

**Memorandum**  
**ESG Education Session**  
November 30, 2021

To: Members of the Board  
From: Monica R. Valentine, Executive Director and  
Robin M. Gilliam, Assistant Director  
Subject: **Environmental, Social, Governance Education Session (ESG)** (Topic A)

**INTRODUCTION**

ESG refers to a framework to integrate environmental, social, and governance risks and opportunities into a firm's strategy to build long-term financial sustainability and value creation. During the October 2021 climate session, members expressed an interest in ESG. Therefore, staff presents this education session as an introduction to ESG and how climate-related financial risk fits into ESG.

**Prior to the Board's December meeting**, please review the materials in preparation for the education session.

**Presenter's Biography**



Corinne Dougherty is a partner in KPMG's Washington, DC office. She has over 18 years of experience providing financial statement audit and related assurance services, as well as accounting and advisory services to her clients. Corinne is part of the leadership team for KPMG IMPACT. In this role, Corinne oversees the development and delivery of Environmental, Social and Governance (ESG) related training, advises clients in developing best practices for impact measurement and reporting, and leads teams engaged to provide ESG assurance services. Corinne serves as KPMG's liaison to the

American Institute of Certified Public Accountants Sustainability Assurance and Advisory Task Force. Corinne is a frequent speaker on ESG topics and has been featured in publications including Government Matters, Federal News Network, the Journal of Accountancy, and Insights Magazine.

Additionally, Corinne is a partner in KPMG's Federal practice in providing audit and advisory services to Federal Government clients. Corinne oversees audits of large, complex Federal government Departments and agencies.

Corinne served as an adjunct professor for 4 years. She taught two different graduate courses on government and not-for-profit accounting and auditing in the Masters of Accountancy program at The George Washington University.

Corinne has been recognized by winning the Washington, DC office's KPMG Chairman's Award for high performance. In addition, Corinne was selected by the Greater Washington Society of CPAs as a Woman to Watch and by the Accounting and Financial Woman's Alliance as an Emerging Leader.

Corinne has a Bachelor's degree in Accounting from the Robert H. Smith School of Business at the University of Maryland and is a Certified Public Account, Certified Government Financial Manager, Project Management Professional, and received an Executive Certificate in Advancing Sustainability from NYU Stern's Center for Sustainable Business.

## **ATTACHMENT**

1. ESG slide deck





# Introduction to Environmental, Social & Governance

FASAB Board Meeting

December 14, 2021  
Topic A - Attachment 1



## With you today



**Corinne Dougherty**

Audit Partner  
KPMG IMPACT

Contact: [cdougherty@kpmg.com](mailto:cdougherty@kpmg.com)



[KPMG IMPACT: Your ESG solution](#)  
[Measure, report and assure ESG data](#)

# Agenda

1

What is ESG?

2

ESG reporting  
and frameworks

3

Regulatory landscape

4

ESG Journey

5

The Role of Finance

01

What is ESG?

# What is ESG?

**ESG refers to a framework to integrate environmental, social and governance risks and opportunities into a firm's strategy to build long-term financial sustainability and value creation.**



## Environmental

Conservation of the natural world:

- Climate change and emissions
- Air and water pollution
- Biodiversity
- Deforestation
- Energy efficiency
- Waste management
- Water scarcity



## Social

Consideration of people and relationships:

- Customer satisfaction
- Data protection and privacy
- Gender and diversity
- Employee engagement
- Community relations
- Human rights
- Labor standards



## Governance

Standards for running an organization:

- Cyber data breaches
- Bribery and corruption
- Executive compensation
- Lobbying
- Political contributions
- Whistleblower schemes

# Why ESG now?

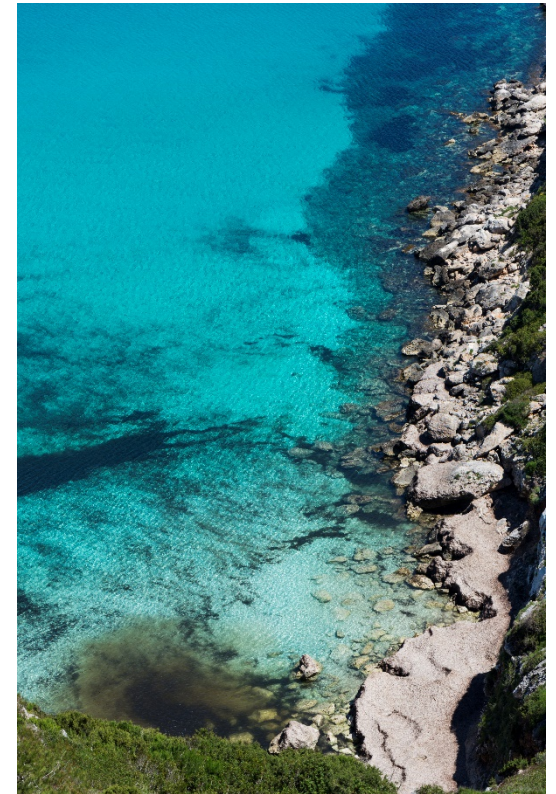
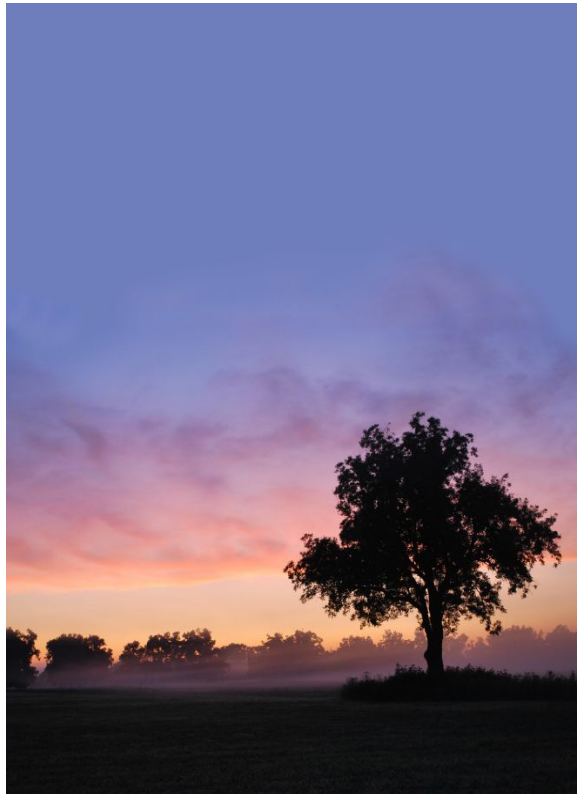


<sup>1</sup> Source: KPMG International, [Me, my life, my wallet 2020](#)



