KPMG

Moving climate reporting from words to action

November 2023

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Contents

Executive summary

In recent years, there has been a marked increase in the attention of regulators, investors and consumers on how companies report on and mitigate climate-related risks.

While climate reporting is becoming more widespread and net zero targets are on the rise, there is still a significant gap in the implementation of comprehensive and integrated approaches. For instance, Australia still needs to reduce total emissions by 32 percent or 137 Mt CO_2-e to meet our 2030 target – but current projections put us on track to achieve only a 17 percent reduction.[1] According to Climateworks Centre study of ASX200 company climate commitments, only 23 of Australia's largest companies have set net zero emission plans which are aligned with the 1.5°C goal of the Paris Agreement. But unless more company targets are brought forward, including *scope 3*, and support short and medium targets and action, the current ASX200 emissions will not meet the level of demand by science and investors.[2] In fact KPMG's recent 2023 CEO outlook showed, despite the rising focus on ESG in recent years, a large majority (80 percent) of Australian CEOs admitted that their current Environmental, Social and Governance (ESG) progress was not strong enough to withstand the potential scrutiny of stakeholders or shareholders.[3]

The challenge for companies in their disclosures is twofold: genuinely demonstrating mitigation of climate risks within their organisation, but also clearly outlining their contribution to aligning with the Paris-aligned climate accord. To assist them, KPMG has devised a Climate Reporting Excellence approach, with recommendations for enhancing companies' reporting.

What is Climate Reporting Excellence?

Climate Reporting Excellence represents a set of disclosures that clearly demonstrate to stakeholders that an organisation is managing its material, transitional and physical climate risks across its operations and value chain, in line with the Paris Agreement. This would involve an organisation fully considering the impact of climate change within their business model, capital allocation and revenue (e.g. full integration of climate within financial statements).

The suggested approach involves diligent efforts to mitigate the impacts of climate change, reduce greenhouse gas emissions, and promote climate risk mitigation across various sectors. The seamless integration of climate considerations into business strategies exemplifies maturity in climate reporting.

We completed a four-stage approach that includes in-depth research, consultation with internal KPMG specialists, stakeholder engagement and synthesis and refinement. Refer to page 9 for a further overview of our methodology.

The outcomes of our research identified previously overlooked or inadequately addressed aspects of climate reporting that are pivotal to mitigating the threat of climate change. A set of nine Climate Excellence Reporting Criteria, grouped by four principles, were identified. A more detailed version of our criteria against each four principles is on pages 10-15.

Principle 1: Uplifting corporate climate initiatives

Principle 2: Considers the full range of climate change impacts

Principle 3: Shows money speaks

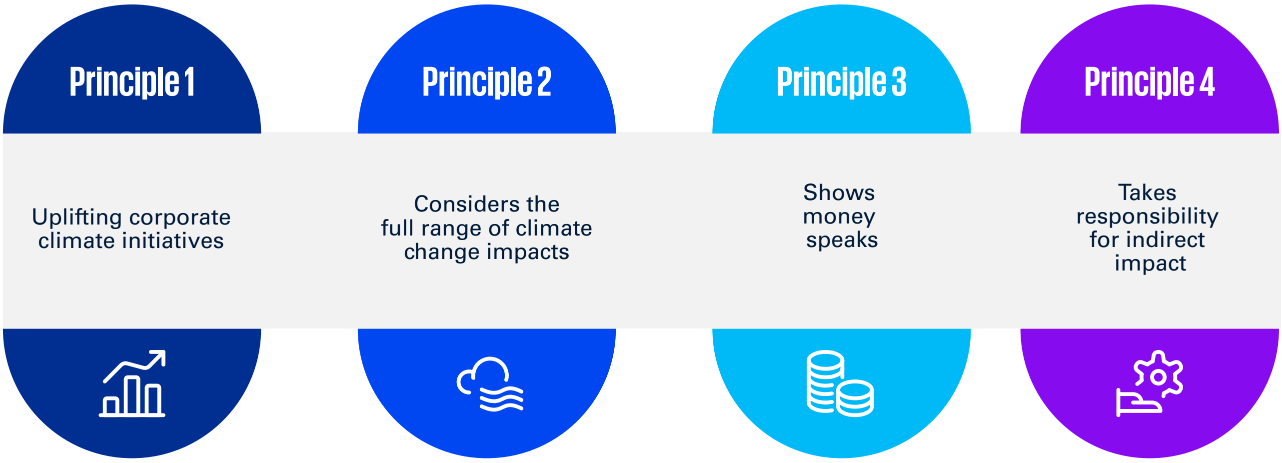
Principle 4: Takes responsibility for indirect impact

1 https://ccpi.org/

2 Climateworks Centre, Study of ASX200 finds 44% increase this year in Australian companies setting long term 1.5°C climate targets [Press Release] 5 December 2022.

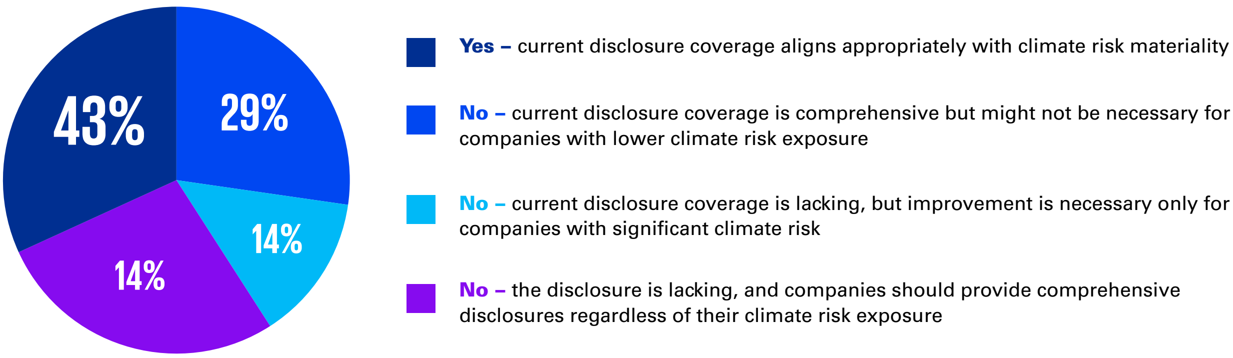
3 KPMG Australia, KPMG 2023 Global CEO Outlook, 2023.

