



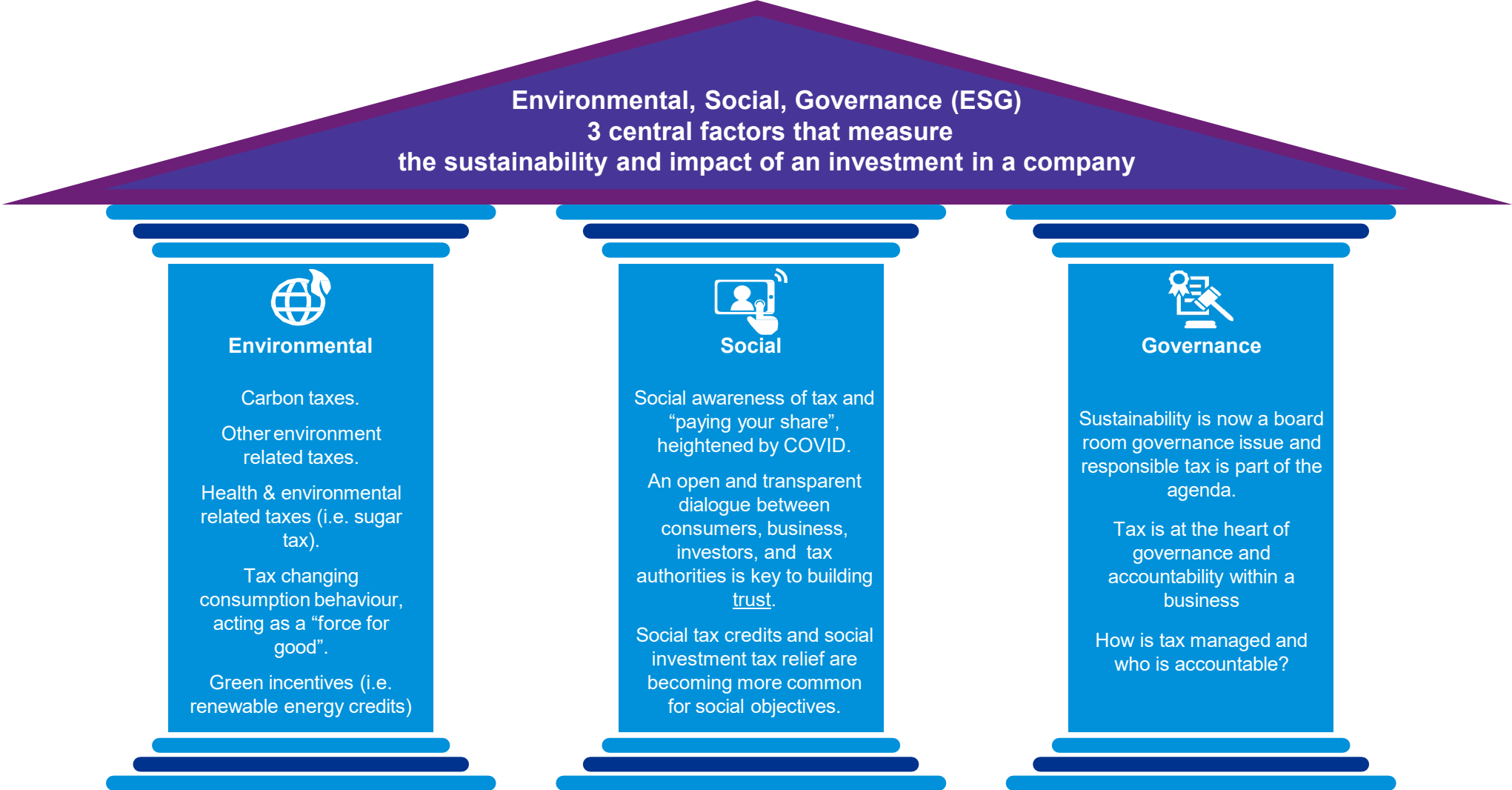
ESG and Tax

Hedge Funds

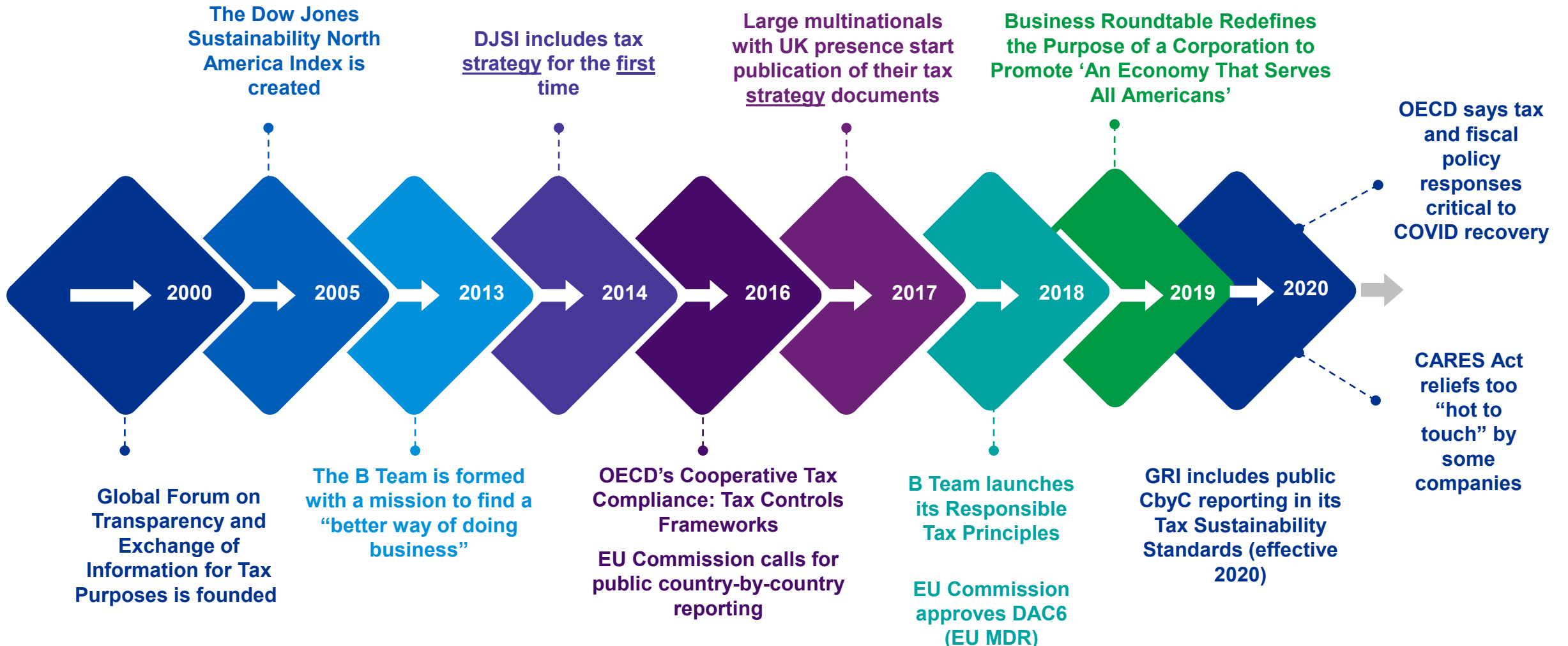
April 22, 2021



Tax has a role in all 3 pillars of ESG



Evolution of responsible tax around the globe



benefits of ESG for tax

- Establish clarity around internal policies and processes
- Communicate to internal stakeholders
- Communicate to investors
- Enhance relationship with tax authorities
- Improve employee relations
- Effectively and transparently manage risks
- Participate in ESG reporting
- Proactive vs. reactive



What does ESG mean for tax?