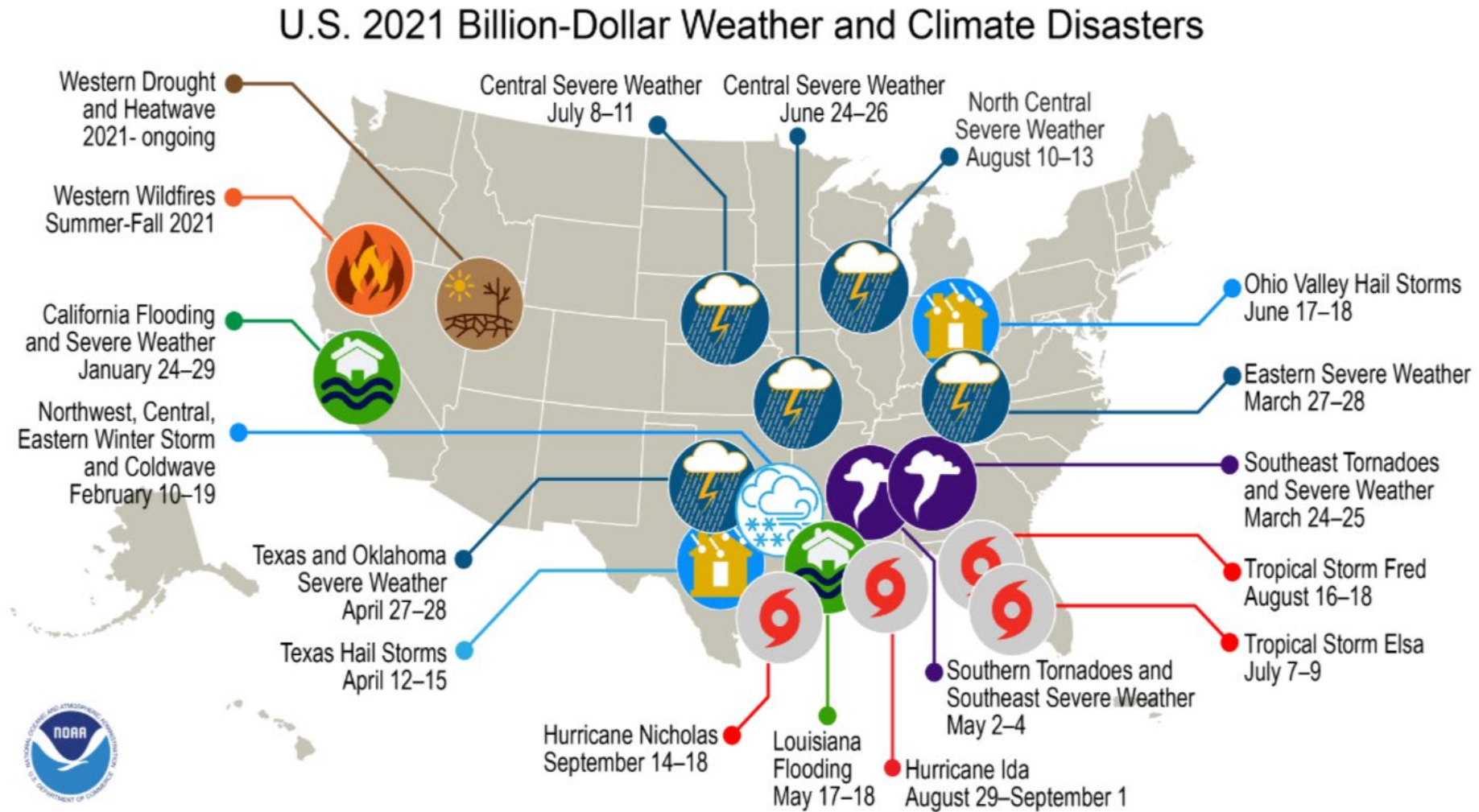
# Climate is what you expect, weather is what you get

- Weather is short-term changes in the atmosphere, climate describes what the weather is like over a long period of time
- Climate is often looking at averages of precipitation, temperature, humidity, sunshine, wind and other measures of weather that occur over a long period of time



Source: National Centers for Environmental Information

# Climate disasters in the US



Source: National Centers for Environmental Information



# Climate change is driving a market transformation

- The planet has warmed 1.1 degrees Celsius since the 19<sup>th</sup> century due to human activities. Warming of 1.5 degrees is projected.<sup>1</sup>
- With new commitments made by India, Russia, Brazil, Saudi Arabia, Australia and others, **at least 90% of the world's economy is now signed up to net-zero targets** — that figure was less than 30% one year ago.<sup>2</sup>
- Net Zero commitments will drive a **fundamental reorientation of our economies**, with infrastructure, real assets, investments and patterns of consumption requiring an overhaul.
- Banks, insurers and capital markets are expected to drive action now to a far greater extent than ever before.
- Through the Glasgow Financial Alliance for Net Zero (GFANZ), US\$130 trillion of private capital has been committed to net zero. Clean finance can now play a critical role in driving, or stopping, activity.
- **The shift to net zero is the next great industrial revolution and businesses that seize the opportunity are expected to thrive — those that don't, may not.**



Source:

