



Gearing up for evolving ESG regulations

Operationalizing metrics and controls

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Table of contents

4	Introduction
5	Key actions to take
6	1. Metric and Control Governance
7	2. Assess Current/Target Data and Risks
8	3. Establish a Prioritized Roadmap
9	Key ESG Regulatory Themes
10	<ul style="list-style-type: none">• Environmental
14	<ul style="list-style-type: none">• Social
17	<ul style="list-style-type: none">• Governance
21	Relevant Thought Leadership

Surveys show strong support for ESG reporting, but many companies feel unprepared for what they view as a larger undertaking...

Low SEC Readiness



of companies feel very prepared for SEC ESG reporting¹

Increased Effort



of companies believe SEC reporting will require more effort than current ESG reporting¹

Introduction

Environmental, Social, and Governance (ESG) issues have become prominent focal points for the Administration, regulators, companies, and their stakeholders.

Regulatory consideration of ESG topics has significantly increased at both the federal and state levels since 2021, with initiatives, proposed rules, and guidance focusing on a broad range of ESG issues or “themes”, including:

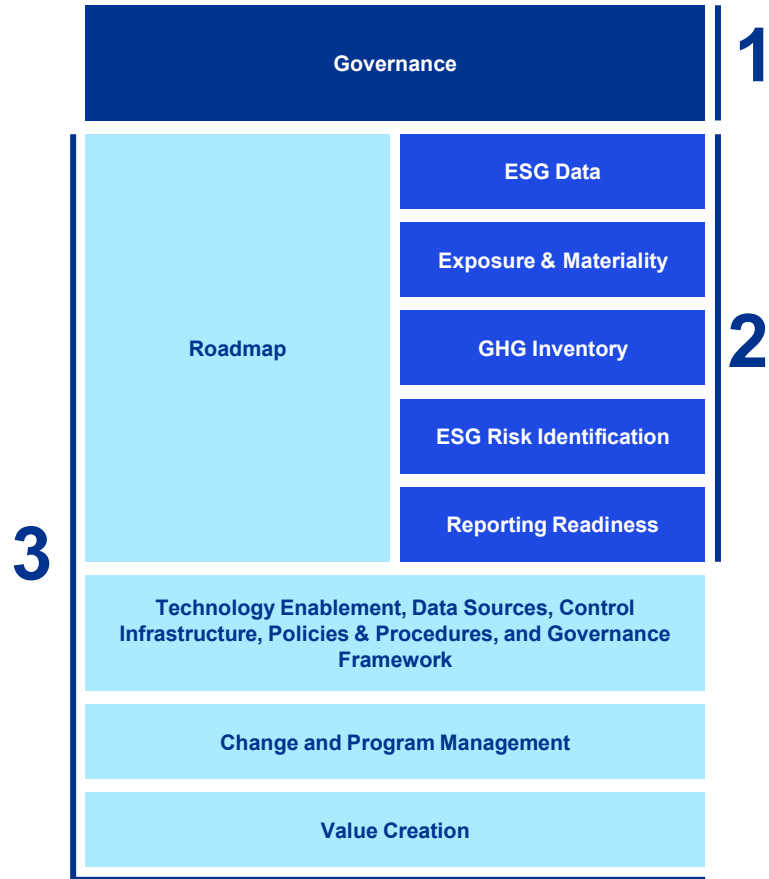
- Environmental Protection
- Environmental Justice
- Climate Risk Management
- Diversity, Equity, and Inclusion
- Consumer Protection
- Investor Protection
- Cybersecurity
- Corruption and Misconduct

This dynamic regulatory environment is driving the need for companies to assess and design effective metrics, enabled by data processes and controls that:

- Enable accurate measurement of ESG activities and reporting to key stakeholders, and
- Adapt to potential future disclosure requirements.

Key actions that companies can take to effectively operationalize this effort are outlined in the following pages.

Assessing & Designing ESG Metrics



Assess & design effective ESG metrics

ESG impacts organizations through three channels: Metrics & Reporting, Client-Based Decisions & Strategy, and Operational Decisions & Strategy. In order to adhere to evolving regulatory expectations around ESG, companies should take the following actions to assess and design effective metrics and data controls that can be operationalized to report to key stakeholders.



Metric & control governance

1

To set metric and control governance around the ESG metrics, companies should take action to:

- Establish an enterprise-wide ESG data governance and control framework, including risk management, to oversee clear and transparent monitoring and reporting
- Ensure the governance structure includes members from a wide array of business areas and all three lines of defense; identifies Board and management responsibilities for oversight and establishes reporting and escalation processes; and provides/requires training, as needed
- Define ESG terms and metrics to disclose
- Develop a methodology for collecting and measuring ESG data, with particular focus on accuracy, completeness, consistency, and timeliness

Assessing & Designing ESG Metrics



Assess current/target data & risks

2

Companies should next take action to assess both their current and target states of ESG data and associated risks, and perform a gap analysis around ESG data controls. In particular, they should:

- Assess data requirements; investing, as needed, in data and data systems that can measure, track, and support external disclosures and performance claims
- Integrate ESG risks into each risk discipline and develop quantifiable risk appetite statements that are consistent with the existing enterprise risk appetites
- Engage key stakeholders at the company to properly document the risk discipline and risk appetite statements
- Operationalize ESG risks into data collection, measurement, and monitoring and testing within each risk discipline for required metrics, commitments/targets, transition plans, controls, and reporting

Assessing & Designing ESG Metrics



Establish prioritized roadmap

3

Finally, as part of their effort to assess and design effective ESG metrics, companies should take action to establish a prioritized roadmap for operationalizing and reporting. The roadmap provides a visual explanation of the company's ESG reporting journey as it works toward achieving its internal and external assurance goals.

