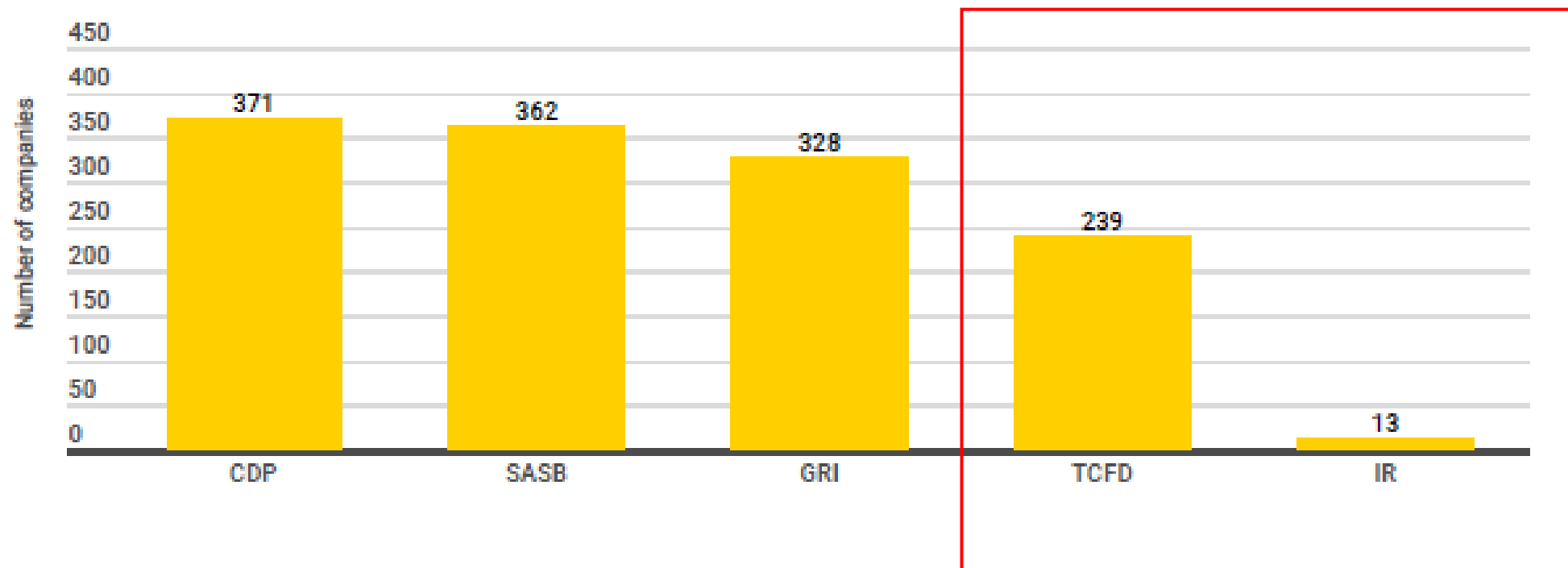
Period Covered by Report (most recent report)



Source: Center for Audit Quality, *S&P 500 and ESG Reporting* (August 9, 2021)

Stages of ESG maturity (cont.)

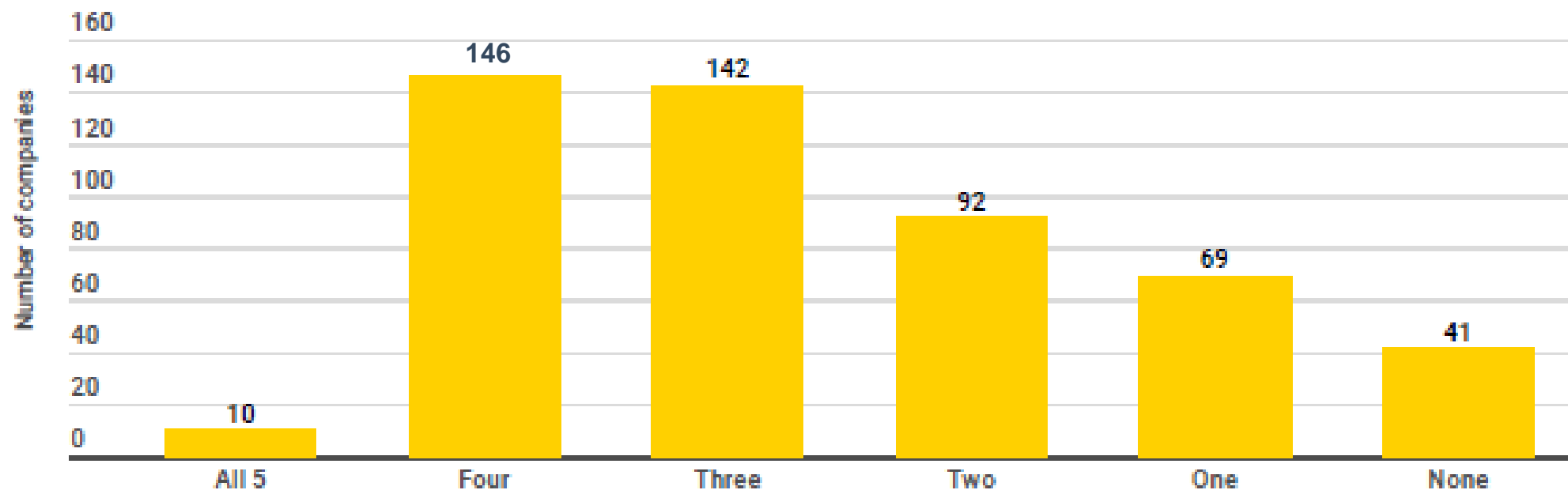
Reporting Standards and Frameworks (GRI, SASB, TCFD, CDP, IR)



