

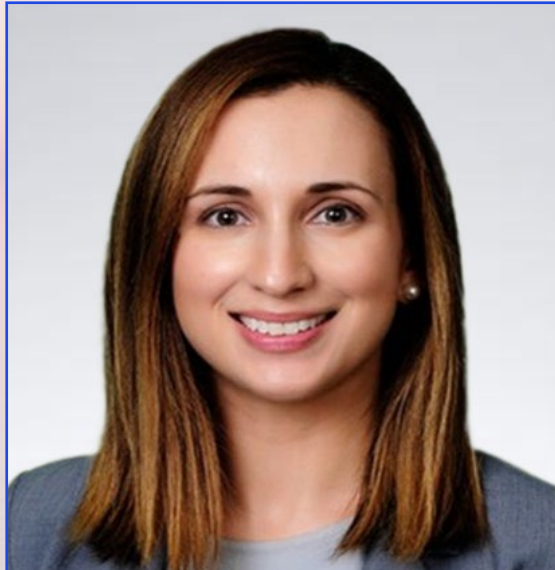
ESG for Nonprofits

GWSCPA 2023 Nonprofit Symposium

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Presenters



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Agenda

- 01** What is ESG?
- 02** How to get started
- 03** Questions

What is ESG?

ESG overview



Environmental criteria consider how an entity acts in its role as a steward of nature, such as energy use, recycling practices, pollution, and natural resource conservation.



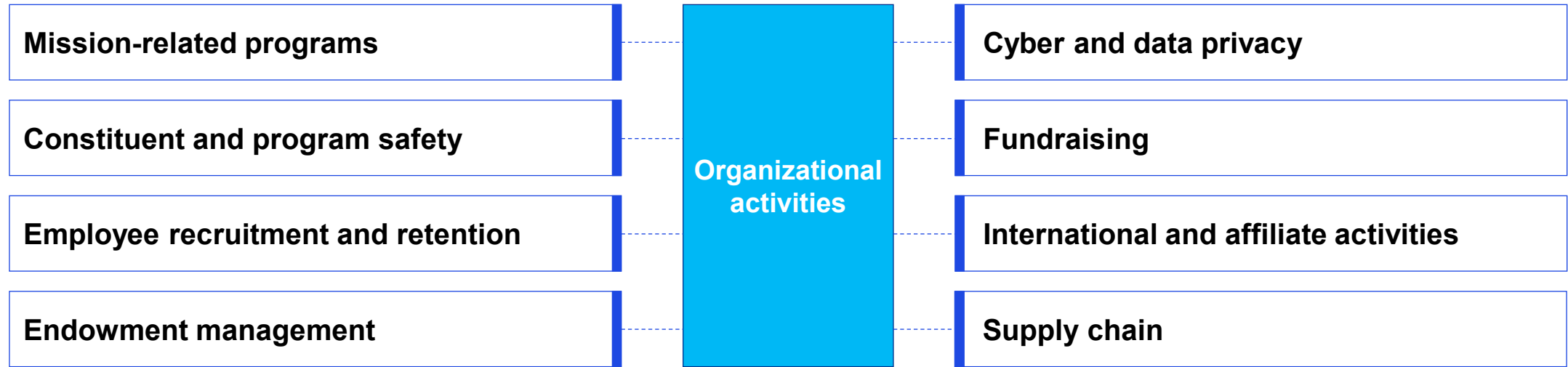
Social criteria examine how well an entity manages relationships with employees, suppliers, customers, and the community, including diversity and inclusion metrics.



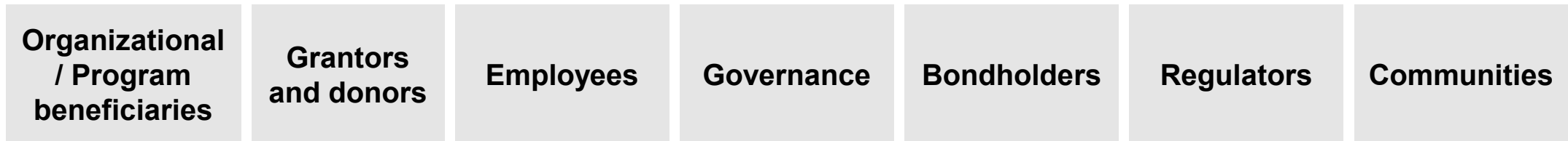
Governance criteria are concerned with quality of entity leadership, internal controls, executive compensation process, audits, and other oversight responsibilities. An example is board-level diversity.