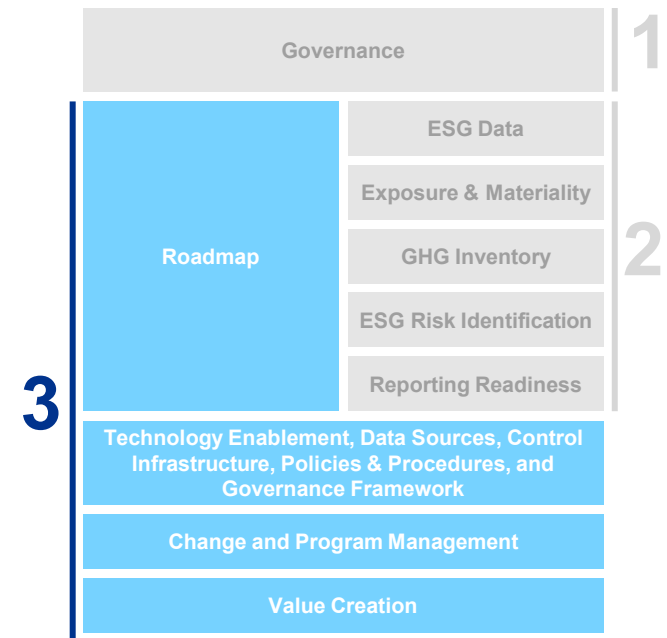
Companies should develop a risk-based prioritization and implementation roadmap, with consideration for the level of effort, investment, and cost, including workstreams for:

- Program governance
- Data & scenario analysis
- Process & controls
- Reporting
- Technology
- Change management
- Value creation

Utilizing lessons learned from assessments and control gap analysis, developing an ESG reporting-focused roadmap can enhance the design of the ESG reporting program and target operating model across:

- Processes
- Controls
- Technology
- Organizational structure
- Assurance process
- Scheduling for remaining prioritized datasets & disclosures, or potential expansion to less prioritized metrics

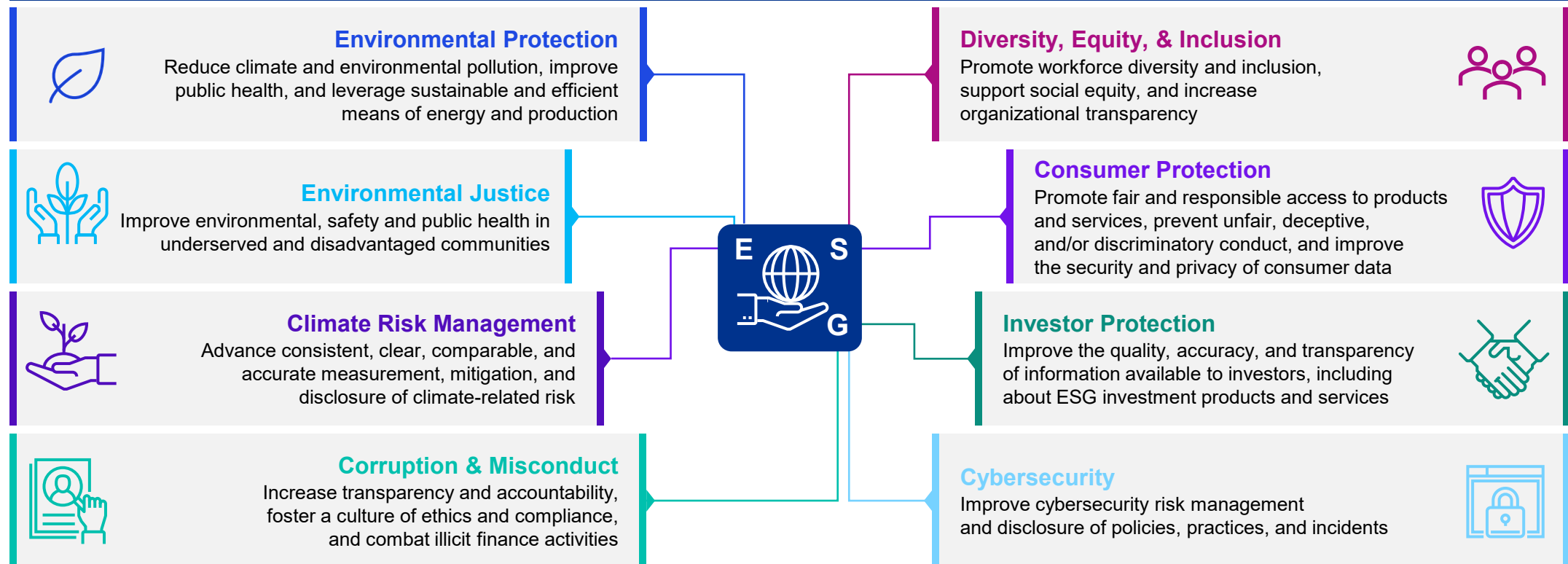
Assessing & Designing ESG Metrics



Key ESG regulatory themes




ESG regulatory and policy efforts often join one or more of the E, S, or G factors. Key themes are outlined below, with highlights of select legislative, regulatory, and policy directives for each theme detailed on successive slides.