FIGURE 1: THE FOUR PRINCIPLES OF CLIMATE EXCELLENCE REPORTING IDENTIFIED THROUGH OUR RESEARCH



To enhance our evidentiary foundation and delve deeper into the complexities by drawing from real-life examples and individual perspectives, we engaged with additional external stakeholders from various industries who all engaged in various aspects of climate and sustainability to gather industry insights. Stakeholders were intentionally selected from a variety of perspectives including academics, activists, ESG reporting experts, and ESG specialists.

FIGURE 2: WE FOUND THAT APPROXIMATELY HALF OF OUR ENGAGED EXTERNAL STAKEHOLDERS BELIEVE THAT CURRENT COVERAGE OF CLIMATE-RELATED DISCLOSURES IS NOT COMPREHENSIVE ENOUGH



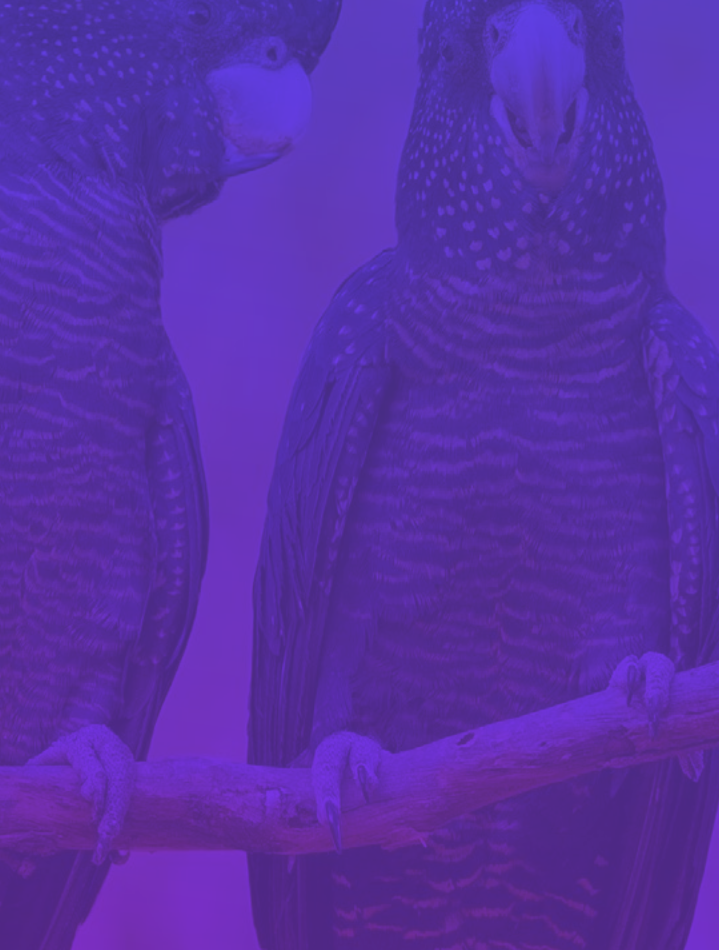
Stakeholders considered these as the most important elements to exhibit effective climate disclosure. Stakeholders considered the top four reporting elements to be:

1. Outlining disclosures on capital allocation related to climate
2. Outlining climate risk throughout their supply chain (i.e. material emission sources)
3. Complying with emerging climate reporting regulations and frameworks
4. Linking executive remuneration to climate targets and progress made

Overall, further developing your climate reporting disclosures would not only meet stakeholders' and investors' expectations but also strengthen the public's trust in knowing you are taking genuine action to tackle the issue of climate change. Engaging with KPMG to enhance your climate reporting disclosures is a strategic move that can strengthen your relationship with investors and stakeholders, with studies finding that better voluntary disclosures and outcomes lead to higher value.[4]

[4] Shan Zhou, Reporting and Assurance of Climate-Related and Other Sustainability Information: A Review of Research and Practice. *Australian Accounting Review 32*(3), 26 September 2022.

In an era where environmental concerns and sustainability have assumed a prominent role, the need for comprehensive and effective climate reporting is imperative to demonstrate to stakeholders that organisations are genuinely tackling climate issues.



Introduction

The adverse consequences of climate change are becoming increasingly detrimental to human and natural systems. Notably, the surge of global temperatures has led to diminishing sea ice and an increase in drought and wildfires.[5] The Paris Agreement, which became effective in 2016, united global governments in their commitment to restrict the rise in global average temperature to well below 2°C and pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels.[6]

Since 2018, the Intergovernmental Panel on Climate Change (IPCC) has sounded the alarm that global warming must not exceed the amounts agreed at Paris but, the latest State of Climate Action report suggests that the progress required to reach these targets is falling short.[7] Of the 40 indicators tracking systemic transformations, none are on track to reach their 2030 targets.[8]

Australia

Despite many Australian companies now fully disclosing net zero commitments, accompanying transition plans lack quantification or capital allocation to feasibly align with 1.5°C pathways.[9]

Alongside the ascent of net zero targets, climate reporting continues to become more commonplace. A 2022 study by KPMG reported that almost all G250 companies and three quarters of N100 companies report on sustainability. Yet, current temperature projections exceed the targets of the Paris Agreement. Consequently, we must pose the question: If climate change targets are not on track to be met, how valuable are current climate disclosures, and what bridges the gap between reporting and creating tangible impact?[10,11,12]