1. IPCC Climate Change 2021 ([www.ipcc.ch/report/ar6/wg1/](https://www.ipcc.ch/report/ar6/wg1/))

2. PM: Glasgow Climate Pact keeps critical 1.5C global warming goal alive - GOV.UK ([www.gov.uk](https://www.gov.uk))

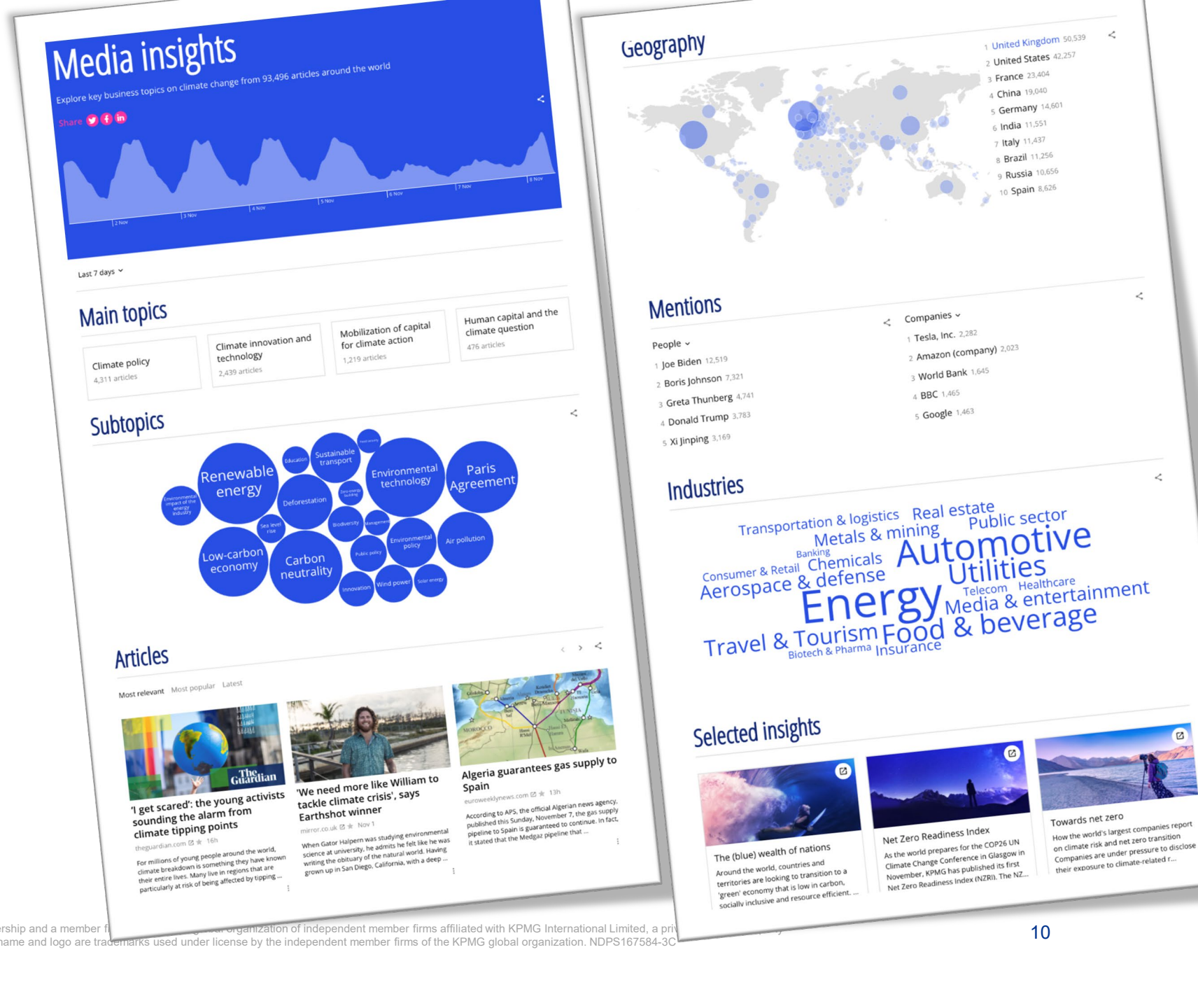


# Climate in the news

Media insights from [ClimateInsights.kpmg](https://ClimateInsights.kpmg)

An interactive platform that visualizes data and insights related to worldwide news and social media coverage of climate change.

Designed to help the global community understand more about climate topics, and provide media and website owners with live, shareable visual content.





# More companies acknowledge the financial risks of climate change

1 in 4

US Fortune 100 companies reports climate risk in line with TCFD

54%

of US Fortune 100 companies now acknowledge the financial risks of climate change in their reporting

71%

of US Fortune 100 companies now have targets in place to reduce their carbon emissions

A majority

of US Fortune 100 companies (71%) that report carbon reduction targets now link those targets to global climate goals

Source: The KPMG Survey of Sustainability Reporting 2020



02

## ESG reporting and frameworks

# Leading ESG guidance and reporting frameworks

A set of core first and second generation initiatives, frameworks, and guidance examples are outlined below

GRI	Value Reporting Foundation (VRF)		TCFD	WEF	CDP
Global Reporting Initiative	SASB	<IR>	Task Force on Climate-related Financial Disclosures	World Economic Forum: ESG Metrics	Carbon Disclosure Project
<ul style="list-style-type: none"> <li>▪ Early, broadly accepted methodology to homogenize sustainability reporting - periodically updated to improve disclosure quality &amp; meet sector specific needs</li> <li>▪ Reporters identify their material focus areas and tailor reporting to cover those topics</li> <li>▪ GRI provides E, S and G topic level disclosures for material focus areas, which include both qualitative and quantitative disclosures</li> </ul>	<p><b>Sustainability Accounting Standards Board</b></p> <ul style="list-style-type: none"> <li>▪ Modeled on the Financial Accounting Standard Board (FASB) - aims to create a focused, standardized reporting framework tailored to corporate needs</li> <li>▪ The global economy is divided in 77 sub-sectors - For each sub-sector material topics were identified and topic specific metrics were developed</li> <li>▪ Rapidly growing support among investors and corporations alike</li> </ul>	<p><b>Integrated Reporting Framework</b></p> <ul style="list-style-type: none"> <li>▪ &lt;IR&gt; framework includes an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation, preservation or erosion of value over the short, medium and long term.</li> </ul>	<ul style="list-style-type: none"> <li>▪ TCFD requires entities to consider and assess risk &amp; opportunities poised by Climate Change to the business and its operations</li> <li>▪ Analysis is forward looking, covering strategic and tactical considerations, as well as the quality of Governance and Management</li> <li>▪ Institutional asset managers are beginning to expect (but not yet require) TCFD analysis</li> </ul>	<ul style="list-style-type: none"> <li>▪ ESG metrics incorporating leading practices from current reporting frameworks</li> <li>▪ Core and expanded metrics to report on ESG performance and track their contributions towards the SDGs</li> <li>▪ Developed in coordination with the Big Four accounting firms</li> </ul>	<ul style="list-style-type: none"> <li>▪ Non-profit organization for companies and other organization to submit and disclose details of their environmental impacts – typically GHG emissions and water</li> <li>▪ Companies are asked to populate surveys, which capture details of emissions scope and scale, and ambitions to modify and manage emissions</li> <li>▪ Submissions are scored for completeness, transparency, and planned mitigations. Scored survey materials are shared via a searchable, public-facing database</li> </ul>

**As ESG-related flows continue to increase, companies must integrate ESG into their policies and procedures. The noted initiatives, frameworks, and guidance offer a starting point for building and evidencing integration.**