ESG regulatory and public policy themes include:

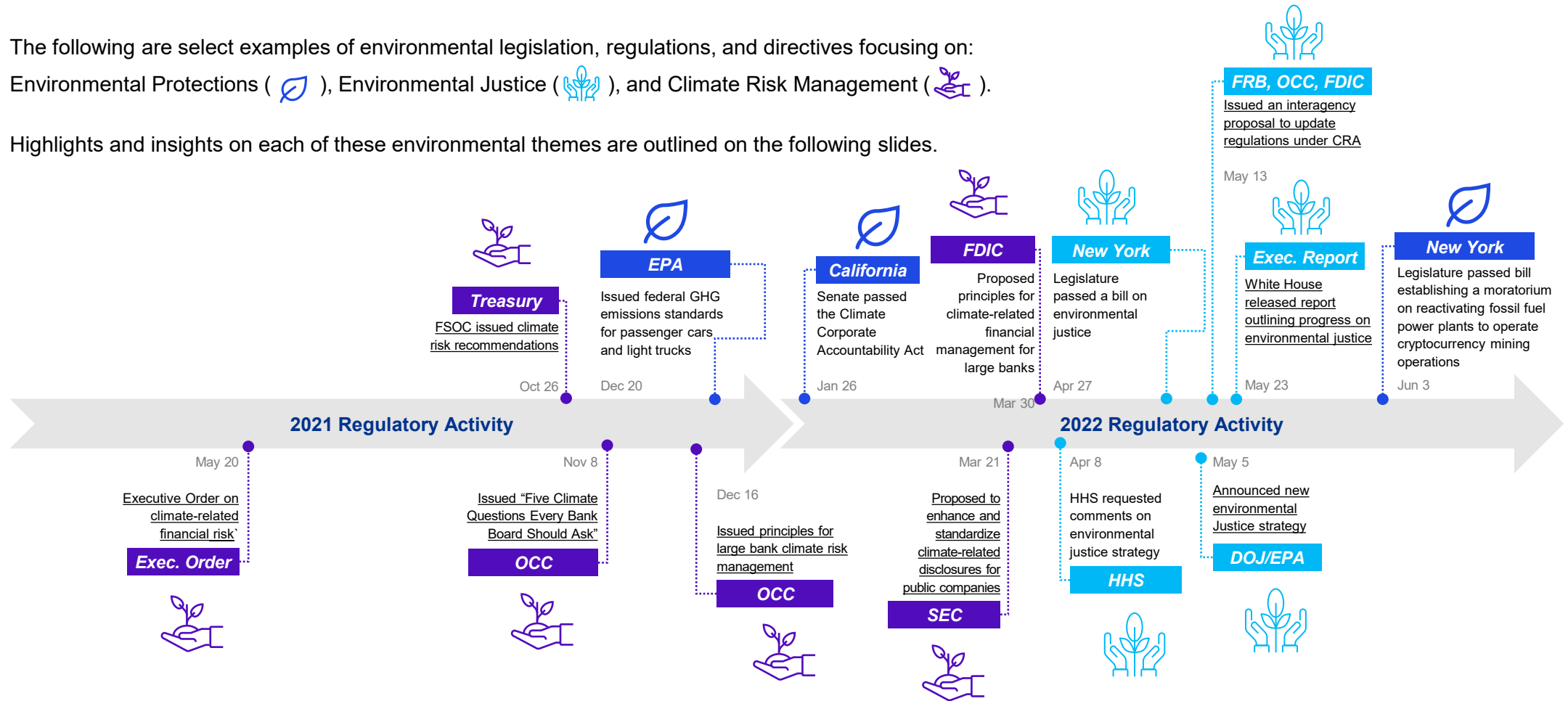


Key environmental highlights timeline

The following are select examples of environmental legislation, regulations, and directives focusing on:

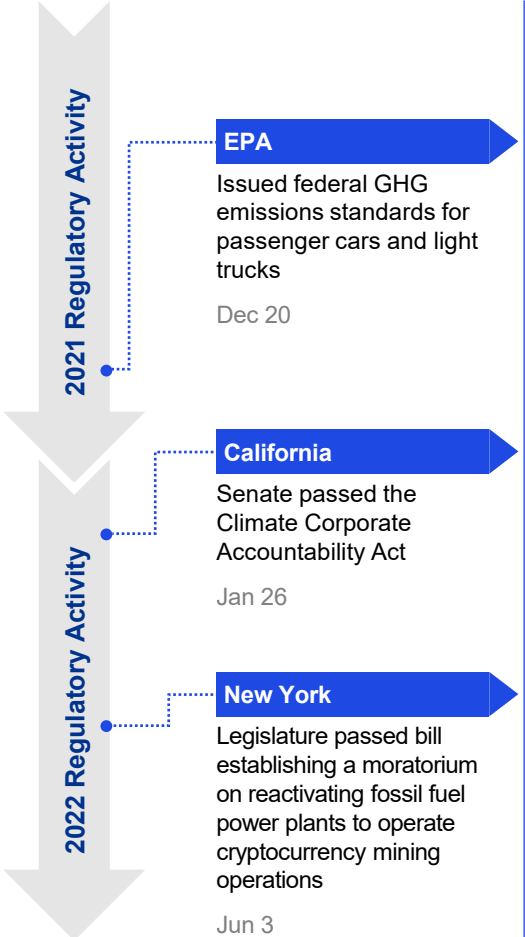
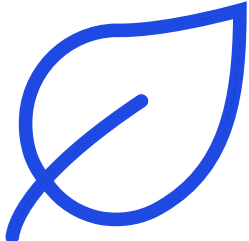
Environmental Protections (), Environmental Justice (), and Climate Risk Management ().

Highlights and insights on each of these environmental themes are outlined on the following slides.



Environmental protection

Reduce climate and environmental pollution, improve public health, and leverage sustainable and efficient means of energy and production