Boards and executives increasingly see ESG topics as important to long-term value creation, and are identifying the need to meet stakeholder demand for ESG information in a way that drives value for the organization.

ESG in the not-for-profit sector



Stakeholders



Material topics | not-for-profit entities



Environment



- GHG Emissions
- Air quality
- Energy Management
- Water & Wastewater Management
- Waste & Hazardous Materials Management
- Ecological Impacts



Social capital



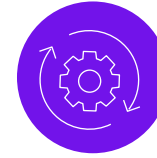
- Human Rights & Community Relations
- Customer Privacy
- Data Security
- Product Quality & Safety
- Customer Welfare
- Selling Practices & Product Labeling



Human capital



- Labor Practices
- Employee Health & Safety
- Employee Engagement, Diversity & Inclusion



Business model and innovation



- Product Design & Lifecycle Management
- Business Model Resilience
- Supply Chain Management
- Material Sourcing & Efficiency
- Physical Impacts of Climate Change



Leadership and governance



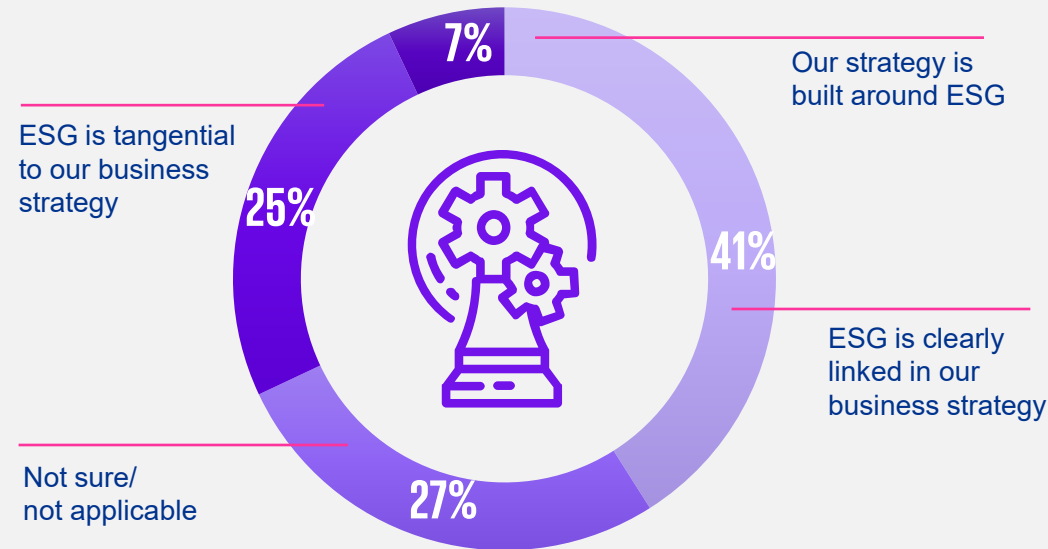
- Business Ethics
- Competitive Behavior
- Management of the Legal & Regulatory Environment
- Critical Incident Risk Management
- Systemic Risk Management

Source: [SASB Standards Materiality Finder](#)