5 NASA, The effects of Climate Change.

6 United Nations, The Paris Agreement.

7 Systems Change Lab, State of climate action 2022 [PDF] Version 1.4. June 2023.

8 Ibid.

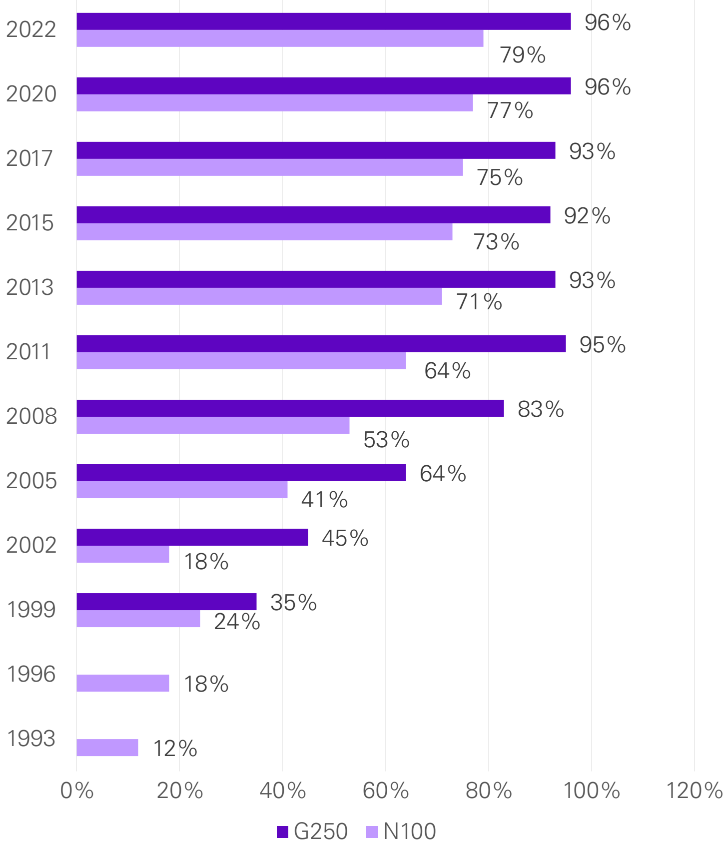
9 Climate Action 100, latest net zero company benchmark results show slow progress for Australian focus companies, 27 September 2023.

10 KPMG International, Big shifts, small steps, Survey of Sustainability Reporting [PDF] October 2022.

11 The G250 refers to the world's 250 largest companies by revenue based on the Fortune 500 ranking.

12 N100 refers to a worldwide sample of the top 100 countries by revenue in 58 countries, territories and jurisdictions.

FIGURE 3: GLOBAL SUSTAINABILITY REPORTING RATES (1993-2022)



Base: 5,800 N100 companies and G250 companies[14]
Source: KPMG Survey of Sustainability Reporting 2022, KPMG International, September 2022

When companies genuinely commit to making meaningful impacts in their reports, it goes beyond just paperwork. It demonstrates clear actions to mitigate impacts of climate risks. This not only fulfills reporting requirements but also conveys genuine progress and accountability.

Research indicates that organisations that employ more participatory, collaborative, and partnership-driven strategies (such as initiatives, working groups, committees, etc.) garner heightened stakeholder engagement, casting a wider net that encompasses stakeholders like the community, government and NGOs. This is opposed to informative strategies (dissemination through reporting and media disclosures) and consultation, which primarily target employees, shareholders, and customers[13].

What is considered as leading practice in reporting is organisations who go beyond compliance and deliver high levels of detail that ensure they are clearly identifying climate challenges in time to course correct effectively and transparently, conveying impacts and progress to stakeholders. This evolution is discernible with the recent introduction of the International Sustainability Standards Board (ISSB) reporting disclosures; International Financial Reporting Standards (IFRS) S1 and S2.[15] The ISSB was formed with the objective to provide a standardised, transparent foundation for sustainability reporting, with S2 focusing on climate risk reporting. The disclosures required for S2 aim to address the climate-related disclosure needs of investors by enabling organisations to better communicate their climate data to the global capital markets.[16]

Increased transparency and disclosure are crucial within climate reporting, but is that enough to provide comfort to stakeholders and capital markets that actions are sufficient to address climate change and maximise the chance of heading towards a 1.5°C scenario? Effective climate reporting goes beyond mere compliance with regulations; it attains its zenith when companies take substantive measures to mitigate the impacts of climate change. Truly impactful reporting necessitates actions beyond standard measures, with organisations embarking on initiatives that benefit socio-ecological systems, such as significantly reducing electricity and fuel consumption or safeguarding natural resources. Through the research and engaging with numerous stakeholders from ESG reporters to academics, four principles have been identified that can guide organisations to push their reporting beyond compliance. Furthermore, for Australian companies, the translation of the ISSB into regulation has continued to maintain momentum across 2023 through the development of the Australian Sustainability Reporting Standards that will provide the framework for mandatory climate disclosures domestically.

[13] Stocker, F., de Arruda, M. P., de Mascena, K. M. C., & Boaventura, J. M. G. Stakeholder engagement in sustainability reporting: A classification model. Corporate Social Responsibility and Environmental Management, 27(5), 13 April 2020.

[14] The G250 refers to the world's 250 largest companies by revenue based on the Fortune 500 ranking.

[15] IFRS, ISSB issues inaugural global sustainability disclosure standards, 26 June 2023.

[16] IFRS, International Sustainability Standards Board.

"According to Climateworks Centre study of ASX200 company climate commitments, only 23 of Australia's largest companies have set net zero emission plans which are aligned with the 1.5°C goal of the Paris Agreement"

Methodology

The report adopted a four-stage approach:

1. In-depth research: Our initial step involved extensive desk-based research to gain insights into Australia's climate reporting landscape and where improvements are needed. The outcome of this phase was the formulation of a preliminary set of Climate Reporting Excellence Criteria. This involved an in-depth review of peer-reviewed literature, publications, reports and media releases to gain deeper insights into Australia's current climate reporting landscape. Through this research, the team focused on identifying previously overlooked or inadequately addressed aspects that are pivotal to efforts of mitigating the threat of climate change. These gaps served as the basis for our draft Climate Reporting Excellence Criteria, aimed at highlighting the shortcomings present in current climate reporting, and aiming to bring about meaningful change and effective mitigation of climate change itself.