Highlighted Examples

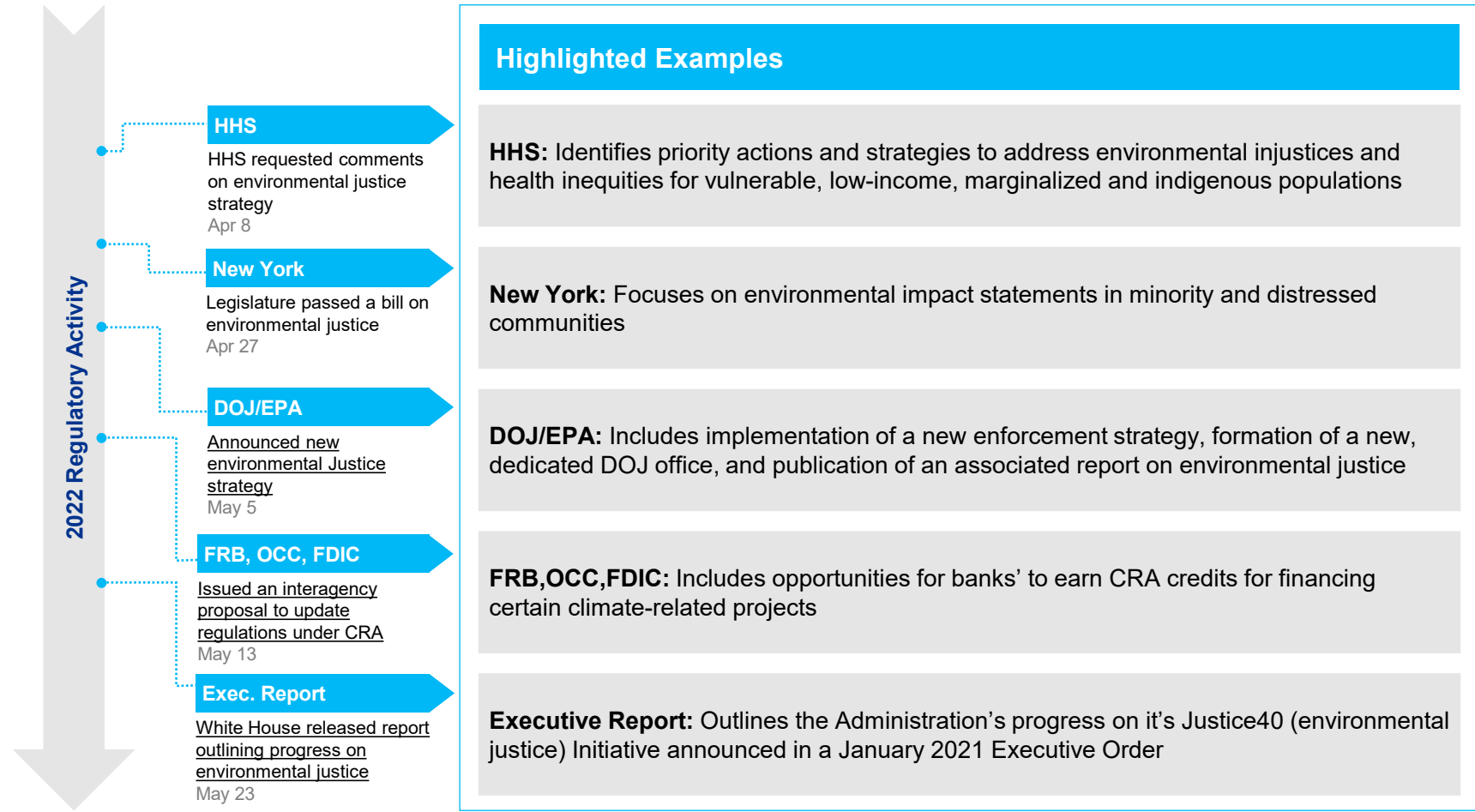
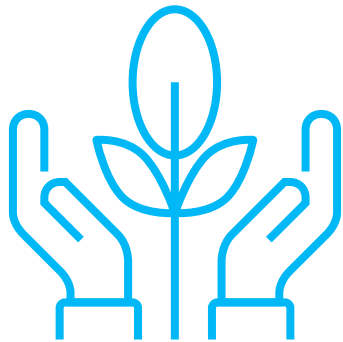
EPA: Seeks to leverage advances in fuel efficiency and clean car technology to unlock net benefits to consumers, including reducing climate pollution, improving public health, and saving drivers fuel costs

California: If signed into law, would require both public and private companies doing business in California and generating over \$1 billion in gross annual revenue to disclose their Scope 1, Scope 2, and Scope 3 GHG emissions to the State of California on an annual basis, as well as to obtain third-party audits of disclosures

New York: If signed into law, would also require the state’s Dept. of Environmental Conservation to prepare comprehensive environmental impact statement review of these activities

Environmental justice

Improve environmental, safety and public health in overburdened, underserved, and disadvantaged communities





Climate risk management

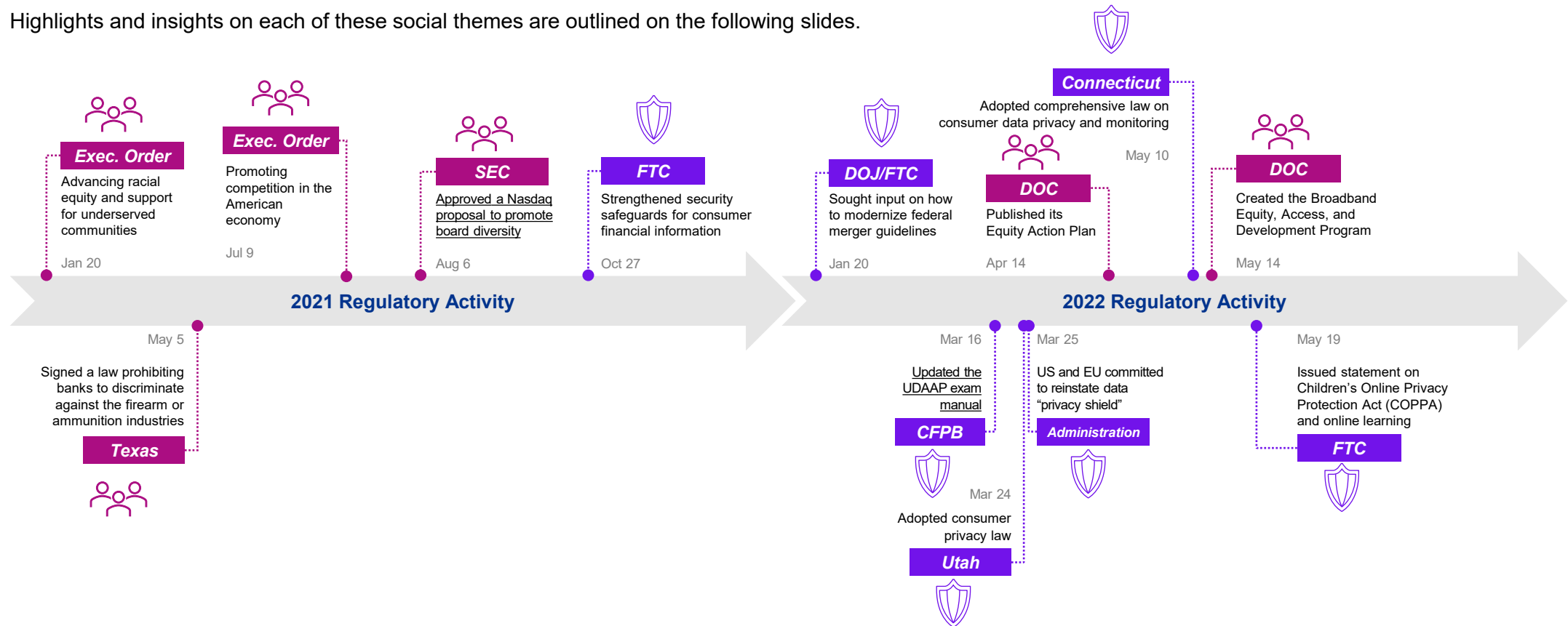
Advance consistent, clear, comparable and accurate measurement and disclosure of climate-related risk