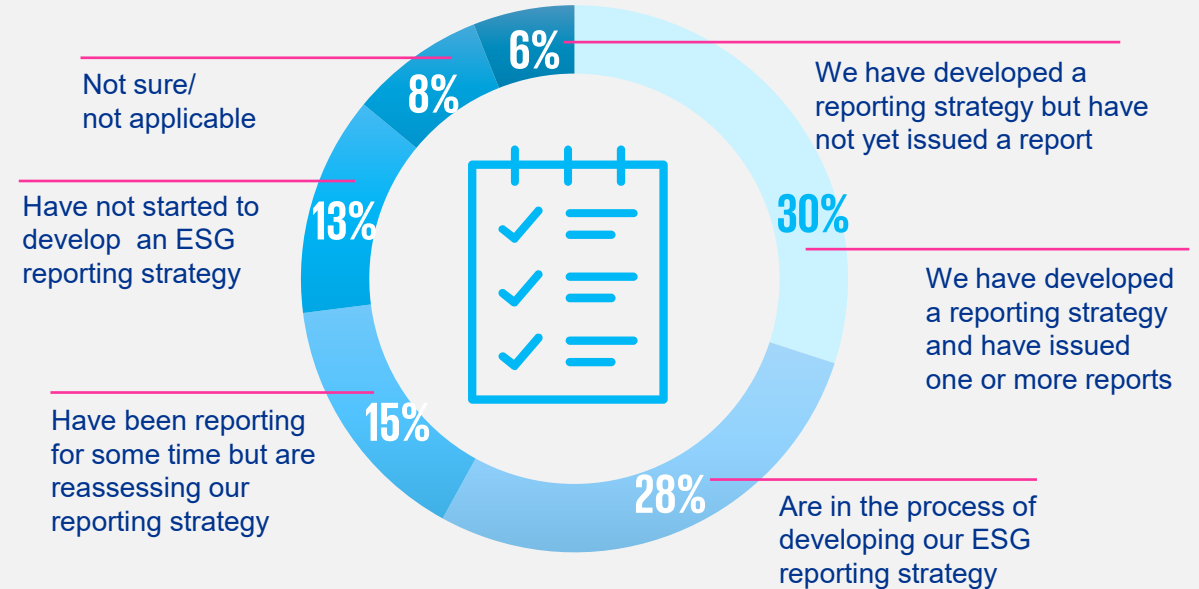


What are companies saying?

How embedded is ESG in your business strategy?



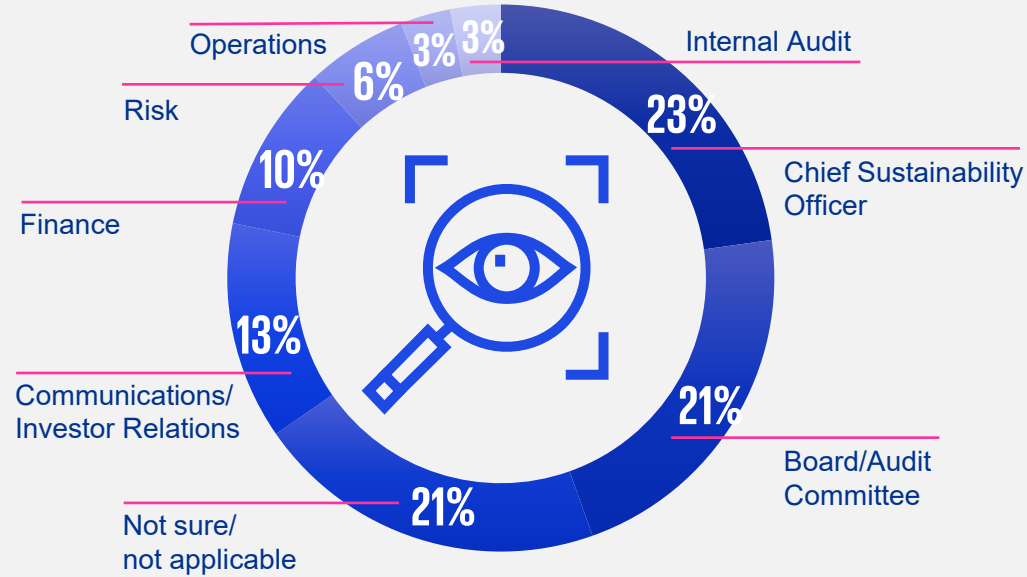
How established is your company on its ESG reporting strategy?