2. Consultation with internal KPMG specialists: Next, we engaged in collaborative planning workshops with internal specialists. These workshops served as forums for refining our draft criteria and these consultations gave us a further understanding of existing reporting dynamics. By bringing together the insights gathered during the research phase with the insight of our internal specialists, we refined the criteria to align with the evolving reporting landscape.

3. Stakeholder engagement: Recognising the significance of external perspectives, the team conducted external stakeholder engagement with various sustainability experts from different industries. Our stakeholders encompassed diverse backgrounds, including academia, activism, ESG reporting expertise, and ESG specialisation. Through this engagement, we sought to understand what stakeholders valued in climate reporting and the challenges they faced in achieving reporting excellence.

4. Synthesis and refinement: We used the information from our research and the feedback we received from stakeholders to create the final Climate Reporting Excellence Criteria. We then conducted an in-depth analysis of exemplary practices across varying maturity levels through the examination of relevant case studies.

FIGURE 4: KPMG CLIMATE EXCELLENCE REPORTING CRITERIA

This section outlines the KPMG Climate Excellence Reporting Criteria, which is based on the four key principles identified from our research.

Principle 1: Uplifting corporate climate initiatives

Criteria 1: Complies with emerging climate reporting regulations and frameworks

Emerging climate reporting regulations, such as the ISSB reporting disclosures; IFRS S2, acknowledge that compliance with existing frameworks forms the foundation of good climate reporting. However, these frameworks should serve as a starting point, rather than the final destination.

While there has been an increase in climate risk disclosures and emissions reduction targets set, they remain largely voluntary, resulting in inconsistent quality, and incomprehensive alignment with the Task Force on Climate-related Disclosures' (TCFD) recommendations.[17] While some jurisdictions enforce mandatory disclosures, coverage still remains insufficient.[18]

In order to demonstrate this criterion, organisations should:

a. Acknowledge the importance of climate reporting frameworks and show commitment to alignment with reporting guidelines.

b. Adopt and align voluntary climate reporting with sector-specific standards (i.e. TCFD frameworks, ISSB standards, Carbon Disclosure Project (CDP), Australian Sustainability Reporting Standards).

c. Integrate climate data into annual financial reports to align with upcoming climate-related financial disclosure requirements in Australia's mandatory climate reporting regime.[19]

[17] TCDF, Task Force on Climate-related Financial Disclosures 2022 Status Report [PDF], October 2022.

[18] Ibid.

[19] Australian Government, The Treasury, Climate-related financial disclosure: Second consultation [Consultation paper] 27 June 2023 - 21 July 2023.

Principle 2: Considers the full range of climate change impacts

Criteria 2: Stays ahead of market trends and climate science

The challenges of climate change are not uniform across industries, and creating genuine impact requires companies to sincerely engage with the major issues in their sector. Acknowledging the broad challenges that come with tackling climate change risks (e.g. decarbonisation strategies and effective mitigation), it would be most effective for companies to develop a contextual understanding of their sector's role in climate change. This understanding goes beyond acknowledging climate change as a global issue; it recognises the sector's specific contributions and responsibilities.

Demonstrating willingness to understand their negative impacts and role in difficult issues enables companies to embrace transparency and take meaningful action.

In order to demonstrate this criterion, organisations should:

a. Keep updated with developments on the impacts of climate change in their sector with industry reports, research, and publications from other respected institutions, sharing relevant findings with stakeholders to demonstrate industry awareness.

b. Offer training and workshops to employees to enhance their understanding of sector-specific climate challenges and potential solutions.

c. Demonstrate engagement in genuine issues in the sector, including initiatives by organisations that are informed, meaningful, and backed by a broader commitment to tackling climate issues. For example, initiatives could include capital allocation to tackle climate issues, climate due diligence or climate risk assessment. Refer to How we can help on page 19 to see other examples of climate initiatives.

d. Confront and combat greenwashing and greenhushing by ensuring that there is substance behind climate communication and disclosures.

Criteria 3: Drive a just transition

Extensive research highlights that climate change disproportionately affects the most vulnerable socio-economic segments of our society. The poorest and most vulnerable people will face the worst consequences of climate change through increased exposure to extreme weather events, as well as health, food, and water security challenges, despite having contributed to global emissions the least.[20] Due to a limited access to resources, services and decision-making power, marginalised groups include female-headed households, those with disabilities, ethnic minorities, migrant workers, children, sexual and gender minorities, and Indigenous communities.

A just transition refers to a comprehensive and equitable shift from an existing system or industry, often one reliant on fossil fuels or environmentally harmful practices, to a more sustainable and environmentally friendly alternative. Therefore, it is crucial for companies to prioritise the wellbeing of workers, communities, and vulnerable populations affected by this transition by ensuring they have access to retraining, job opportunities, and social support.

In order to demonstrate this criterion, organisations should:

a. Undertake open, inclusive dialogue between workers, communities, and other stakeholders to ensure that diverse perspectives are considered in the company's key decision-making processes to address climate change.
b. Implement resilience mechanisms, such as climate impact assessments, ongoing tracking, and monitoring procedures, to advance fair and equitable outcomes for all parties engaged in the company's value chain with a strong emphasis on addressing climate-related challenges.
c. Provide retraining and reskilling opportunities to workers, offering job placement assistance, and facilitating a smooth transition to new employment where transitions occur while upholding labour standards, and respecting workers' rights to organise and bargain collectively.
d. Invest in community development initiatives and minimise negative impacts of the transition on communities, particularly in areas heavily reliant on the company's operation undergoing transformation.
e. Engage with First Nations people and Traditional Owners to ensure climate-positive projects don't negatively impact cultural heritage.

