Seven ways ESG reporting is already here

So, you don't think you have to worry about ESG reporting quite yet? Think again.

The demand for investor-grade data around environmental, social and governance (ESG) issues has been building for years, and it's not slowing down any time soon. A final ruling from the U.S. Securities and Exchange Commission (SEC) on climate-related disclosures is just around the corner, but it's not the only game in town. There are many factors in the U.S. and internationally that are driving public and private companies to prioritize ESG value-based reporting and compliance efforts today. Here are seven to consider:

1. You're doing business in the European Union.

Now formally adopted, the Corporate Sustainability Reporting Directive (CSRD) amends and significantly expands the EU requirements for sustainability reporting. In addition to requiring EU companies to report in line with European Sustainability Reporting Standards — an ambitious set of draft standards that cover a broad range of ESG topics (some 1,100 disclosures) and reporting to stakeholders beyond just investors[1] — the CSRD also includes non-EU based companies if they generate substantial revenue and have employees (e.g., a subsidiary) in the EU.[2]

2. Or only in Germany.

The German Supply Chain Due Diligence Act sets forth a number of requirements for human rights and environmental protection for companies that supply goods or services in Germany. The legislation is extensive, scoping in companies across sectors, regardless of revenue or headquarters location. It requires direct, or in some cases indirect, suppliers to (among other provisions) set up a risk management system, nominate a human rights officer, establish a complaints procedure, adopt a policy statement on human rights strategy and, down the road, prepare an annual report on fulfillment of that strategy. There is no time to waste here, as the legislation is already in effect for companies with 3,000+ employees and will be next year for those with 1,000+ employees.[3] Penalties will also be enforced for non-compliance.

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[1] KPMG LLP, "Get Ready for European Sustainability Reporting Standards," November 2022, https://home.kpmg/xx/en/home/insights/2022/05/european-sustainability-reporting-standards-eu-esrs.html.
[2] KPMG LLP, "US Company Impact of EU ESG Reporting Requirements," December 2022, https://frv.kpmg.us/reference-library/2022/european-esg-reporting-directive.html.
[3] KPMG LLP, "Webcast: Impact of EU ESG Reporting Standards on US Companies," October 17, 2022, https://frv.kpmg.us/cpe/upcoming-archived-cpe-webcasts/2022/us-impact-of-eu-sustainability-reporting.html.

3. Or even in select U.S. cities.

Did you know several states and major cities have their own ESG and sustainability rules? New York City Local Law 97 requires most buildings over 25,000 square feet to meet specific energy efficiency and greenhouse gas emissions limits by 2024, with stricter limits slated for 2030.[4] And since 2014, Cambridge, Massachusetts has required large building owners to track and report on annual energy use to the city, which then discloses the data to the public.[5] Climate action in these and so many other cities means companies should take a close look at the reporting requirements everywhere they operate. It's no longer enough to stay apprised of ESG rules on the national scale; ESG has gone global and hyperlocal.

4. You plan to go public.

So, you are a private company with aspirations to list on a U.S. stock exchange one day. Under the SEC's proposed ruling, climate-related disclosures would be required in registration statements, including those related to initial public offerings.[6] This provision is particularly relevant for companies in the private equity space, where going public is a common exit strategy. This is just one of several ways private companies may find themselves indirectly subject to ESG rules. And, once you are a public company looking to attract new investors, your ratings agencies will be on the lookout for robust ESG disclosures.

5. Your customers and suppliers demand it.

Increasingly, we're finding key stakeholders in companies' value chains are requiring diversity, equity and inclusion metrics, emissions reduction or net zero targets and other ESG-related data when setting up contractual agreements. Microsoft, for example, requires its suppliers to disclose Scope 1, 2 and 3 greenhouse gas emissions data, and potentially provide third-party assurance as well.[7] Likewise, Salesforce asks suppliers to prepare a Sustainability Exhibit in their contracts. Provisions include setting a science-based target, increasing sustainability-related disclosures, creating sustainability improvement plans and providing products and services on a carbon-neutral basis.[8] In short, engaging with ESG is quickly becoming the cost of doing business. And those who don't engage will lose out — financially and reputationally.

6. As do your investors with proxy votes.

A key objective of the SEC's climate proposal, and other sustainability-related rules, is to provide investors with high-quality, timely and comparable ESG data that they can use to power decision-making. Investor demand for this data is not new, and regulation is not their only mechanism for obtaining it. Annual shareholder meetings continue to be an important venue for investors and other stakeholders to request ESG disclosures — and sometimes proxy votes speak louder than words.

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[4] NYC Sustainable Buildings, "Local Law 97," accessed February 13, 2023, https://www.nyc.gov/site/sustainablebuildings/ll97/local-law-97.page.
[5] Community Development Department, "Building Energy Use Disclosure Ordinance," accessed February 13, 2023, https://www.cambridgema.gov/CDD/zoninganddevelopment/sustainabledevelopment/buildingenergydisclosureordinance.
[6] KPMG LLP, "ESG as an Asset: Private Equity Considerations from the SEC's Climate Proposal," September 2022, https://info.kpmg.us/news-perspectives/advancing-the-profession/private-equity-considerations-sec-climate-proposal.html.
[7] Microsoft Corporation, "Supplier Code of Conduct (SCoC) and Training," accessed February 13, 2023, https://www.microsoft.com/en-us/procurement/supplier-conduct.aspx.
[8] Salesforce, "Get to Know Salesforce Supplier Sustainability Commitments," accessed February 13, 2023, https://trailhead.salesforce.com/content/learn/modules/sustainability-for-salesforce-suppliers/get-to-know-salesforce-supplier-sustainability-commitments.

7. And if none of the above applies … ESG is ultimately a competitive advantage.

Reporting on ESG criteria is not just about compliance — with regulation, with stakeholder demands, with business norms. It's a give and take, and there is a lot to be gained by telling your ESG story backed up by financial and non-financial information. Transparency leads to accountability. And accountability enhances trust among stakeholders, promoting the long-term resilience of the business. In the end, the companies that go to market with a mature ESG strategy and well-controlled data to back it up will have the competitive advantage.

Authors

Maura Hodge
ESG Audit Leader
KPMG LLP
617-988-5959
mhodge@kpmg.com

Sam Jeffery
Partner, Deal Advisory & Strategy
ESG Reporting Leader
KPMG LLP
415-819-1204
samueljeffery@kpmg.com

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