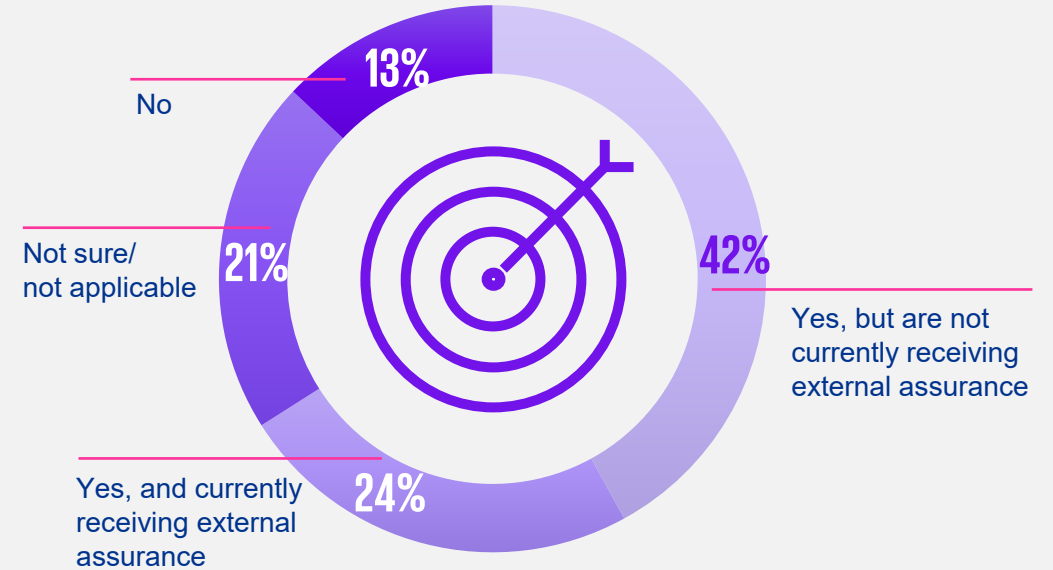
Source: KPMG survey on companies' ESG reporting efforts, <https://audit.kpmg.us/articles/2022/the-esg-journey-to-assurance.html>

The ESG reporting journey

What function has the greatest focus and input regarding your company's ESG reporting strategy?



Do you view external assurance as critical to the comparability, transparency, and accuracy of companies' ESG reporting efforts?



Source: KPMG survey on companies' ESG reporting efforts, <https://audit.kpmg.us/articles/2022/the-esg-journey-to-assurance.html>

The ESG regulatory landscape

IFRS Sustainability Disclosure Standards

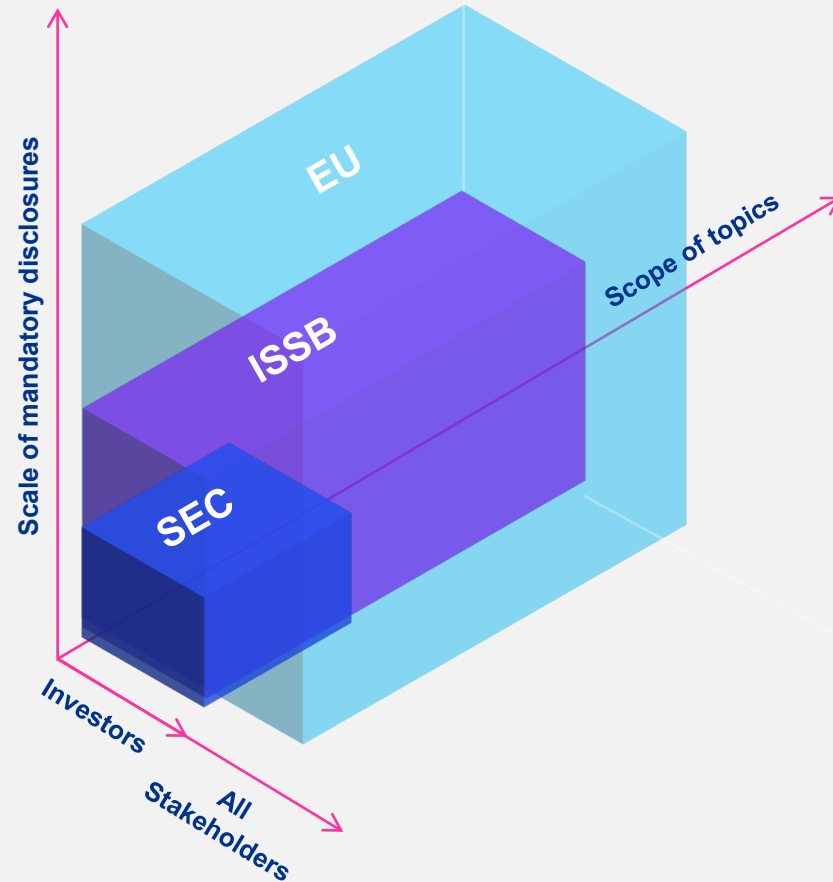
- Investor focus
- General principles, including proposed requirement to report across all significant sustainability-related risks and opportunities (not just climate)
- Climate standard (first topic-specific standard)
- Climate-first option in first year of reporting