# International Sustainability Standards Board

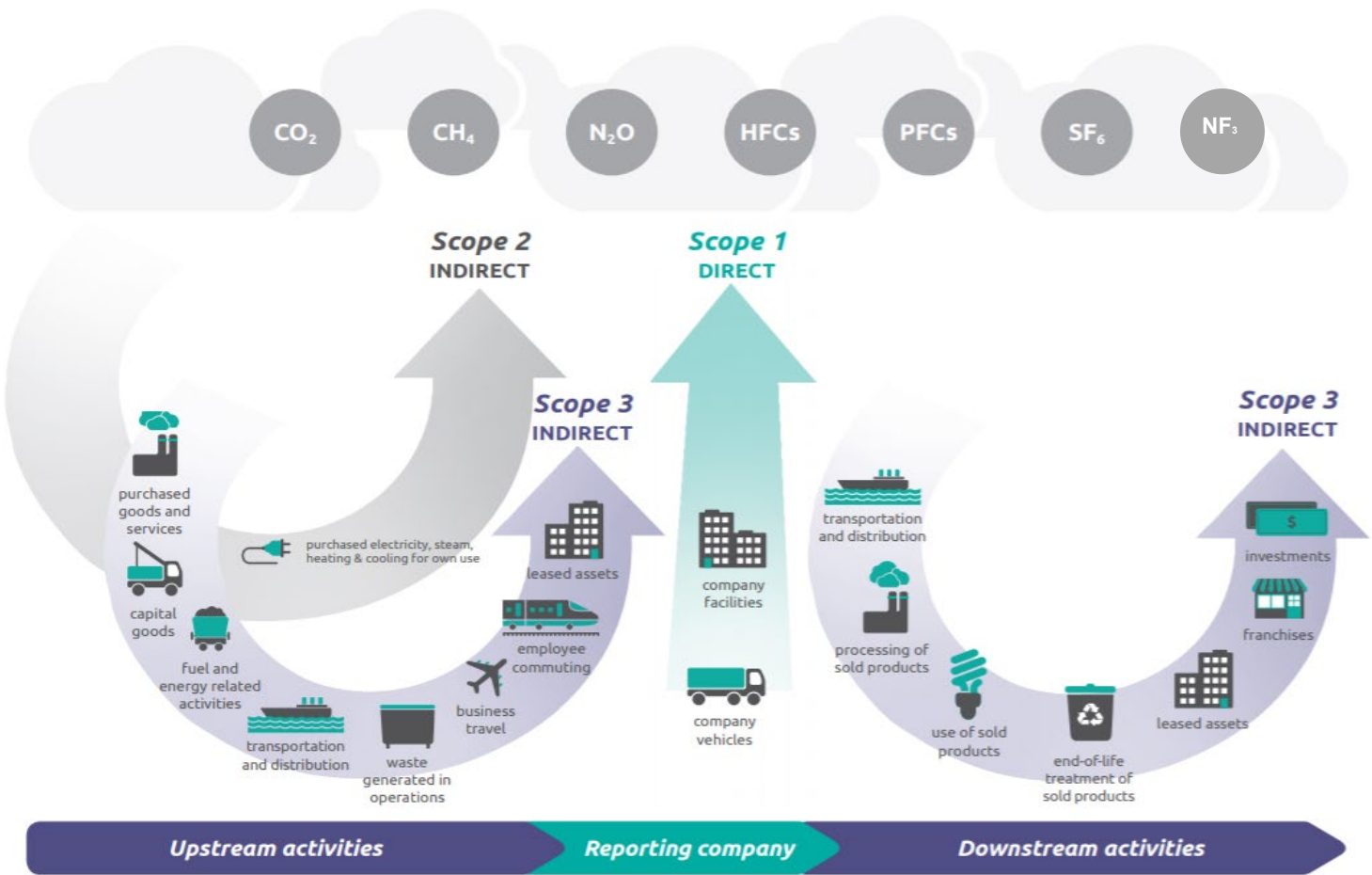


— — Resources consolidated into the IFRS Foundation



# Greenhouse Gas Emissions Scope

Figure [1.1] Overview of GHG Protocol scopes and emissions across the value chain



## Scope 1, direct GHG emissions (Owned/Leased)

Emissions from sources that are owned or controlled by the entity.

## Scope 2, electricity indirect GHG emissions (Energy)

Emissions from the generation of purchased electricity consumed by the entity.

## Scope 3, other indirect GHG emissions (Business Travel)

Emissions that are a consequence of the activities of the entity, but that occur from sources not owned or controlled by the entity.

Source: Greenhouse Gas Protocol

# GHG Protocol Standards

## Policy and Action Standard



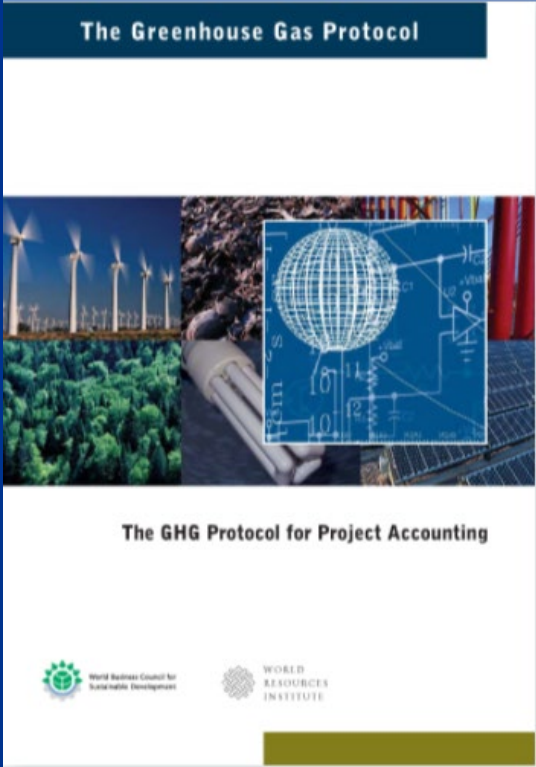
The GHG Protocol Policy and Action Standard provides a standardized approach for estimating the greenhouse gas effect of policies and actions

## Mitigation Goal Standard



The GHG Protocol Mitigation Goal Standard provides guidance for designing national and subnational mitigation goals and a standardized approach for assessing and reporting progress toward goal achievement

## Project Protocol

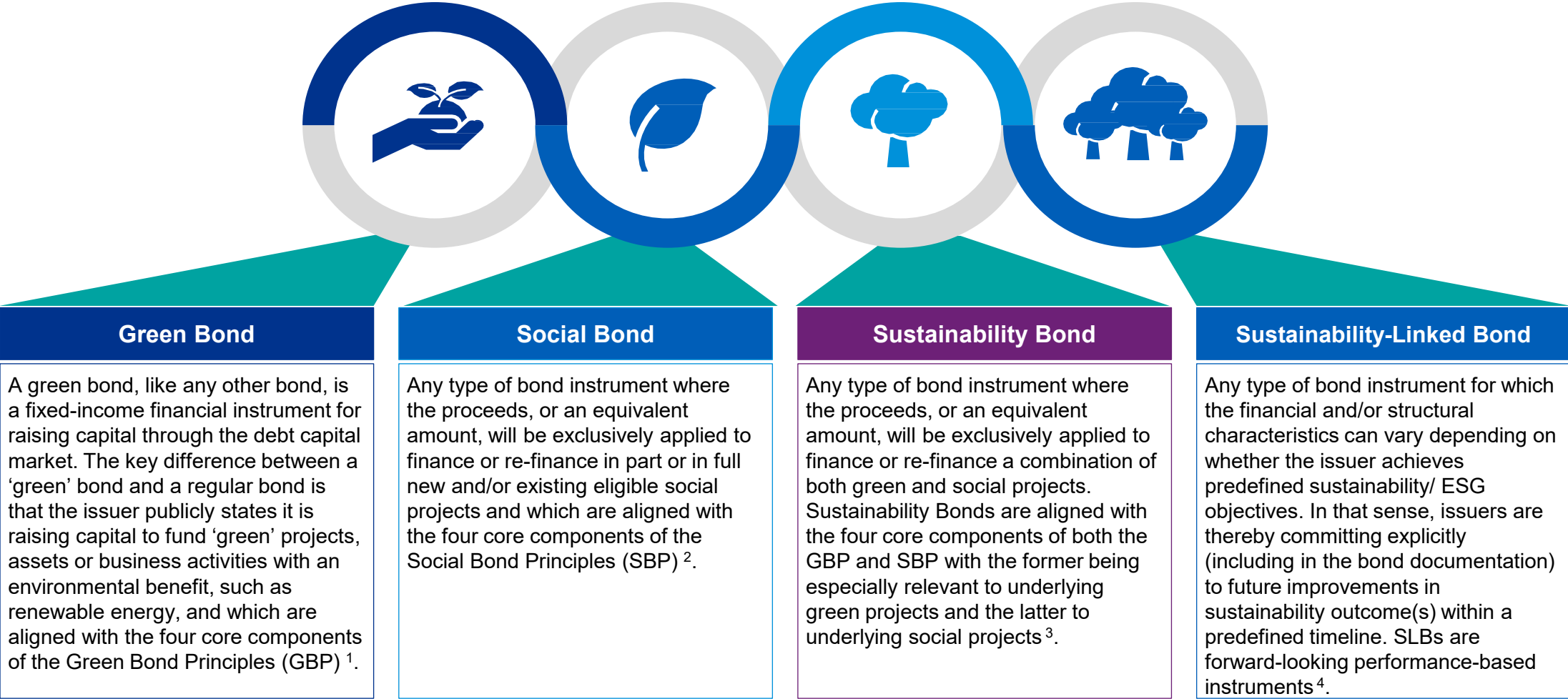


The GHG Protocol for Project Accounting is the most comprehensive, policy-neutral accounting tool for quantifying the greenhouse gas benefits of climate change mitigation projects