Key social highlights timeline

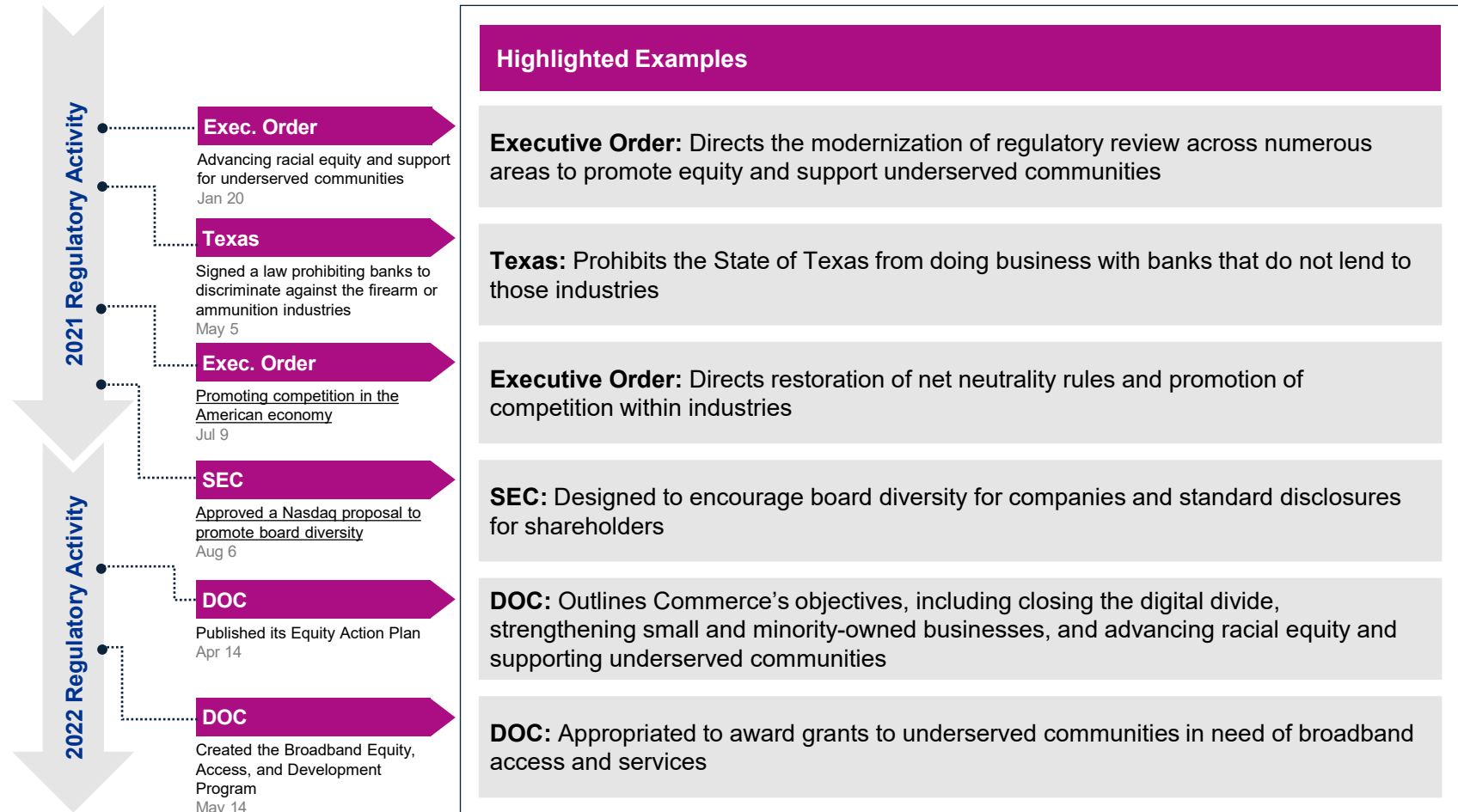
The following are select examples of social legislation, regulations, and directives focusing on: Diversity, Equity, and Inclusion (), and Consumer Protections ().

Highlights and insights on each of these social themes are outlined on the following slides.



