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**November 2017**

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## CORPORATE RESPONSIBILITY REPORTING: WHERE ARE WE, WHAT IS THE ROAD AHEAD… KMPG's 2017 Global Survey Yields Important Information

**Issue 4.2**

***We present highlights of the 10th survey of corporate responsibility reporting by KPMG for you. Results represent a survey of 4,900 companies in 49 countries & regions, deep analysis of corporate reporting revealed important trends that are of value to managers responsible for CR reporting in their respective organizations.***

Prepared November 20. 2017

This is*: KPMG – The Road Ahead – **The KPMG Survey of Corporate Responsibility Reporting 2017**.* The Report was released in November 2017


KPMG global leaders see their analysis and survey as "…arguably the most comprehensive survey of CR reporting trends worldwide," and the results are not just about data gathering but also how to assess and communicate impact. The leaders in Corporate Responsibility are at work mastering these critical skill sets. The analysts held conversations and examined thousands of publisher CR reports as part of the exercise.

Among these are two very important groups within the corporate sector that were examined in depth:

- **The N-100** – these are the top 100 companies by revenues in each of the 49 countries (basically, large- and mid-caps). This represents a broad-based snapshot of CR reporting, says KPMG.
- **The G-250** – the world's largest 250 companies based on revenues in the Fortune 500 rankings of 2016; these are typically leaders and pace-setters in CR reporting.

The resulting 50+ page report on survey results is chock full of data, charts, and KPMG perspectives and experts' suggestions for attaining/maintaining leadership with critical existing and emerging trends in focus for corporate management. We present highlights for you in this brief.

First, the top line quantitative trends in CR reporting according to the survey are:

- **The Global Reporting Initiative** (GRI) is the most-favored framework for corporate CR reporting; 2/3 of the reports analyzed used the G4 framework. (Note from G&A: the framework is now a global standard; all companies will have to use the standard in 2018 for their CR, sustainability, corporate citizenship reporting.)
- N-100 companies examined in the research used the GRI G3 (2%); GRI G4 (88%); GRI Standards (10%) for their CR reporting.
- Three-out-of-four of the 4,000 companies surveyed/examined do issue reports.
- All industry sectors have a healthy rate of reporting (in the history of the survey, every sector has a reporting rate of 60% or more). The first survey was in 1993.
- In Latin American countries, there has been a surge in reporting over the past 2 years. The region overtook Asia-Pacific, which was the leader in reporting.
- Reporting by Mexican companies is a factor for Latin American growth rates. Foreign investment in Mexico apparently is leading to growth in CR reporting.
- Eastern Europe companies have yet to catch up.
- Most of the world's largest companies now integrate "some" non-financial data in their annual (financial) reporting. There is growing embrace of the concept.
- In Japan, Brazil, Mexico, and Spain, integrated reporting is on the rise.
- "Assurance" of data has doubled among the G-250 over the past 12 years. 67% of these companies see value in promoting the reliability of their information through third-party assurance; this is also increasing among N-100 companies.

Several countries with the highest rate of CR reporting identified by KPMG are in Asia-Pacific:

- Japan (governance reforms are a factor; so is interest in assurance of reports)
- India
- Malaysia
- Taiwan

## CLIMATE CHANGE — AND REPORTING COMPANIES

*Leading questions were asked of companies or researched in the companies' reporting:*

Do the leaders see a financial risk of climate change? What do company managements say (or demonstrate in their reporting)?

- NO — so say 72% of the N-100 companies. (Only 28% acknowledge risk in Annual Report.)
- NO – so 52% of the G-250. (Better — 48% of the companies do acknowledge in their Annual Report.)

Are companies linking their CR activities to the UN SDGs?

- YES – says 43% of the G-250

- YES – says 39% of the N-100 (leaders in this are in the Forestry & Paper, Chemicals, Mining, Oil & Gas, and Utility The complete list is in the Report).

## CONSIDERING SDGS AS FACTOR: THE UN SUSTAINABLE DEVELOPMENT GOALS

The 17 SDGs (with 169 subsets) were adopted by the United Nations in September 2015. Each of the goals were to be achieved over 15 years, out to The year 2030. The clear trend, says KPMG, is that the SDGs are becoming an important part of CR reporting, with companies connecting the goals and the CR strategies and activities.