Source: Greenhouse Gas Protocol

# What are green, social, sustainability (GSS) and sustainability-linked bonds (SLB)?

Standard bonds with a bonus “green’ and/or “social” benefits feature



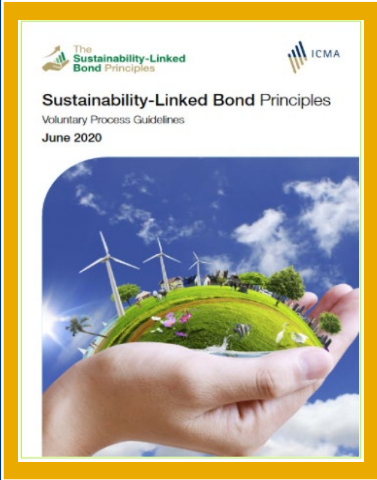
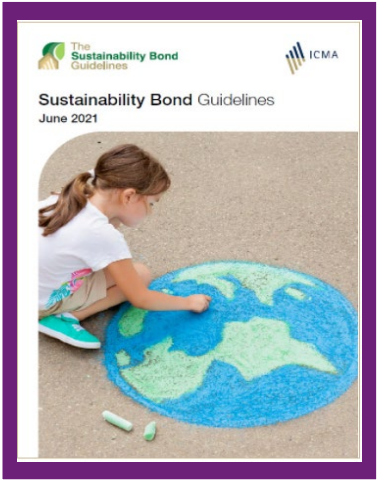
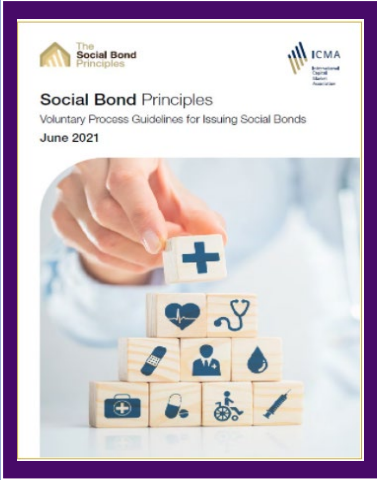
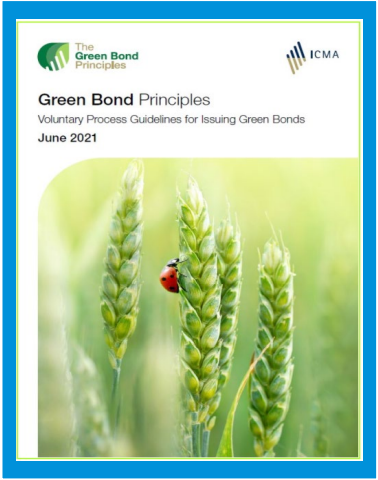
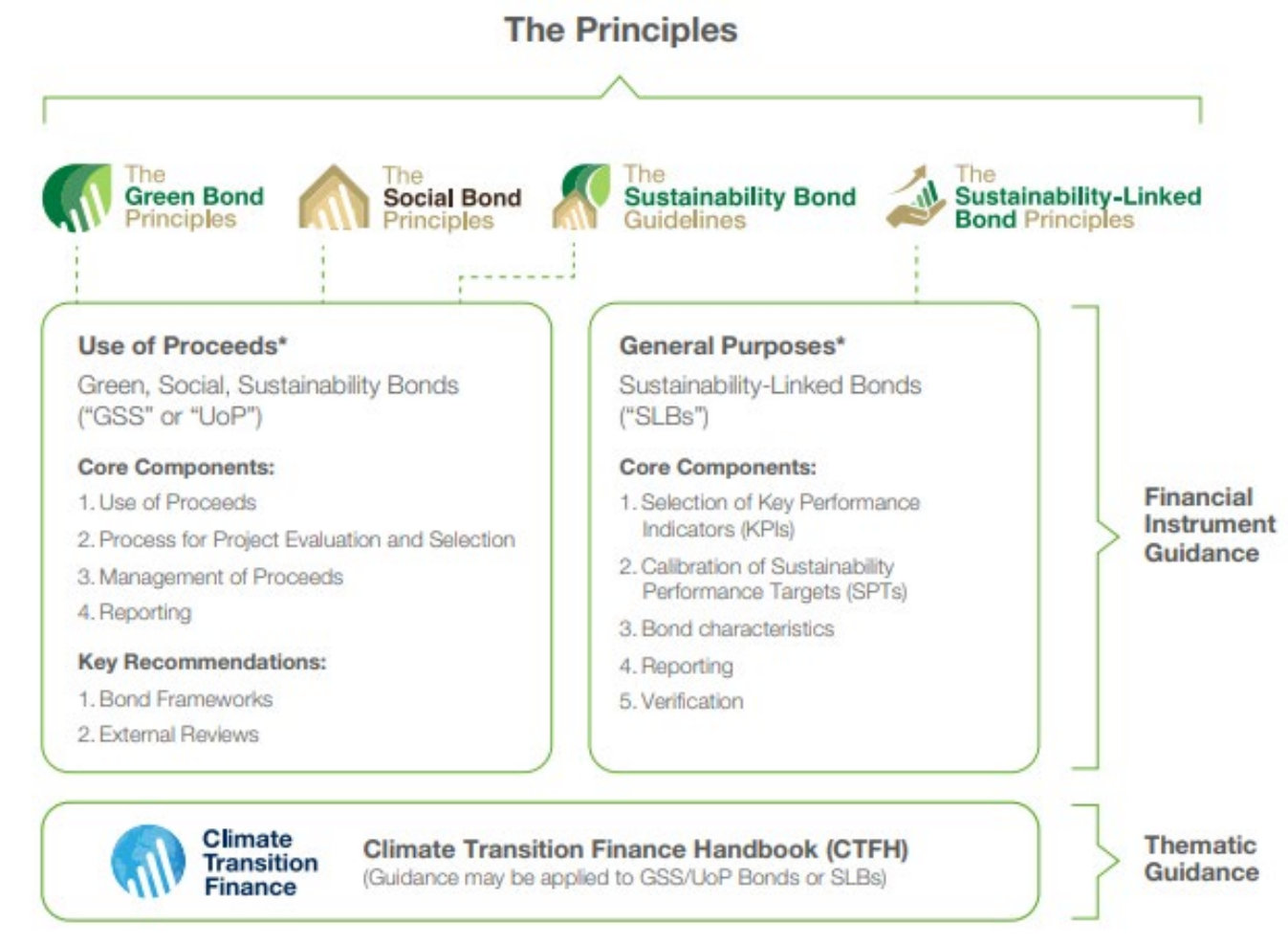
1. ICMA Group, [Green Bond Principles June 2021](#)