Criteria 4: Nature and biodiversity

Climate change has profound impacts on nature and biodiversity. It has altered marine, terrestrial, and freshwater ecosystems around the world. It has caused the loss of local species, increased diseases, and driven mass mortality of plants and animals, resulting in the first climate-driven extinctions.[21] Over 50 percent of global GDP is moderately to highly dependent on nature, with over 2.1 billion jobs relying on ecosystem sustainability, and would consequently lead to the risk of nature loss that has the potential to significantly disrupt society.[22] In 2023, biodiversity loss and ecosystem collapse has been ranked by the World Economic Forum (WEF) as the fourth most severe global risk over the next 10 years.[23]

It is essential for companies to proactively disclose and actively address their impact on nature and biodiversity, given the profound interdependence between these natural systems and human wellbeing. Additionally, it's crucial to acknowledge that companies have significant impacts and dependencies on natural resources, through their supply chains, production processes, and essential raw materials. Companies should clearly disclose how they are supporting nature and biodiversity, while mitigating their negative impacts through nature-based solutions or nature climate solutions that aim to reduce greenhouse gas emissions and safeguard natural ecosystems.

In order to demonstrate this criterion, organisations should:

a. Identify and disclose impacts and dependencies on biodiversity and ecosystems in line with leading practice, for example the Taskforce for Nature-Related Financial Disclosure's (TNFD) LEAP approach, including risks associated with operations, supply chains, and products/services.[24]
b. Disclose nature-related risk management approach, for example implementing conservation and restoration efforts along the value chain, environmental management practices and sustainable land/resource management.
c. Set and report progress towards biodiversity and ecosystem impact mitigation goals, with transparent disclosure.
d. Integrate nature-related disclosures, including methodologies and assumptions, into financial reporting following guidance from standards and frameworks (e.g. TNFD, Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB).

20 The World Bank, Social Dimensions of Climate Change.
21 United Nations, Biodiversity - our strongest natural defense against climate change.
22 Climate Disclosure Standards Board, CDSB Framework, Application guidance for biodiversity-related disclosures [PDF] November 2021.
23 World Economic Forum, The Global Risks Report 2023, 18th Edition, Insight Report [PDF] January 2023.
24 Taskforce on Nature-related Financial Disclosures, Guidance on the identification and assessment of nature related issues: The leap approach version 1 [PDF] September 2023.

“Extensive research highlights that climate change disproportionately affects the most vulnerable socio-economic segments of our society.”

Principle 3: Shows money speaks

Criteria 5: Capital Allocation

At present, there is a noticeable gap between the emission reduction targets set by organisations and the corresponding financial commitment that is necessary to achieve their objectives. Disclosures should clearly communicate the level of financial commitment required to reach these targets and serve as a transparent means for organisations to hold themselves accountable for their actions in relation to these commitments.

In order to demonstrate this criterion, organisations should:

a. Incorporate specific criteria related to climate change when evaluating potential investments and allocation of capital.

b. Conduct a thorough impact assessment to evaluate the potential positive and negative environmental impacts of capital allocation decisions.

c. Allocate capital towards the development and advancement of climate-friendly technologies and solutions.

d. Disclose information about how capital allocation decisions align with climate objectives and contribute to sustainable outcomes.

e. Disclose the processes and outcomes of monitoring and reviewing the effectiveness and impact of investments to ensure alignment with climate objectives and identify opportunities for improvement.

Criteria 6: Executive remuneration

Linking executive remuneration to climate-related targets is crucial as it aligns leadership incentives with environmental goals, fostering responsible and sustainable corporate practices in the face of climate change.

Transparent disclosures should explicitly establish the connection between executive remuneration and climate-related risks, or alternatively, provide a comprehensive outline of the measures that will be undertaken to develop and demonstrate these targets. By ensuring a clear link between executive compensation and climate-related considerations, organisations can proactively address climate risks and capitalise on opportunities in a transparent manner that holds them accountable.

In order to demonstrate this criterion, organisations should:

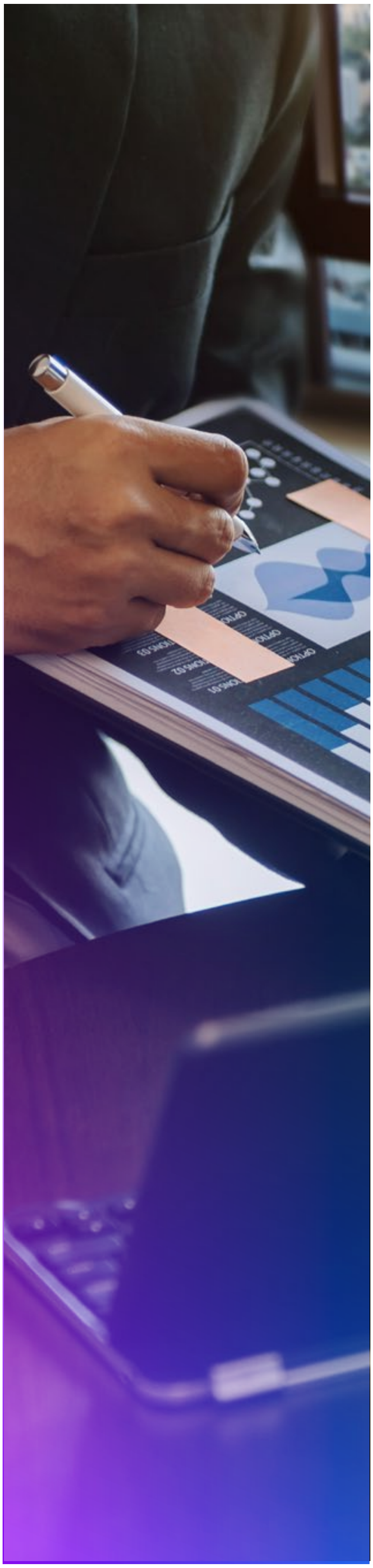
a. Ensure that executives are educated on climate change and are aware of its potential impact on the company and its operations.

b. Incorporate climate-related performance metrics, including emissions reduction targets, absolute emission reductions, energy efficiency enhancements, and successful renewable energy project implementation, into executive remuneration structures.

c. Publish annual reports that clearly communicate the extent to which executive compensation has been determined by the company's climate performance.

d. Conduct an annual benchmarking exercise against industry peers to ensure that executive compensation practices remain competitive while incentivising climate action.

e. Engage an independent third party to provide assurance on executive remuneration disclosure, ensuring its accuracy, completeness, and adherence to the reporting criteria to foster greater transparency and trust.