The world (national) leaders in linking SDGs and CR (in the G250 universe) are:

- Germany
- France
- United Kingdom
- Japan
- United States

## LEADING COUNTRIES

These are other leading countries in connecting the SDGs to CR activity (descending order):

- Sweden
- Portugal
- Mexico
- Netherlands
- Poland
- Spain
- Colombia
- Italy

"Acting on the SDGs is the next challenge for companies," notes **Tomas Otterstro**m, Partner for Sustainable Services for KPMG in Finland and Sweden. "Coming through with meaningful contributions to the SDGs…reporting needs to evolve to effectively communicate what impact companies are actually having on the goals."

KPMG sees these results as a sign that companies will have a "growth profile" in CR reporting over the next two or three years. The FSB Task Force on Climate-Related Disclosure will likely be a factor in this growth in the years just ahead. (FSB: The global Financial Stability Board.)

But today, very few companies are quantifying climate risks or modeling their financial impacts (using scenario analysis such as suggested in the Task Force recommendations).

## COUNTRIES LEADING THE PACK IN ACKNOWLEDGMENT OF CLIMATE RISK

- Taiwan (the stock exchange / TWSE / has listing requirement and new Stewardship Principles for Institutional Investors; these likely contributed to high rates of reporting)
- France (new amendment to the ***Energy Transition for Green Growth Law*** is a factor)
- South Africa (the government is considering a carbon tax; companies in Mining, Utilities, and Chemicals could be impacted)
- Canada (companies in Oil & Gas, Mining, Forestry, Paper, are among Canada's largest enterprises; climate change disclosure is increasing; many of the country's pension funds have supported the goals of the Paris Agreement)
- United States of America (the US SEC requires disclosures related to climate change in SEC filings; US companies are focused on attaining greater energy efficiency; companies seek to avoid litigation related to ESG factors; large investors are members of the FSB Task Force)

## INDUSTRY LEADERS – ACKNOWLEDGING CLIMATE CHANGE

Among the **G-250**, these are the industry leaders/sectors in acknowledging climate change as a financial risk:

- Retail (67% of the 250)
- Oil & Gas (65%)
- Utilities (54%)
- Automotive (53%)
- Technology, Media, and Telecom (47%)
- Industrials / Manufacturing, Metals (46%)
- Financial Services (36%)
- Healthcare (25%)

**The identified emerging trends in CR reporting are**:

- Climate-related risk.
- UN Sustainable Development Goals (SDGs).
- Human Rights.
- Carbon Reduction targets.

## IMPLEMENTING CARBON REDUCTIONS

Note that countries (post-Paris – COP 21) are now linking their own carbon reduction targets to the global climate goal. And so more companies are setting carbon targets.

The majority of the G-250 now disclose targets to reduce carbon emissions (67% of the 250 in 2017 compared to 58% in 2015).

But – most set internal targets and do not acknowledge the external targets being set by national governments or the European Union or the United Nations. About 1-in-4 of the largest companies reference the Paris Agreement (limit 2-degrees C).

The good news is that science-based targets are gaining ground (among the largest CR reporters).

## OTHER SHARED PERSPECTIVES FROM KPMG

- Top lines for pressure on companies to report comes from regulators, stock exchanges, and investor pressure; these drive national reporting rates. (Example is the New Zealand Stock Exchange Code as a factor in generating more CR reporting over the past two years in that country.)
- Regulation (and more regulation) is "on the way" that will require more companies to do CR reporting.
- Integration of financial/non-financial should be considered as "a new normal".
- Stock exchanges are bringing new layers of regulation (for listed companies) for ESG disclosure (in Latin America, the U.S.A., Japan, Taiwan).
- "Voluntary" disclosure is becoming mandated disclosure.
- The present levels of the disclosure will ratchet up, raising the bar among peers.
- The international "landscape" for reporting approaches (frameworks, standards, recommended) will continue to be fragmented and dynamic.
- The Financial Stability Board's Task Force on Climate-Related Disclosure apply to the disclosure of climate risk in annual reports — this is mandated in the United States.
- The N-100 companies continue to catch up with the G-250 rate of CR reporting.
- The full effects of the EU Directive (for CR reporting) will be seen in 2019 and 2020 as companies become more familiar with CR reporting (under the various states' mandates).

## KPMG MESSAGE FOR THE ATTENTION OF CFOS

The merging of the financial and non-financial disclosure will accelerate more quickly over the next few years, therefore:

- Climate change is creating greater uncertainty and risk in the corporate financial system.
- As a result, investors are aware and asking more questions of companies.
- Some business models may become obsolete in this environment.
- The FSB Task Force recommendations are influencing investors and companies; the July 2017 recommendations are becoming a de facto framework for company disclosure.
- Supply chain vulnerability is becoming an important factor for many companies with a global sourcing process.
- The responsibility for CR reporting is up top — with the officer with the best understanding of the company's financial risk and opportunities (the CFO).
- The first step is for the Finance team to get a sound understanding of material ESG issues that could impact financial performance.
- Most companies now have "resident" experts who can help — think, "sustainability team."