2. ICMA Group, [Social Bond Principles June 2021](#)

3. ICMA Group, [Sustainability Bond Guidelines June 2021](#)

4. ICMA Group, [Sustainability-Linked Bond Principles June 2020](#)

# Principles published by International Capital Markets Association (ICMA)

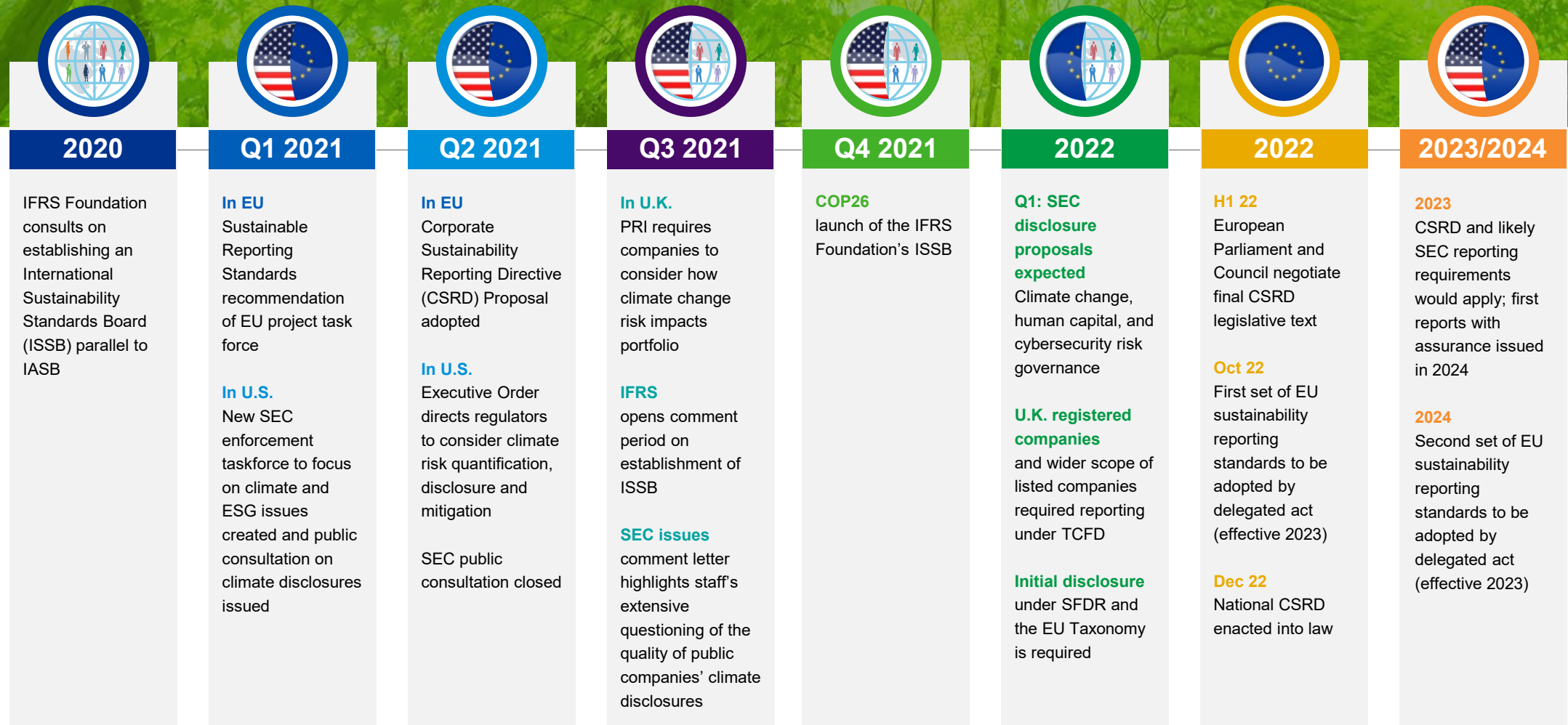




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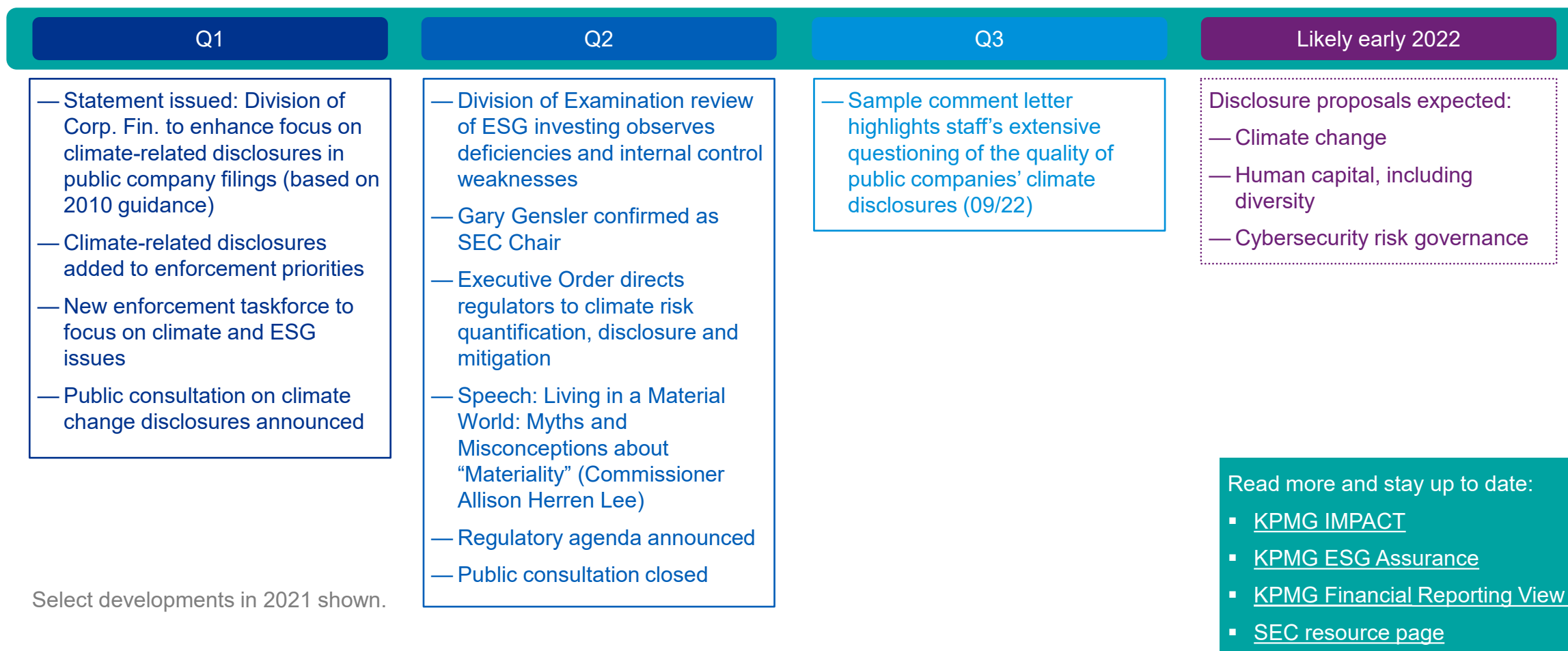
## Regulatory landscape

# Global ESG regulation points to 2024



# SEC developments happening at pace

## Latest news: SEC staff questions quality of climate disclosures



## SEC climate proposals likely early 2022

### SEC Chair Gary Gensler has asked the staff to consider the following

- Should disclosures be in the 10-K?
- What qualitative disclosures should be required?  
E.g. how does company leadership manage climate-related risks and opportunities?
- What quantitative disclosures should be required?  
E.g. in addition to Scope 1 and 2 emissions, should Scope 3 be required?
- Should there be metrics for specific industries?
- Should scenario analyses be required?
- Specific to emissions reduction goals, what metrics should be required?
- Particularly for funds that market themselves as ‘green’, what disclosures should be required?