Source: Center for Audit Quality, S&P 500 and ESG Reporting (August 9, 2021)

Stages of ESG maturity (cont.)

Reporting Standards and Frameworks (GRI, SASB, TCFD, CDP, IR) Breakdown



Source: Center for Audit Quality, *S&P 500 and ESG Reporting* (August 9, 2021)

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Why might a
company pay
attention to ESG?



Why might a company pay attention to ESG?

Though current expectations make mandatory regulatory guidance for many companies unlikely, given the ever evolving ESG landscape, companies are likely to still experience pressure from both internal and external stakeholders on these topics.



Why might a company pay attention to ESG?

- In a Rockbridge Associates survey, 68% of consumers agreed that they “like to do business with companies that are environmentally responsible.”
- In the same survey, 72% of respondents said they “resent companies that say they care about the environment but don’t mean it.”
- Deploying an effective and meaningful ESG strategy, utilizing the relevant frameworks and standards, can help banks [or companies] retain customers and attract new ones eager to do business with authentically sustainable practices.

Why might a company pay attention to ESG?

Corporate citizenship

Stewards of your community

Third-party risk management

Holistic risk assessment process

Follow the trends of large regional companies



- Androscoggin Bank – B Corp
- Boston Trust
- IDEXX
- LL BEAN
- WEX

ESG report examples

WEX



<https://www.wexinc.com/about/wex-esg-report/>

IDEXX



<https://www.idexx.com/en/about-idexx/corporate-responsibility/>

Planning for climate risk



Conduct a risk assessment



Level up the board and management



Develop a climate-aware strategy

Audit Committee preparedness

- 42% - AC members believe their Company's responses too slow and lack strength
- 50% - don't have enough information, capabilities, mandate to fulfill climate related responsibilities
- 65% - top obstacle is lack of a clear and agreed upon plan

Thoughts on importance

Thoughts on importance

- *Energy transition will likely have implications for many businesses.*
- *There is nowhere to hide in the digital age.*
- *Energy-related employment*

*How business leaders **respond to the transition** away from carbon-based fossil fuels may become increasingly important in **communities that are heavily concentrated in fossil fuel employment and production.***

Lara Abrash, chair and CEO of Deloitte & Touche LLP

*“When I speak with leaders at our clients, I hear a **wide range of ways organizations** are dealing with environmental sustainability and, more broadly, with ESG issues such as diversity, equity and inclusion (DEI).*