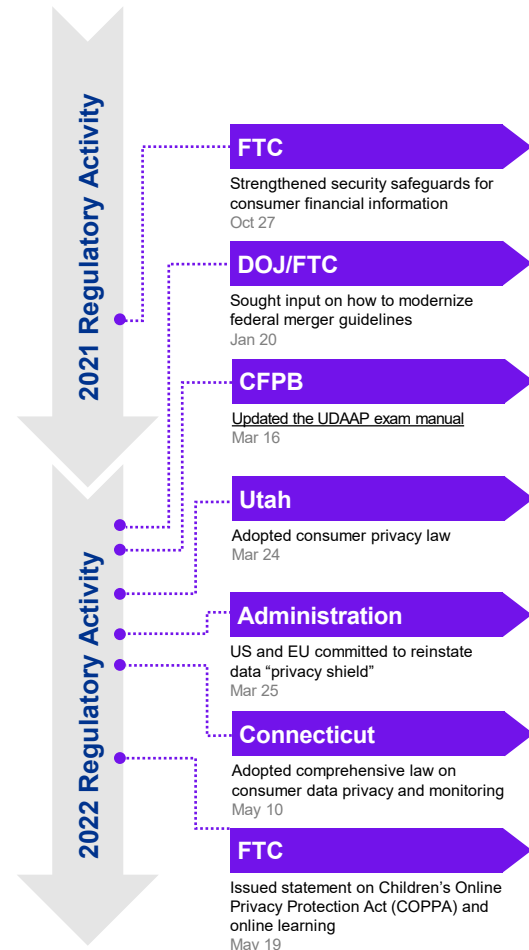
Diversity, equity, and inclusion

Promote workforce diversity and inclusion, support social equity, and increase organizational transparency



Consumer protection

Promote fair and responsible access to products and services, prevent unfair, deceptive, and/or discriminatory conduct, and improve the security and privacy of consumer data



Highlighted Examples

FTC: Updated rules regarding protection of consumer financial information at FTC-regulated FS companies

DOJ/FTC: Stated objective is to improve detection of, and prevent, consolidation or anticompetitive mergers

CFPB: Focus on potential for discriminatory conduct across consumer-related products and services and throughout the product lifecycle


Utah: Provides consumers with rights related to their data, obligates companies to safeguard and protect consumer information

Administration: Will allow the free exchange of data between the U.S. and E.U., meeting the privacy requirements of both jurisdictions

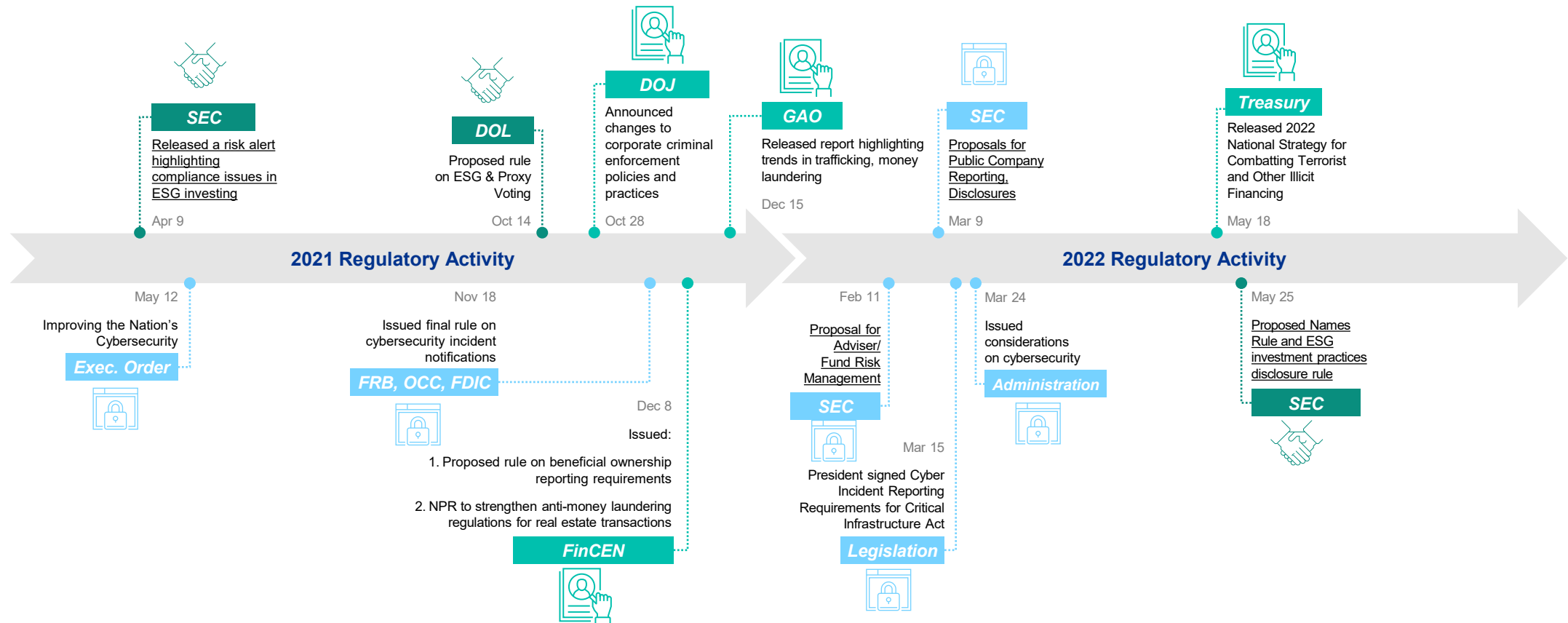
Connecticut: Outlines responsibilities and privacy protection standards for companies and data processors, as well as rights of consumers related to their data and privacy

FTC: Indicated that the agency will crack down on companies that violate COPPA and force parents to surrender children's privacy in order to access educational technology or online tools