### Other points to watch out for

- **Management responsibility:** Will certification be required?
- **Reporting period:** Regardless of placement, same reporting period as financial statements or with a lag?
- **Safe harbor:** Depending on the nature of the disclosures, will there be any liability protection?
- **Assurance:** Will limited or reasonable assurance be required?
- **Transition:** How much time will there be to prepare for rigorous and timely reporting?
- **Scaling:** Will ‘small’ registrants have a longer transition period and/or the ability to scale any of the disclosures?

### Task Force on Climate-related Financial Disclosures emerging as the way forward



# EU proposal: Corporate Sustainability Reporting Directive (CRSD)

## To which companies will it apply?

- Large companies that meet two of the following three criteria:
  - > 250 employees;
  - > €40M turnover (revenue);
  - > €20M total assets.
- Listed companies other than micro-companies. Small and medium-sized listed companies would have an additional three years to comply.

## How many companies are in scope?

- Approximately 49,000, covering > 75% of total EU companies' turnover (revenue).

## What ESG reporting is required?

- In relation to the areas already reported on, additional disclosures about:
  - Strategy, governance and resilience;
  - Information that is material to 'other stakeholders' as well as investors (so-called 'double materiality');
  - Process of selecting material topics for stakeholders;
  - Forward-looking information, including targets and progress thereon;
  - Intangibles (social, human and intellectual capital);
  - Reporting in line with sustainable finance disclosure regulation (SFDR) and the EU taxonomy regulation.



## When will it apply?

- Standards would be developed by a new European standard setter (under delegated authority from the Commission).
- October 2022: first set of standards adopted by the Commission (draft standards available mid-2022).
- By December 1, 2022: adoption of EU Directive in member states legislation.
- 2023: First period for which companies would need to report under the standards.

## Is third-party assurance mandatory?

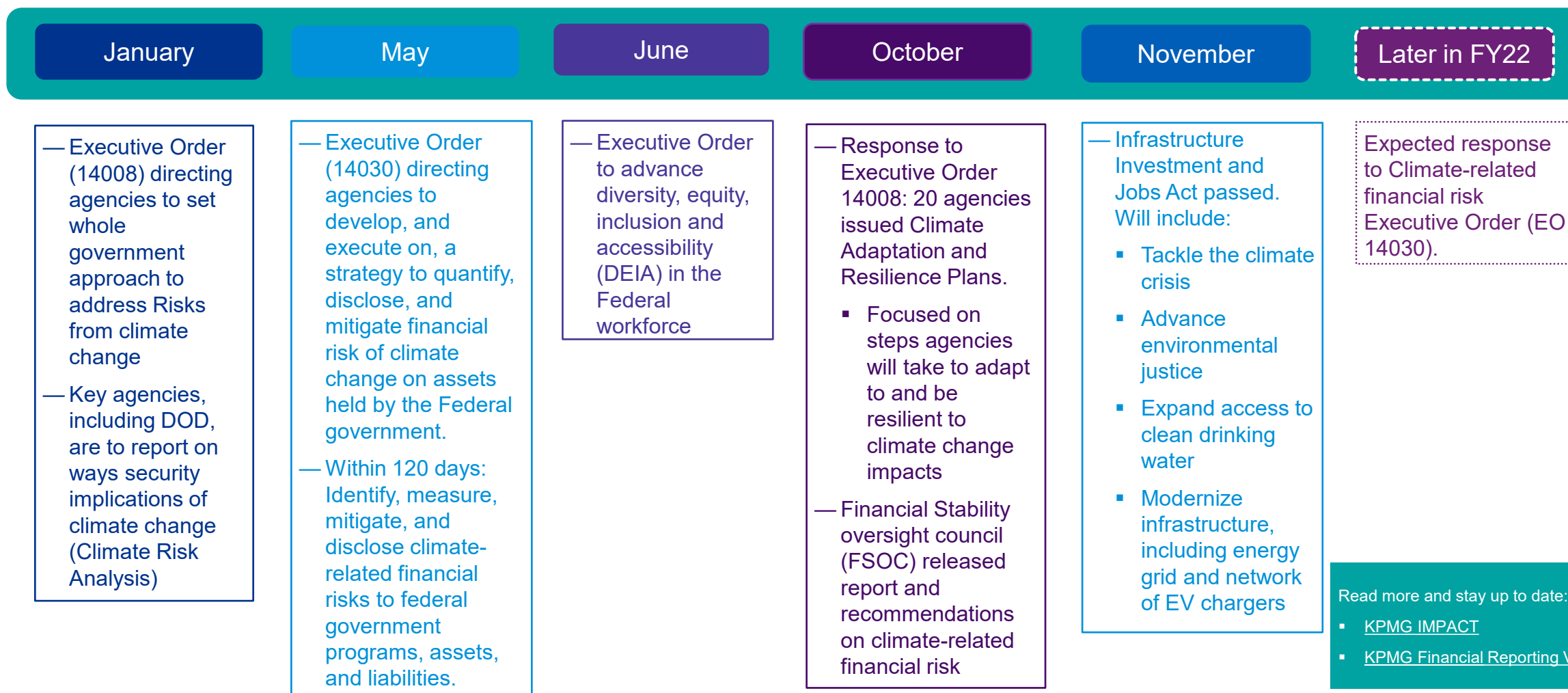
- Mandatory (limited level of assurance).
- Limited assurance is usually a negative form of expression stating that no matter has been identified by the practitioner to conclude that the subject matter is materially misstated.

## Where will information be reported?

- In the management report, which would include separate sustainability statements.
- The management report would need to be published together with the financial statements in a single document (paper or electronic).

# Federal ESG developments happening at pace

Biden Administration has identified climate and racial equity as ‘immediate priorities’.