European Sustainability Reporting Standards

- Multi-stakeholder focus, including investors
- Core principles for disclosure
- To date, granular requirements published for sustainability impacts, risks and opportunities

SEC climate proposal

- Investor focus
- Detailed requirements to report on climate only



California Bills signed

	SB-253	SB-261
Title	Climate Corporate Data Accountability Act	Greenhouse gases: climate-related financial risk
Scope	US companies > \$1B annual revenue doing business in California	US companies > \$500M annual revenue doing business in California
Reporting	Annual: Scopes 1, 2, 3 GHG emissions	Biennial: Report with climate-related financial risk and measures adopted to reduce and adapt to climate-related financial risk
Status	First reports in 2026 (2025 data)	First reports due by Jan 1, 2026
Assurance	<ul style="list-style-type: none"> • Scopes 1, 2: limited (2026); reasonable (2030) • Scope 3: TBD 	None proposed
Next steps	State Air Resources Board to work out operational details	

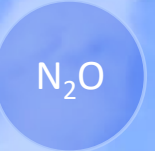
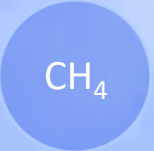
Polling question 1

How familiar are you with current and proposed ESG regulations?

A: Very familiar

B: Somewhat familiar

C: Not at all



INDIRECT

INDIRECT

DIRECT

INDIRECT

2

3

1

3



purchased electricity, steam, heating & cooling for own use



leased assets



organization owned facilities



employee commuting



organization owned vehicles



transportation & distribution



processing of sold products



use of sold products



end-of-life treatment of sold products



leased assets



franchises



investments

Scope 2: Indirect emissions created from the consumption of purchased or acquired electricity, steam, heating, and cooling

Scope 3: Indirect emissions created from activities up and down the value chain



purchased goods & services



capital goods



fuel-and-energy related activities



transportation & distribution



waste generated in operations



business travel

Scope 1: Direct emissions created from an organization's owned facilities and vehicles

UPSTREAM ACTIVITIES

REPORTING ORGANIZATION

DOWNSTREAM ACTIVITIES

Carbon neutral vs. net zero

	Carbon neutral	Net zero
Overview	<ul style="list-style-type: none"> — Business-as-usual — Purchase carbon reduction credits = emissions released — No emissions reduction taken place 	<ul style="list-style-type: none"> — Reduce emissions in line with a 1.5°C pathway — only residual emissions for which there is no available way to decarbonize, can be offset by carbon removal projects / credits
Scope	<ul style="list-style-type: none"> — Only relates to carbon dioxide — Direct emissions (scope 1 and 2) 	<ul style="list-style-type: none"> — All greenhouse gases — Direct and indirect emissions (Scope 1, 2 and 3)
Boundary	<ul style="list-style-type: none"> — Can refer to a specific product or service, or the whole organization 	<ul style="list-style-type: none"> — Must encompass the whole organization
Types of offsets	<ul style="list-style-type: none"> — Carbon reduction projects which reduce the amount of CO2 released into the atmosphere — E.g. solar and wind projects 	<ul style="list-style-type: none"> — Carbon removal projects which take CO2 out of the atmosphere — E.g., restoring forests, air capture/storage technology
Applicable standard	<ul style="list-style-type: none"> — PAS 2060 	<ul style="list-style-type: none"> — Science-Based Targets Initiative

Green, social, sustainability and sustainability-linked bonds

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

Green Bond

The issuer publicly states it is raising capital to fund “green” projects, assets or business activities with an environmental benefit, and which are aligned with the four core components of the Green Bond Principles (GBP) ¹.



Social Bond

The proceeds will be exclusively applied to finance eligible social projects which are aligned with the four core components of the Social Bond Principles (SBP) ².