Key governance highlights timeline

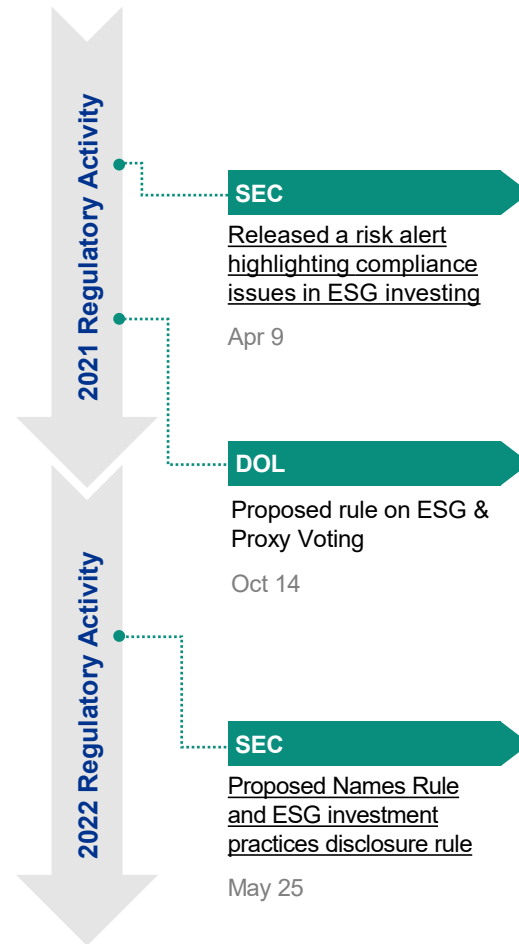
The following are select examples of governance regulations and directives, focusing on:
 Investor Protections (), Cybersecurity (), and Corruption and Misconduct ().

Highlights and insights on each of these governance themes are outlined on the following slides.



Investor protection

Improve the quality, accuracy, and transparency of information available to investors, including about ESG investment products and services



Highlighted Examples

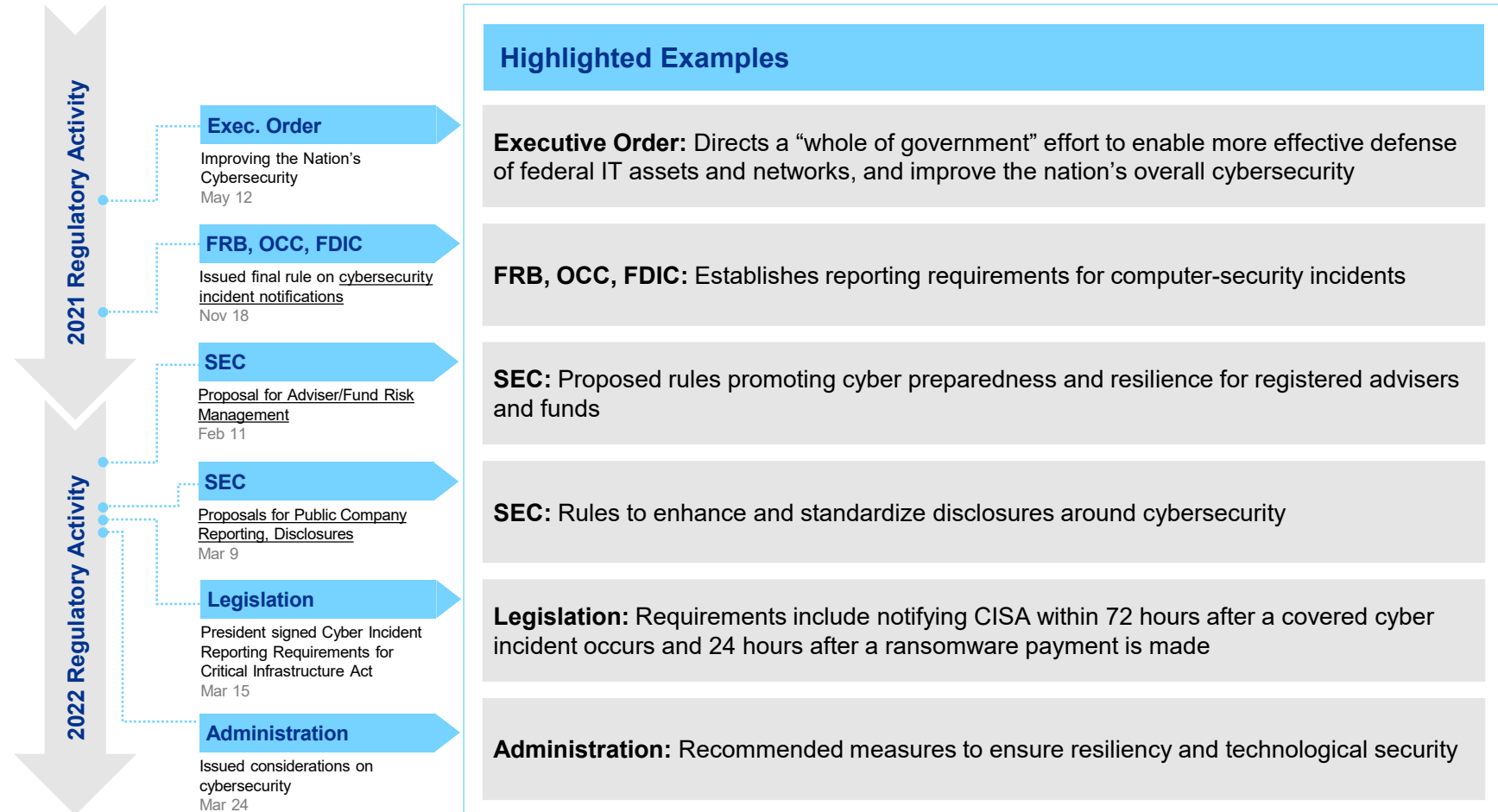
SEC: Highlights observations, including deficiencies and internal control weaknesses, from examinations of registered investment advisers, investment companies, and funds offering ESG products and services