04

## The ESG Journey



# The ESG reporting journey



## Establish

Alignment of material ESG topics to standards/metrics for reporting and benchmarking current disclosures to peers and industry-leading practices. Understanding of existing ESG reporting strategy and establish ESG program governance



## Assess

Assessment of current capabilities, including ESG reporting strategy, reporting structure, controls, data management, and governance as measured against industry-leading practices / target operating models to identify gaps



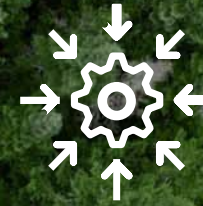
## Design

Development of ESG reporting program and target operating model, including processes, controls, technology, and organizational structure based on results of the assessment and gap analysis



## Implement

Execution of the designed ESG reporting target operating model, including activating training and communications



## Sustain

Continuous monitoring of ESG reporting requirements, processes, and assessing ongoing operating effectiveness of controls to enhance reporting processes and technology and providing ongoing training



## Assure

External assurance over ESG reporting and data



## Common challenges and pain points



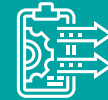
Confusion about different frameworks and standards



Getting buy-in from management and employees



Disconnect between ESG goals and business strategies



Establishing materiality



Frustration with disparate ratings & rankings



Too much time and resources spent on data collection and verification



No process and controls in place on data gathering and validation, and reporting



Specificity of information disclosed within the report

05

## The role of Finance

## What role can finance play in driving sustainability?

**There are three key areas where finance can drive the organization's sustainability agenda:**

### Investments



Driving sustainability for both external institutional investments and internal capital appropriations

### Corporate strategy



Delivering an overall corporate strategy that includes current and future sustainability commitments

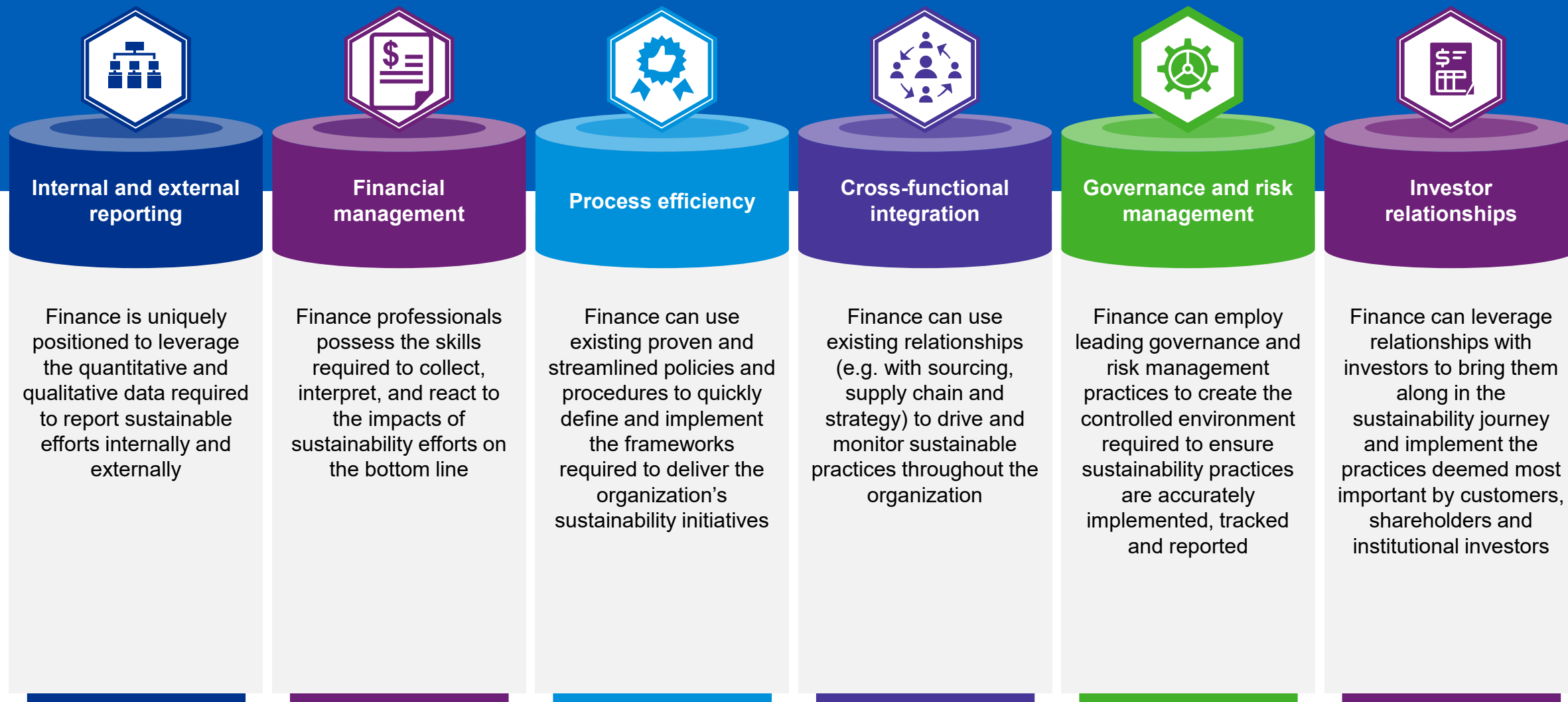
### Reporting



Owning both the data required and ultimate completion of sustainability reporting



# Finance can leverage existing skills and frameworks to drive the organization's sustainability agenda



# ESG stakeholders

Leading organizations are creating new executive positions dedicated to overseeing ESG initiatives





# Questions



# Appendix





# KPMG IMPACT: Your ESG solution

Create a more sustainable future while driving measurable growth today. KPMG is a holistic ESG solution that paves a clear path to purpose-led, sustainable business to build resilience and drive profitable and measurable growth.

> [Learn more](#)

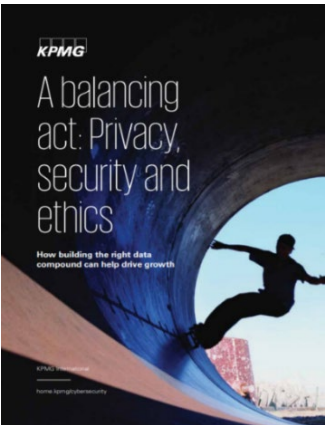
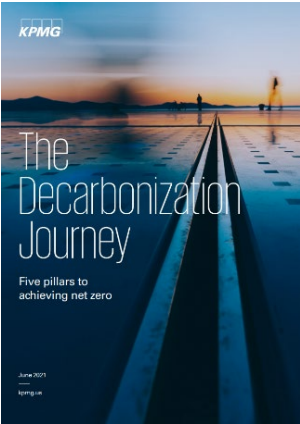
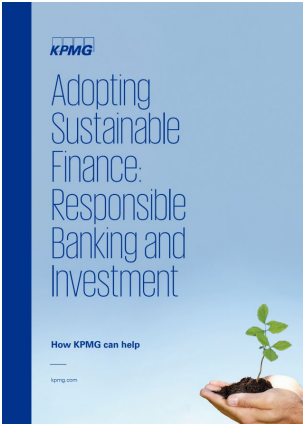




# Handbook: Climate risk in the financial statements

[> Download Here](#)

# Select ESG-focused thought leadership



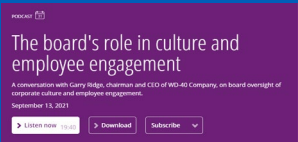
The Role of Finance in ESG



Climate action gains steam in Washington.



ESG for CFOs: What you need to know



The board's role in culture and employee engagement

Click on each thumbnail to view our recent thought leadership.



## KPMG resources: ESG and financial reporting

### ESG Assurance

Insights specific to measuring, reporting and assuring ESG data as part of KPMG's IMPACT framework.

### Financial Reporting View

ESG guidance and articles specifically for financial reporting professionals.

### International

Resource center on the financial reporting impacts of climate change under International standards.





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KPMG Financial Reporting View



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