- Emergence of global tax governance regulations and expectations with accountability at Board level for tax
- Access and analytics of data by tax authorities
- Increased uncertainty around tax audits, coordination and information sharing by tax authorities
- Legislative and stakeholder pressure for tax transparency
- Tax risk emerging as a key operational and reputational risk issue in particular social license to operate
- Country by country reporting, information sharing
- Regulatory pressure to improve risk management and governance in particular for Funds & Financial Services
- Dow Jones Sustainability Index, Global Reporting Initiative
- Investment Fund pressure to invest ethically; tax emerging as a consideration in underlying investments

What is effective management of tax risk?

Tax functions need to be designed to manage tax risks and ensure they are properly considered in the investment process, taking into account investment specific and broader implications.



Technical Risk

Risk of differing views between taxpayers and tax authorities. The degree of risk is typically highly sensitive to facts and assumptions.

Operational Risk

Risk of loss due to inaction of people or inadequate processes. There are two types

- Direct control: actions Client's own employees must undertake to achieve intended tax outcomes.
- Influence: actions investment partners must undertake to achieve the intended tax outcomes.

Reputation Risk

Risk of loss may arise when a proposed tax position is contrary to widely understood tax policy objectives of a particular government. The threshold to test is generally the opinion of the government policy makers rather than local tax collecting authorities.

Change of Law

Risk of loss due to actual or proposed changes in law. This is an inherent risk of investing. To manage this risk an entity must focus on changes in tax law or administrative practice that are reasonably foreseeable and have a measurable impact on the after-tax returns from the investment.

Tax Risk Governance Framework

The **Tax Risk Governance Framework** is an internal document that will provide guidance for the Tax Function around the management of investment matters.

The document lays out:

- Stakeholders roles and responsibilities
- Actions of the management of external tax advisors: accountability, competence and communication
- Actions for the management of tax matters
- Tax strategy
- Guidance on tax risk appetite/tolerance

TAX strategy

- I. Introduction
- II. Tax Function
- III. Tax Management Principles
- IV. Roles and responsibilities
- VI. Implementation and Control

TAX POLICY

- I. Introduction
- II. Tax Planning
- III. Tax Compliance
- IV. Tax Controversy
- V. Tax reporting