## WEIGHING IN WITH PERSPECTIVES

In the report, there are perspectives shared by experts in various countries and multilateral organizations, including:

- United Kingdom
- United Arab Emirates
- Mexico
- New Zealand
- Taiwan
- Japan
- The Netherlands
- Brazil
- India
- Belgium
- South Korea
- Global Reporting Initiative
- United Nations
- International Integrated Reporting Council (IIRC)
- KPMG Head, Auditing

## PUTTING CR INFORMATION IN ANNUAL REPORTS

The countries with the highest rate of putting CR information in annual financial reports are (n rate of percentage, highest first:

- India (98%)
- Malaysia (93%)
- United Kingdom (92%)
- South Africa (91%)
- Taiwan (88%)
- Denmark (86%)
- France (83%)
- Norway (81%)
- United States of America (81%)
- Sweden (80%)

## STOCK EXCHANGES / NOTES ON THE UNITED STATES OF AMERICA

Note that a number of these countries have national laws/rules/mandates or stock exchange listed company rules that require CR reporting.   The United States at present does not require CR reporting (by either Federal statute and rule or stock exchange rule).  Commenting on the USA, KPMG partner **Katherine Blue** notes three factors that encouraging data integration in U.S. corporate reporting:

- Growing investor and stakeholder interest. Those companies not previously reporting are beginning to report now to address investor/customer/stakeholder interests.
- Climate change disclosure (risk and opportunity) is required by the SEC in corporate filings. The risk from climate change is becoming more clear now.
- The Sustainable Accounting Standards Board (SASB) publishes industry-specific Standards that advise corporate management on what CR disclosures should be in financial filings.

## HUMAN RIGHTS  – ESCALATING ISSUES

KPMG researchers say that Human Rights is “firmly on the agenda as a global business issue,” and most companies do acknowledge the issue — but many have yet to publicly disclose their policies.   A high number of companies acknowledge Human Rights as a business issue; less will then disclose the policies they (may) have put in place to address issues.

A minority of companies have acknowledged the U.N. ***Guiding Principles on Business & Human Rights*** or “signed on” by aligning themselves publicly with the Principles.

Companies in India, the UK and Japan are those most likely to discuss Human Rights.

Among the leading companies, 100% of Mining companies in the G-250 and 90% in the N-100 universes are acknowledging the importance of Human Rights.

"We are at a tipping point for business and human rights," states KPMG's Partner for Business & Human Rights, **Richard Boele** (in Australia). Many companies still lack the ability to implement the Principles. "Companies must move from simply reporting Human Rights risks to identifying, responding to and remediating the impacts. This will require a step change in mindset."

In this regard, the KPMG researchers note that North Americas and Eastern European companies are laggards.

## NOTES FROM THE G&A INSTITUTE TEAM

We look forward to seeing the KPMG survey on Corporate Responsibility Reporting for the depth of analysis and range of perspectives shared by experts from around the world. These reports provide a cross-check and verification of many trends and developments that we see in our analysis of corporate ESG reporting and disclosure over the past seven-plus years.

The analyst team at G&A analyzes and databases more than 1,500 corporate reports each year as part of our responsibilities as the **GRI's Data Partner** for the United States, United Kingdom and the Republic of Ireland. (Reports in each country are analyzed and become part of the **GRI Sustainability Disclosure Databas**e, which now numbers more than 40,000 reports dating back more than 15 years.)

The G&A team analyzes reports from many other countries are part of our ongoing research efforts. Many of the results are shared publicly — see https://www.ga-institute.com/research-reports/research-reports-list.html

We are completing an important year-long analysis, looking at the materiality of the 169 SDG Targets across various sectors through the materiality decisions of around 1500 global sustainability reporters. We'll share more of this research on this platform shortly.

## REFERENCES

The KPMG Report authors are **Jose Luis Blasco** and **Adrian King**; Co-authors are **Mark McKenzie** and **Madeline Kam**.

N-100 – top 100 companies by revenue in each of the 49 countries (large- and mid-cap). This represents a broad-based snapshot of CR reporting, says KPMG.

G-250 – the world's largest 250 companies based on revenues in the Fortune 500 rankings of 2016 these are typically leaders in CR reporting.

Here is the Global 500 listing by ***Fortune***; in this compilation, the world's largest 500 companies generated US$27.2 trillion in revenues and $1.5 trillion in profits in 2016: http://fortune.com/global500/