Sustainability Bond

The proceeds will be exclusively applied to finance a combination of both green and social projects ³.



Sustainability-Linked Bond

The financial and/or structural characteristics can vary depending on whether the issuer achieves predefined sustainability/ ESG objectives. SLBs are forward-looking performance-based instruments ⁴.

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

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

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

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

Polling question 2

How frequently does your board, or Audit Committee, discuss ESG?

A: Often

B: On occasion

C: Never

Polling question 3

Who is responsible for ESG reporting at your Organization?

A: Chief Sustainability Officer

B: Provost

C: Chief Financial Officer or Chief Accounting Officer

D: Office of General Counsel

E: Other

F: Unsure

How to get started

Key elements of an ESG program



● Communications

Support institution-wide buy-in by clearly communicating goals, expectations and achievements before, during and after the implementation of a new given framework

Support external communication of organization's ESG strategy to investors, customers, and suppliers

● Strategy

Provide the basis for effective implementation of given framework; establish guidelines for mission and vision, define objectives, and set the tone of new ESG framework

● Organizational structure

Identify and define key components of the ESG framework, assessment of existing skillsets, and clear definition of key roles and responsibilities

● Reporting

Identify and define key components of the ESG framework, assessment of existing skillsets, and clear definition of key roles and responsibilities

● Process

Implement appropriate processes within the organization's structure; operationalize strategic plan; map in detail process flows to help ensure programmatic goals align with organization's mission

● Governance

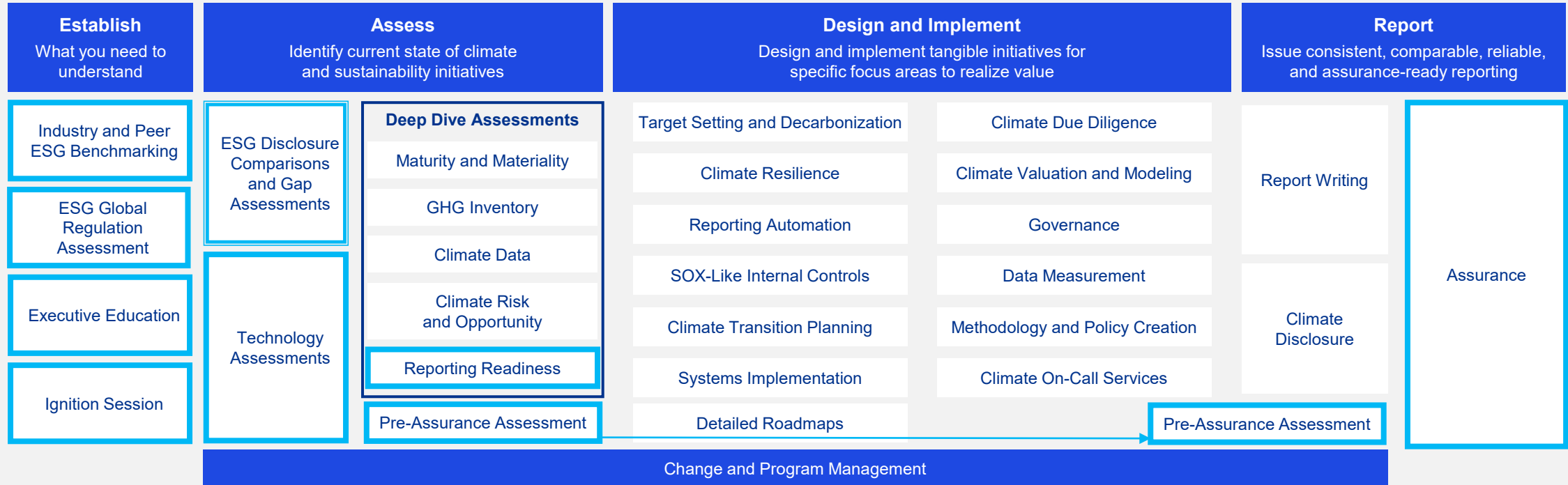
Define governance model, internal controls, and role of the board

The ESG reporting journey



ESG Reporting Journey

(largely impermissible for audit clients)



Key Drivers

Stakeholder Opinion

Shareholders, customers, employees, and other stakeholders linking climate to risk management, value creation, and brand reputation

Access to Capital

Investors incorporating climate into investment decisions and more companies utilizing sustainability-linked loans

Regulations

Regulations either in place or under consideration to mandate climate reporting

Permissible audit client services*

*Prior to engagement, ESG services must be evaluated for permissibility under the applicable independence framework. Restrictions may apply.