Principle 4: Takes responsibility for indirect impacts

Criteria 7: Supply chain

To effectively tackle climate risks, companies need to transparently communicate their strategy for managing physical and transitional risks throughout their supply chain and have a comprehensive understanding of where material carbon risks lie.

Engaging stakeholders, showcasing influence for positive change, and providing clear disclosure of climate risk management efforts and resources are crucial. By including these in their disclosures, companies can bolster credibility and showcase commitment to more holistically sustainable practices.

In order to demonstrate this criterion, organisations should:

a. Define the comprehensive value chain, including suppliers, manufacturers, and distributors, both domestically and internationally.

b. Engage with stakeholders, including workshops, capacity-building, communication, and collaboration to reduce emissions, optimise logistics, and manage climate risks.

c. Regularly assess climate risks, including across the value chain. Address physical and transition risks with adaptation and mitigation strategies.

d. Establish emissions reduction targets for suppliers, support their efforts, track progress with quantifiable metrics, and disclose supply chain emissions and climate risk management in annual sustainability and climate reports and public platforms.

Criteria 8: Paris-aligned lobbying

Active participation in legislative consultations, financial contributions to respected lobbying organisations, and membership in representative groups are increasingly critical for organisations to convey a meaningful message in the evolving field of climate risk management. Such engagement includes supporting policies that promote greenhouse gas emissions reduction, renewable energy adoption, energy efficiency, and climate resilience. Organisations disclosing their actions would solidify the credibility of their representatives, effectively communicate contributions to the goals of the Paris Agreement and demonstrate a meaningful commitment to addressing climate challenges.

In order to demonstrate this criterion, organisations should:

a. Consider becoming members of industry associations that actively advocate for policies and practices aligned with the Paris Agreement. These associations engage in lobbying efforts that promote climate-friendly policies, carbon pricing mechanisms, renewable energy adoption, and other measures to address climate change.

b. Collate a comprehensive list of their industry affiliations and assess their public policy positions and advocacy efforts in relation to the ambitions of the Paris Agreement.

Criteria 9: Carbon offsets

With concerns over the integrity and effectiveness of some carbon offset projects, it is critical for organisations to report their offset use transparently and accurately. By disclosing offset sources and methodologies that have been verified by respected third parties, organisations can better foster stakeholder trust, ensure compliance, and alleviate potential doubts over offset efficacy. Transparency allows for scrutiny, informed decision-making, and accountability, driving a more credible approach to carbon offset usage.

In order to demonstrate this criterion, organisations should:

a. Disclose the purchase and use of carbon offsets from a certified source, including detailed information about the project and the methodology used to calculate emission reductions.

b. Provide baseline emissions against which the offsets are measured and explain the methodology used to quantify emissions reductions, in alignment to accepted industry standards. The methodology ensures accurate measurement and reporting of the emissions reductions achieved through the offsetting activities.

c. Make disclosures that address the permanence of the offsets by describing projects' long-term commitments, including maintenance plans and monitoring activities. Disclosures would also identify potential risks of leakage and outline any steps taken to mitigate them, such as engagement with local communities and stakeholders.

d. Ensure that carbon offsets undergo independent verification and certification by a reputable third-party entity, with disclosure including certification reports to demonstrate compliance with rigorous standards, ensuring credibility, integrity, and an additional contribution to emissions reductions beyond typical scenarios.

Internal stakeholder engagement

The purpose of undertaking an internal stakeholder workshop was to obtain feedback on the draft principles developed within this report and to gather insights into their reflections on progress in the climate reporting space. The discussions raised concerns regarding the disparity between a company's external communications (e.g. climate disclosures) and their internal communications and actions (i.e. emission reductions). This disconnect highlighted the lack of accountability and responsibility within company's to deliver on their publicly disclosed objectives and targets.

The key principles from our stakeholder discussion were:

1. Uplifting corporate climate initiatives
2. Considers the full range of climate change impacts
3. Shows money speaks
4. Takes responsibility for indirect climate impacts

In general, participants reached a consensus that effective climate reporting should address the fundamental question of "Why do climate disclosures matter?" To answer this, we need to explain why the identified impacts are important for the company and outline the specific actions the company plans to take in response.

Furthermore, discussions revolved around the challenges of greenwashing and greenhushing, wherein companies either exaggerate their efforts to tackle climate change or curtail disclosures to mitigate the risk of being perceived as engaging in greenwashing. In the pursuit of exemplary reporting practices, the consensus was that well-established companies would have already laid the foundation to substantiate all their disclosure statements. Consequently, these concerns are less pronounced for highly proficient companies but could pose challenges for those companies still maturing their reporting practices.

External stakeholder engagement

Our objective was to gain deeper insights into what holds value in climate reporting and the challenges associated with achieving excellence in reporting. Stakeholders were intentionally selected from a wide spectrum of roles, including academia, activism, ESG reporting expertise, and ESG specialisation. They also came from a wide range of industries including universities, mining, financial services, defence and NGOs. We asked what these stakeholders deemed as exemplary climate reporting. During this phase, we developed a maturity assessment outlining the distinctions between initial stage reporting and mature reporting. This assessment helped us map how our refined criteria align with the different stages of reporting excellence.

