Corporate Controller & CAO Hot Topics

ESG Spotlight

Controllers and Chief Accounting Officers have been largely receptive to and generally support setting climate standards. But while broad backing exists for the standardization of climate considerations, the SEC's proposal, as it stands, raises a number of questions.

For example, financial impact metrics, reporting of Scope 3 greenhouse gas emissions and the regulations' effective date are just some of the issues that these leaders hope to address through continued engagement with the SEC. No matter what the final form of regulations looks like, Controllers and CAOs foresee increased documentation in their future and are preparing by reassessing their organizational structures, processes, and technology capabilities.[1]

Given how KPMG works with many leading companies across industries, we have unique insights on how this specific group is thinking about these changes, and how to move forward strategically and tactically in this new reporting area. Below are six categories that solution-oriented Controllers and CAOs are focused on as they push toward compliance, in addition to common courses of action we're seeing take shape in each area.

ESG Ownership and Responsibility

One way or another, Controllers and CAOs will shoulder a significant portion of the ownership and responsibilities for ESG reporting. Thus far, they are finding that for an overall ESG reporting structure to be effective, two layers need to be considered: 1) a defined strategy, which includes setting targets and goals and establishing metrics for stakeholders to track progress; and 2) a robust reporting process, where data and analytics are aggregated and conveyed to regulatory bodies and the broader public.

Historically, these two components have been a part of sustainability teams' responsibilities — but Finance's involvement has become critical with the proposed reporting regulations. Why? Because no other group has such relevant experience – in addition to SOX and other controls, finance has a firm grasp on data collection and understands how to run that process and turn the information into investor-grade data.

Implementation and Key Considerations

These leaders are uncertain about when the SEC's finalized ESG rules will be enacted, as a January 2023 effective date seems too soon for the government to sufficiently assess feedback and adjust its approaches, aside from any potential legal or political challenges. Despite this uncertainty, leading organizations are putting processes in place to meet compliance requirements, as consensus within the group indicates a high level of certainty that – specific details aside – more robust reporting standards will be forthcoming.

[1] Source: U.S. Securities and Exchange Commission – Public Input Welcomed on Climate Change Disclosures (March 15, 2021)

Additionally, concerns have arisen around defining "financially impactful climate events". For one thing, executives struggle to quantify what constitutes a climate-related incident. Separately, even though it's clear addressing the SEC's regulations will require the full dedication of all functions, some Controllers are still encountering internal disagreements about the importance of ESG, which can impede progress.

Structuring Teams and Governance

Structuring teams to prepare for the growing slate of ESG considerations is crucial — as is being mindful of the impact a different and/or increased workload might have on the capacities of affected employees. Leveraging contractors to maximize flexibility and efficiency in this kind of fluid environment is one solution this group has employed and may provide welcome assistance for some organizations.

Effective governance is also key to fostering a sense of ownership among site leaders, engineers, and other stakeholders. Some organizations are establishing cross-functional groups alongside identifying "ESG controllers" (a relatively new role) because of the focus on ESG, while incorporating expertise from internal control, legal and sustainability resources.

Process and Technology

In addition to establishing governance around ESG controllership, implementing new technologies can be helpful for standardization, completeness, and consistency. While no system is a silver bullet, many companies have found it helpful to implement ESG reporting-specific tools and technologies as part of a more comprehensive strategy to handle the corresponding data and reporting transformations. It is worth noting that while these tools can aggregate data on emissions and other environmental metrics for external reporting, they do require calibration in order to serve as the source of truth for audit-level ESG metrics.

Many existing processes for effective control involvement in sustainability reporting can be leveraged to introduce assurance readiness, with the integration of SOX-like processes through collaboration between an ESG controller (or an executive acting in that capacity) and divisional controllers.

Data Approaches

As more functions begin to utilize ESG metrics for various purposes, organizations may be collecting and communicating dozens of new metrics with varying degrees of rigor. When proceeding to strategic planning such as five-year financial forecasts and investments to meet objectives, ensuring the appropriate KPIs are made available to the right groups is essential.

ESG-specific roles in execution areas like general counsel and procurement, as well as in external reporting compliance, also provide integrated perspectives and a level of internal control that can help drive effectiveness with this increasing volume of ESG metrics.

Communications and Third-Party Input

With ESG reporting still in its infancy, some Controllers and CAOs can benefit from looking externally for trends, insights, and additional analysis. Some have partnered with outside organizations to gain a better perspective on broader structure, strategy, and process efficiency. Others have considered or leveraged gap assessments to identify issues from an operational perspective, re-baselining metrics and focus on key areas of improvement within existing reporting structures. Still other companies have used outside help to refresh risk-based control framework assessments upon finding ESG metrics and frameworks to be more qualitative than the SOX controls they are accustomed to, or upon realizing the limited utility of gap assessments as deliverables remain elusive even months after receiving their results.

Looking ahead: Some “no regrets” moves

Next steps for companies will vary depending on how mature they are in the ESG space. While the SEC has not issued a final rule, there are steps that companies can consider now that could pay dividends regardless of how any final regulation takes shape:

- Assess any ESG climate-related reporting and associated commitments your company has made.

- Keep management and the board updated on the evolving reporting requirements, especially the extensive and complex international regulatory landscape.

- Assemble a working group that will be responsible for reporting, establishing clear roles and responsibilities based on individual’s skills and experiences.

- Calculate your Scope 1 and 2 greenhouse gas emissions and get them assured by a third-party.

Yes, the ESG reporting roadmap is still filled with uncertainty, but one way or another Controllers and CAOs will be in the thick of it. With the right foresight, strategy, planning and structure, companies will not only survive but thrive.

For more information on ESG Reporting:

Environmental, Social and Governance (ESG) reporting (kpmg.us)

Environmental, Social and Governance for financial reporting professionals

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