Common challenges and pain points in ESG reporting

Stakeholders want more transparency on ESG risks, but lack of standards makes interpretation of data challenging



Unclear roles and responsibilities, resulting in lack of accountability



Inability to identify ESG risks and gather relevant and reliable data



Decentralized or distributed ESG-related activities and data complicate comprehensive measurements and strategy



Lack of short, medium and long-term actions and metrics supporting Net Zero commitments



Inability to develop and monitor enterprise-wide metrics, as well as lack of relevant benchmarks



Lack of documentation of data lineage and controls over data gathering, maintenance and reporting



Achievement of Net Zero relies on offsets rather than absolute reductions



Polling question 4

What do you believe is your organization's most significant challenge in ESG reporting?

- A: Unclear roles and responsibilities, resulting in lack of accountability
- B: Decentralized or distributed ESG-related activities and data complicate comprehensive measurements and strategy
- C: Inability to identify ESG risks and gather relevant and reliable data
- D: Other

Understanding assurance (U.S.)

	Level of assurance	Sample assurance procedures	Attestation standard
Applied to all attestation engagements	Applicable to all limited or reasonable assurance engagements	<ul style="list-style-type: none"> Determine pre-conditions exist 	AT-C Section 105 Concepts common to all attestation engagements
Review	Limited assurance about whether any <u>material modifications</u> should be made to the subject matter in order for it to be in accordance with the criteria	<ul style="list-style-type: none"> Obtain basic understanding of the business and reporting process Perform risk assessment to identify areas of focus Perform inquiry and analytics Testing of controls is not required 	AT-C Section 210 Review Engagements
Examination	Reasonable assurance about whether the subject matter as measured or evaluated against the criteria is <u>free from material misstatement</u>	<ul style="list-style-type: none"> Obtain understanding of the internal control and assess fraud risk Test records, including inspection of source documents May test company's controls in order to reduce extent of test of details 	AT-C Section 205 Assertion-Based Examination Engagements
Controls	Reasonable assurance over whether internal controls evaluated against a suitable control framework are <u>free from material misstatement</u>	<ul style="list-style-type: none"> Obtain understanding of company's internal control and assess fraud risk Test design and implementation of controls Test operating effectiveness of controls 	AT-C Section 205 Assertion-Based Examination Engagements

Why assurance over your ESG-related disclosures is beneficial

01

Reliability

Critical for external disclosures

Pertinent for making internal/operational decisions

02

Perspective

Provides independent perspective and confidence

03

Lower cost of capital

Certain lenders or rating agencies may provide incentives

04

Cost of doing business

Certain organizations are demanding their suppliers to provide relevant ESG-related information

Scope of assurance

Scope references what *subject matter or assertion* is being assured. The most common scopes of assurance today are:

Scope 1, 2, and 3 greenhouse gas emissions

- Most commonly assured data points today
- Most likely for regulators to require assurance
- Prepared in accordance with the GHG Protocol, which is a generally accepted standard
- Will be required to be performed in accordance with Reg S-K once the Final SEC Climate Rule is passed

Key Performance Indicators (KPIs)

- KPIs are aligned with company developed goals and are often associated with sustainability-linked bonds or management compensation
- Goals may be stated as assertions rather than metrics, i.e., “We have achieved gender pay parity.”
- May be required by financial institutions