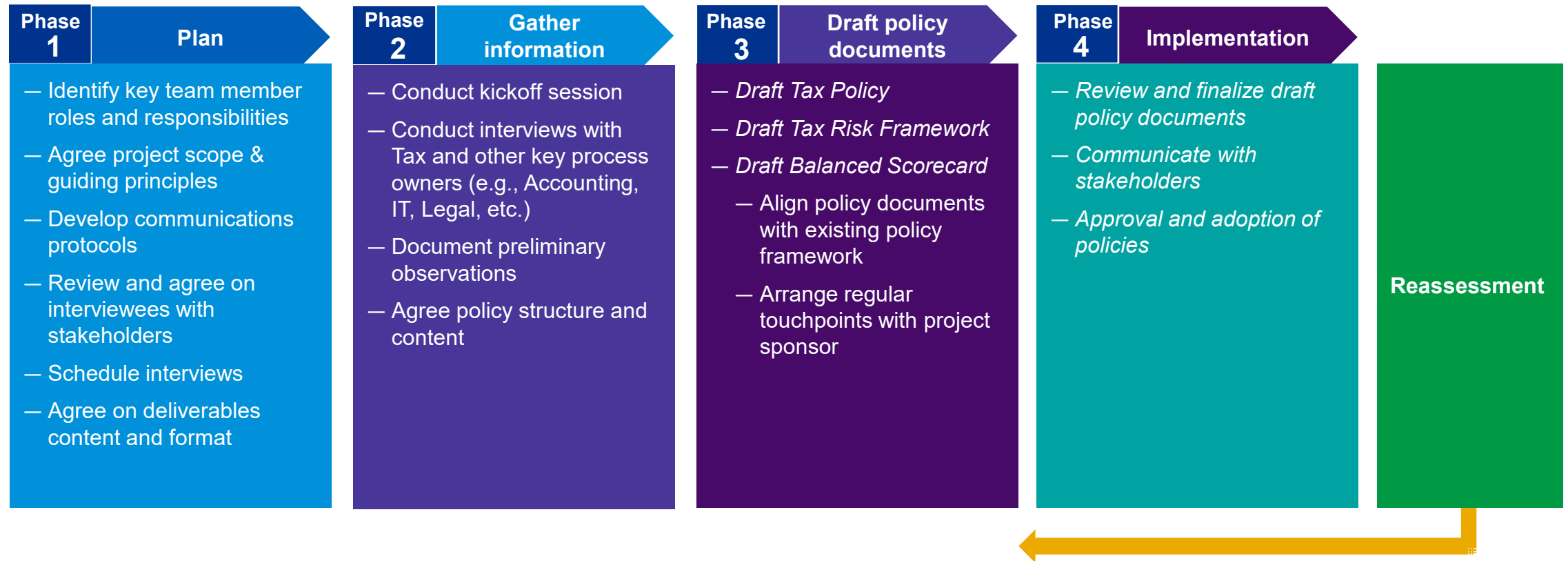
TAX RISK MANAGEMENT

- I. Introduction
- II. Specific tax risk areas
- III. Tax Risk Management
- IV. Tax risk register