DOL: Covers ESG investment selection for ERISA-covered retirement plans and proxy voting

SEC: Intended to provide investors with consistent, comparable, and “decision-useful” information regarding ESG investment options

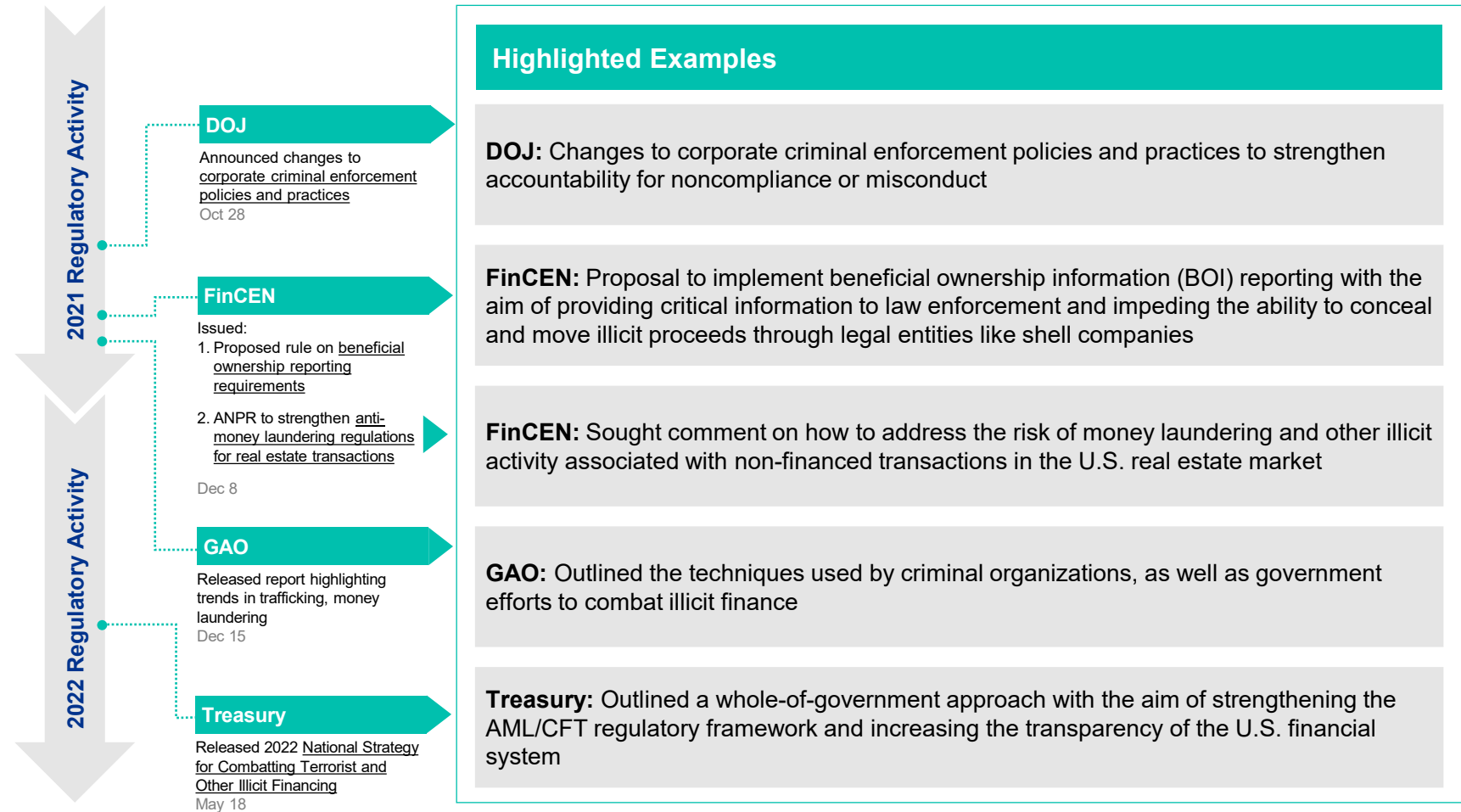
Cybersecurity

Improve cybersecurity risk management and disclosure of policies, practices, and incidents



Corruption and misconduct

Increase transparency and accountability, foster a culture of ethics and compliance, and combat illicit finance activities



Relevant thought leadership



[Operationalizing climate risks](#)



[Fairness and inclusion: Regulatory challenges](#)



[The CCO and ESG](#)



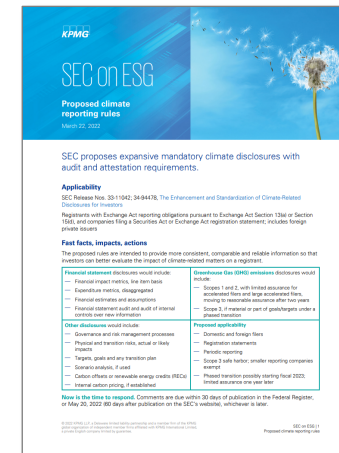
[Enhancing the cybersecurity risk framework](#)

[Climate and sustainability: Regulatory challenges](#)



Regulatory Alerts

- [CFPB Focus on Credit Card Penalty Fees](#)
- [Supervisory focus on overdraft practices](#)
- [Market structure: SEC remarks on potential updates](#)
- [Climate-Related Risk: CFTC Request for Information](#)
- [SEC proposed Names Rule and ESG Investment Practices Disclosure](#)
- [Diversity, Equity, and Inclusion: SEC's Diversity Assessment Report](#)
- [Environmental Justice: New DOJ Strategy](#)
- [SEC Examinations Risk Alert](#)
- [Climate Risk: SEC's Mandatory Climate Disclosures Proposal](#)
- [Fairness and Competition: Information requests on merger guidelines](#)



[SEC proposes climate reporting and assurance rules](#)



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