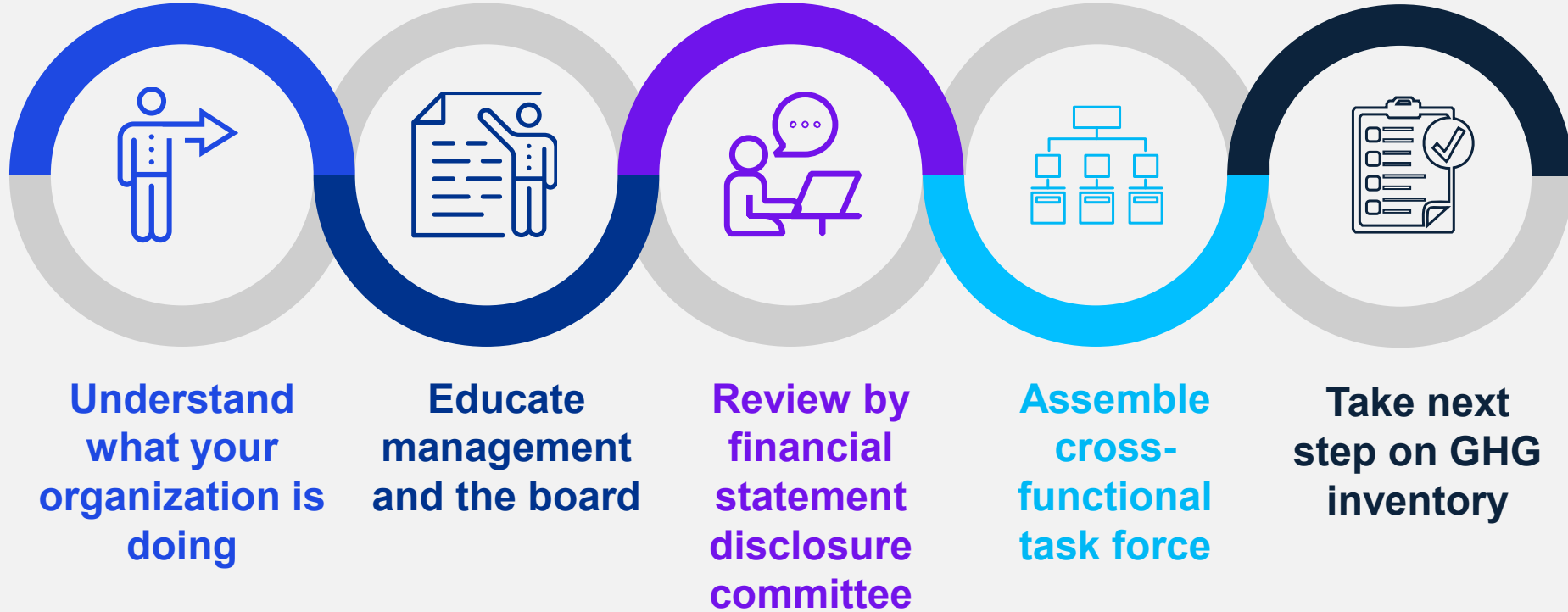
Use of proceeds

- Green, social and sustainability bonds following the ICMA Principles must commit to using the proceeds of the bond for green, social or sustainable activities, often referred to as “Eligible Projects”
- Eligible Projects must be defined by management

Reporting in accordance with SASB

- Significant rise in SASB reporting and heavy focus of investors
- SASB metrics must be prepared in accordance with the relevant SASB industry standard, including reason for omissions of information where applicable

'No regrets' moves



Questions?

ESG resources



LATEST GUIDANCE!

Handbook and Executive Summary

Explains how the measurement of reporting of GHG emissions through the lens of the Greenhouse Gas Protocol.

Read [here](#) >



Environmental, Social and Governance reporting

KPMG guidance and articles for financial reporting professionals



Comparing sustainability reporting requirements

Comparing requirements from the ISSB, EU and US

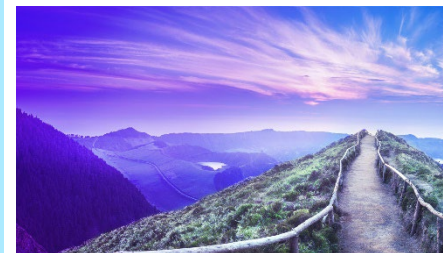
[Read now >](#)



Latest: Impact of EU ESG reporting on US companies

Latest: Impact of EU ESG reporting on US companies.

[Read now >](#)



Impact of EU supply chain laws on US companies

A German supply chain due diligence act is already effective, with an EU-wide directive set to follow.

[Read now >](#)



International ESG reporting: ISSB and ESRs

KPMG professionals take a look at international ESG disclosures requirements that are likely to impact many US companies.

[Register >](#)



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