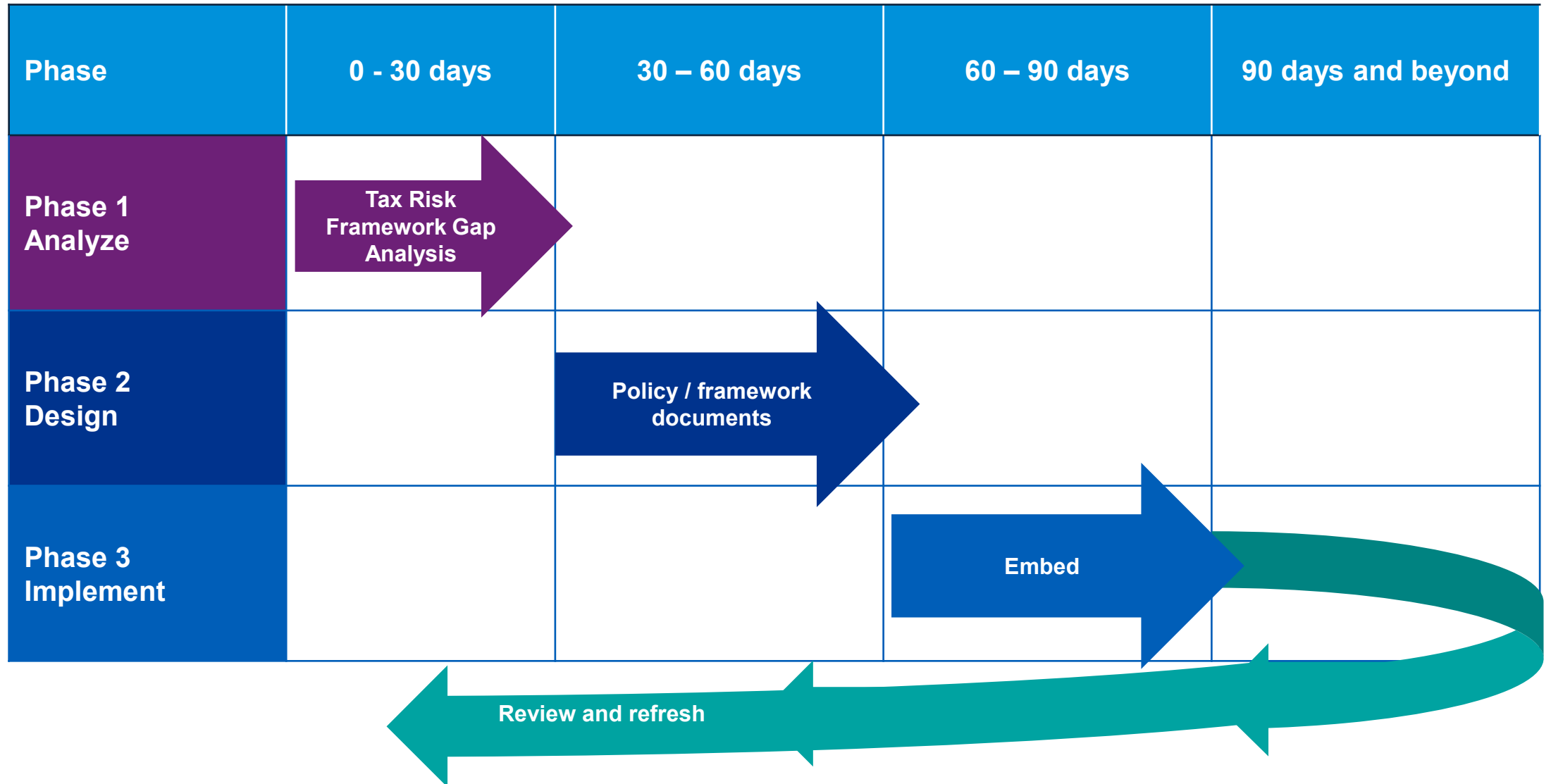
KEY PERFORMANCE INDICATORS

- I. Background
- II. KPI's defined
- III. Balanced scorecard
- IV. Self assessment

Proposed approach



Project timeline



Why is KPMG in a position to lead on ESG?



We build trusted relationships and have the ears of Boards and CEOs



We bring deep industry and technological expertise to ESG challenges



We provide broad solutions to address all phases of the ESG journey



We have our own credible ESG story and are continuing to make deep investments



We bring ESG benefits to our clients – from ROI to emissions reductions



We provide thought leadership and training with a global perspective



We have strong values and culture that underpin everything we do

Call to action

The ASK



- Talk to your clients about ESG and find out where they are on their journey
- Learn more about ESG by reading how [KPMG walks the walk](#), our [IMPACT insights and white papers](#), attending upcoming training sessions, and reaching out to your practice ESG leads
- If you are interested in working on this initiative, please [contact the US IMPACT Team](#)

Firmwide Training / Webcasts

- [Intersection of ESG and Tax](#)
- [ESG for CFOs](#)
- [Firmwide ESG Training](#) (March 25, 2021)
- Why is ESG a Big Deal for Tax (April 20, 2021)

Additional resources

RESOURCES

ESG topics are interrelated and interdependent. Here are some resources to get you started, many of which are linked on the [KPMG US IMPACT homepage](#)

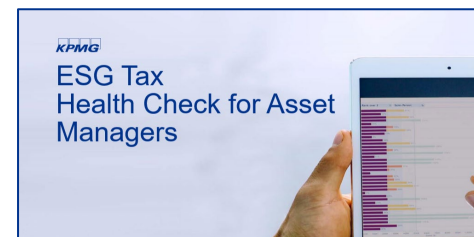
| Climate, decarbonization and renewables | Sustainable finance | Social and economic development | Governance |
|--|---|--|---|
| KPMG announces it will be net-zero carbon by 2030 Towards Net Zero: How the world's biggest companies report on climate risk and decarbonization KPMG Climate Accounting Infrastructure – Blockchain solution Climate change and corporate value: what companies really think | ESG for CFOs ESG reporting and risk Financial services enters a new era of ESG The Time has Come: The KPMG Survey of Sustainability Reporting 2020 | Economic and social development insights page Achieving sustainable infrastructure 2019 Change Readiness Index | Race and accountability in the boardroom from KPMG Board Leadership Center ESG Resources from the KPMG Board Leadership Center ESG is critical to long-term business strategy |

Links to Thought leadership:

- [How tax and diversity are becoming key components of ESG](#)
- [Tax Risk and Transparency](#)
- [The importance of ESG for long-term success \(kpmg.us\)](#)
- [ESG Awareness Training - replay \(Internal only\)](#)
- [The Intersection of ESG and Tax](#)

Coming soon!

KPMG ESG Tax Health Check





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Thank you



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