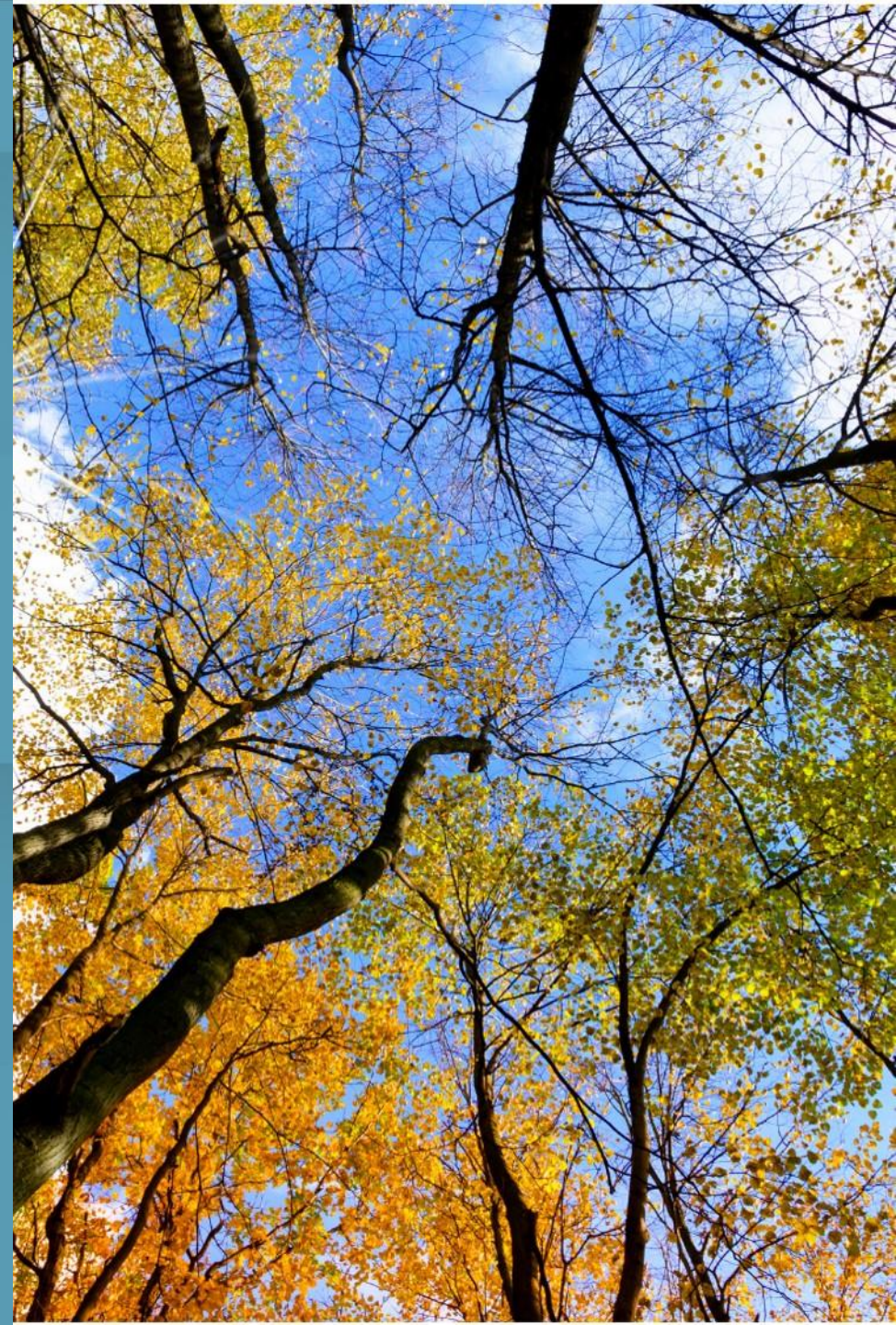
*What is more consistent across organizations is the **increase in frequency that C-suites and boards discuss ESG**, especially as the private sector takes a leading role in **matters impacting our society**.*

*It has evolved for many in the form of environmental sustainability and other ESG commitments, from **net-zero carbon emissions** to increased **economic support** of minority-owned companies.*

*Leaders increasingly recognize that more **proactively addressing these challenges** can create strategic advantage and drive trust with shareholders, employees, and customers.”*

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SEC Proposal



Proposed SEC Climate Disclosure Rules

A proposal was made on March 21, 2022, suggesting additional updates to regulations to require domestic and foreign registrants to include more detailed climate disclosures.

SEC is accepting public comments on the proposed rules through May 20th. The target final adoption of the rules is expected for December 2022, with compliance dates that start in fiscal year 2023.

The proposal expects public companies to report on the following climate related details:

- Climate risks and material impacts to the business
- Governance processes for climate risks, including risk management processes
- Greenhouse Gas (GHG) emissions, particularly Scope 1 and Scope 2 emissions types under the GHG Protocol
- Climate related financial metrics and disclosures in audited financial statements, using a framework aligned with the Task Force on Carbon Related Financial Disclosure (TCFD)
- Any other climate-related targets and goals as publicly communicated by the company

Source: <https://www.sec.gov/files/33-11042-fact-sheet.pdf>

Questions?

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