Key highlights from stakeholder engagements

Stakeholders considered the most important elements to exhibit effective climate disclosure. The top 4 reporting elements were:

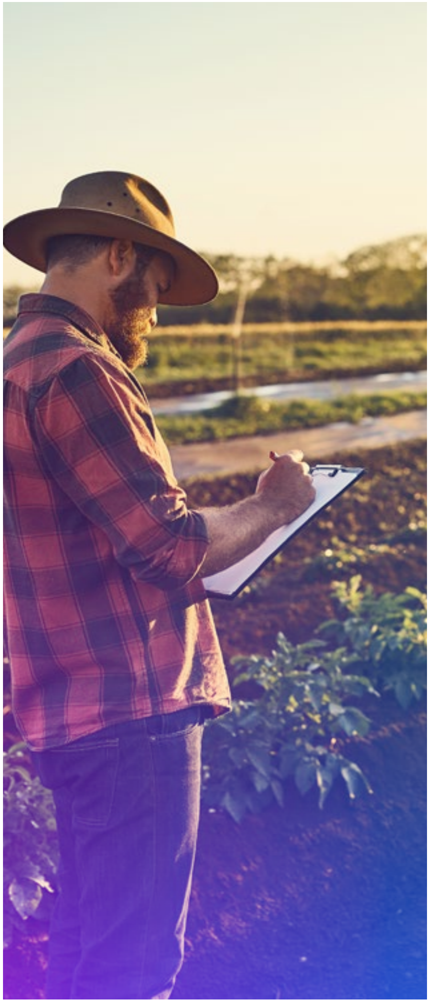
1. Outlining disclosures on capital allocation related to climate
2. Outlining climate risk throughout their supply chain (i.e. material emission sources)
3. Complying with emerging climate reporting regulations and frameworks
4. Linking executive remuneration to climate targets and progress

Other elements companies should also consider are:

– Disclosing the quality of carbon offsets used, and their role in a company's decarbonisation

– Describing how to engage with suppliers to support climate action

Most stakeholders engaged believe that aligning with TCFD reporting framework, having emission and climate targets, and disclosing the quality of carbon offsets should be within the start of an organisation's climate reporting journey. These are areas KPMG is very familiar with and can help your organisation set and build out a short-term strategy, if these elements are yet to be established within your company. Refer to the section 'How we can help'.



Conclusion

In summary, our research and stakeholders have stated those organisations deemed excellent in their climate reporting have demonstrated seamlessly integrated climate considerations into their business strategies, indicating a broader shift towards sustainable practises, systemic changes in global industries, and a heightened global awareness and commitment to address climate change.

Though there are not many examples of organisations that have demonstrated this in Australia, we have seen some companies taking the initiative to go beyond their reporting requirements to show genuine responses to the issue of climate change. Mature entities not only exhibit a robust understanding of the significance of climate change, but also implement tangible initiatives that effectively address the issue of climate change. With KPMG's extensive expertise and experience in the sustainability reporting realm, we have closely monitored and adapted to emerging regulations and frameworks, crafted robust strategies for numerous clients, and can offer assurance services to ensure your company not only meets but exceeds reporting standards, instilling trust, and confidence among your key audience.

How we can help

We offer a range of industry-leading solutions and services to help clients develop their climate reporting through assurance, strategy development and decarbonisation solution.

Principle 1: Uplifting corporate climate initiatives

Criteria 1: Emerging climate reporting regulations and frameworks

Australia and New Zealand Banking Group Limited (ANZ) engaged KPMG to perform a limited assurance engagement in relation to the ANZ 2023 Climate-related Financial Disclosures report. KPMG's scope of work comprised limited assurance over all material text and data claims in the ANZ 2023 Climate-related Financial Disclosures report and provided assurance the disclosures were prepared in accordance with the Financial Stability Board's Task Force on Climate-related Disclosures 2017 (TCFD) Framework and, where achievable, alignment to the TCFD 2021 Annexe and Net Zero Banking Alliance (NZBA). This assurance included testing over ANZ's new NZBA sector decarbonisation targets and a review of ANZ's disclosure gap analysis against the 2017 TCFD Framework, TCFD 2021 Annexe, NZBA and Glasgow Financial Alliance for Net Zero (GFANZ) requirements.

Principle 2: Considers the full range of climate change impacts

Criteria 2: Drive a just transition

KPMG was engaged by a global mining client to conduct a multi-site social impact assessment across its coal assets. We conducted a complex community consultation across multiple regions and communities, engaging over 80 stakeholders and using a range of social research methods. We analysed the socio-economic profile of communities and considered broader regional changes. Using a theory of change methodology, we assessed the effectiveness and impact of previous community investment projects and assessed alignment of future plans with the client's updated social impact strategy. This created a comprehensive base of social knowledge to inform planning and decision-making, including mine closure planning, and enabled the client to build a detailed understanding of the social impact of potential slowdown and closure of coal mining on the workers and communities associated with the mines.

Principle 3: Shows money speaks

Criteria 6; Executive remuneration

KPMG was engaged for an ASX listed company to provide an options paper to the board on climate metrics for long-term incentives (LTI) and short-term incentives (STI) which includes recommendations on climate metrics that can be attached to an executive remuneration scorecard, and how it can be structured to be developed to deliver on their climate strategy while considering its impact and effectiveness. This work involves research, landscape assessment and analysis, options and recommendations.

Principle 4: Takes responsibility for indirect impact

Criteria 7: Supply chain

KPMG was engaged by Essential Energy, a state government-owned energy distribution corporation responsible for a vast electricity network covering 95 percent of NSW and parts of southern Queensland. Their goal was to evaluate the climate change related threats to their distribution network, that serve over 885,000 homes and businesses. Ensuring a consistent power supply to communities and cities is contingent on protecting vital network infrastructure (i.e. poles, wires, cables, substations, and transformers) particularly in the face of increasingly frequent extreme weather events. KPMG used forecast modelling to evaluate how bushfires, floods, and windstorms might affect Essential Energy's network. This effort has empowered the energy distributor to enhance its visibility and management of climate risks, ensuring uninterrupted service in the future.

Appendix: Full description of KPMG Climate Excellence Reporting Criteria

PRINCIPLE	CLIMATE EXCELLENCE ELEMENT	CRITERIA
Principle 1: Uplifting corporate climate initiatives	**Criteria 1: Complies with emerging climate reporting regulations and frameworks**	Acknowledge the importance of climate reporting frameworks and show commitment to alignment with reporting guidelines.
		Adopt and align voluntary climate reporting with sector-specific standards (i.e. TCFD frameworks, ISSB standards, CDP, Australian Sustainability Reporting Standards).
		Integrate climate data into annual financial reports to align with upcoming climate-related financial disclosures requirements in Australia's mandatory climate reporting regime.

PRINCIPLE	CLIMATE EXCELLENCE ELEMENT	CRITERIA
Principle 2: Considers the full range of climate change impacts	**Criteria 2: Stay ahead of trends and climate science**	Keep updated with developments on the impacts of climate change in their sector with industry reports, research, and publications from other respected institutions, sharing relevant findings with stakeholders to demonstrate industry awareness.
		Offer training and workshops to employees to enhance their understanding of sector-specific climate challenges and potential solutions.
		Demonstrate engagement in genuine issues in the sector, including initiatives by organisations that are informed, meaningful, and backed by a broader commitment to tackling climate issues.
		Confront and combat greenwashing and greenhushing by ensuring that there is substance behind climate communication and disclosures.
	Criteria 3: Drive a just transition	Undertake open, inclusive dialogue between workers, communities, and other stakeholders to ensure that diverse perspectives are considered in the company's key decision-making processes to address climate change.
		Implement resilience mechanisms, such as climate impact assessments, ongoing tracking and monitoring procedures, to advance fair and equitable outcomes for all parties engaged in the company's value chain with a strong emphasis on addressing climate-related challenges.
		Provide retraining and reskilling opportunities to workers, offering job placement assistance, and facilitating a smooth transition to new employment where transitions occur while upholding labour standards, and respecting workers' rights to organise and bargain collectively.
		Invest in community development initiatives and minimise negative impacts of the transition on communities, particularly in areas heavily reliant on the company's operation undergoing transformation.
		Engage with First Nations people and Traditional Owners to ensure climate-positive projects don't negatively impact cultural heritage.
	Criteria 4: Nature and biodiversity	Identify and disclose impacts and dependencies on biodiversity and ecosystems in line with leading practice, for example the Taskforce for Nature-Related Financial Disclosure's (TNFD) LEAP approach, including risks associated with operations, supply chains, and products/services.
		Disclose nature-related risk management approach, for example implementing conservation and restoration efforts along the value chain, environmental management practices and sustainable land/resource management.
		Set and report progress towards biodiversity and ecosystem impact mitigation goals, with transparent disclosure.
		Integrate nature-related disclosures, including methodologies and assumptions, into financial reporting following guidance from standards and frameworks (e.g. TNFD, GRI, SASB).

PRINCIPLE	CLIMATE EXCELLENCE ELEMENT	CRITERIA
Principle 3: Shows money speaks	Criteria 5: Capital Allocation	Incorporate specific criteria related to climate change when evaluating potential investments and allocation of capital.
		Conduct a thorough impact assessment to evaluate the potential positive and negative environmental impacts of capital allocation decisions.
		Allocate capital towards the development and advancement of climate-friendly technologies and solutions.
		Disclose information about how capital allocation decisions align with climate objectives and contribute to sustainable outcomes.
		Disclose the processes and outcomes of monitoring and reviewing the effectiveness and impact of investments to ensure alignment with climate objectives and identify opportunities for improvement.
	Criteria 6: Executive remuneration	Ensure that executives are educated on climate change and are aware of its potential impact on the company and its operations.
		Incorporate climate-related performance metrics, including emissions reduction targets, absolute emission reductions, energy efficiency enhancements, and successful renewable energy project implementation, into executive remuneration structures.
		Publish annual reports that clearly communicate the extent to which executive compensation has been determined by the company's climate performance.
		Conduct an annual benchmarking exercise against industry peers to ensure that executive compensation practices remain competitive while incentivising climate action.
		Engage an independent third party to provide assurance on executive remuneration disclosure, ensuring its accuracy, completeness, and adherence to the reporting criteria to foster greater transparency and trust.

PRINCIPLE	CLIMATE EXCELLENCE ELEMENT	CRITERIA
Principle 4: Takes responsibility for indirect impacts	Criteria 7: Supply Chain	Define the comprehensive value chain, including suppliers, manufacturers, and distributors, both domestic and international.
		Engage with stakeholders, including workshops, capacity-building, communication, and collaboration to reduce emissions, optimise logistics, and manage climate risks.
		Regularly assess climate risks, including across value chain. Address physical and transition risks with adaptation and mitigation strategies.
		Establish emissions reduction targets for suppliers, support their efforts, track progress with quantifiable metrics, and disclose supply chain emissions and climate risk management in annual sustainability and climate reports and public platforms.
	Criteria 8: Paris-aligned lobbying	Companies may become members of industry associations that actively advocate for policies and practices aligned with the Paris Agreement. These associations engage in lobbying efforts that promote climate-friendly policies, carbon pricing mechanisms, renewable energy adoption, and other measures to address climate change.
		Collate a comprehensive list of their industry affiliations and assess their public policy positions and advocacy efforts in relation to the ambitions of the Paris Agreement.
	Criteria 9: Carbon offsets	Disclose the purchase and use of carbon offsets from a certified source, including detailed information about the project and the methodology used to calculate emission reductions.
		Provide baseline emissions against which the offsets are measured and explain the methodology used to quantify emissions reductions, in alignment to accepted industry standards. The methodology ensures accurate measurement and reporting of the emissions reductions achieved through the offsetting activities.
		Make disclosures that address the permanence of the offsets by describing projects' long-term commitments, including maintenance plans and monitoring activities. Disclosures would also identify potential risks of leakage and outline any steps taken to mitigate them, such as engagement with local communities and stakeholders.
		Ensure that carbon offsets undergo independent verification and certification by a reputable third-party entity, with disclosure including certification reports to demonstrate compliance with rigorous standards, ensuring credibility, integrity, and an additional contribution to emissions reductions beyond typical scenarios.

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