Corporate Controller & CAO Hot Topics

Economy and Sustainability

While somewhat unrelated, ESG and the economy are two topics that have frequently been top of mind for financial leaders over the past several months.

The persistence of these two topics continually requires leaders to assess their organizations' preparedness. Although significant uncertainty remains in both regards, corporate controllers and CAOs continue to plan for different economic outcomes and prepare for the rigors of ESG reporting.

Corporate Controllers and CAOs are keeping a close eye on developments in the economic and ESG realms. Economic outlooks are uncertain at best as a number of issues both domestic and international remain in flux. Inflation, elections, and political instability are just a few of the factors contributing to a volatile environment. Most financial leaders are adopting a posture of focusing on controlling what they can control and being prepared to act when more clarity comes. A similar approach is being taken with regards to ESG as regulations and reporting remain moving targets. Leaders are formalizing reporting and implementation strategies in preparation for the EU CSRD to come into effect for non-EU companies in 2025. While there is pressure to plan for all outcomes, leaders only know what they know, so being nimble and reactive is viewed as the best strategy moving forward amidst so many unknowns.

Given how closely KPMG works with many of the world's leading organizations, we have unique insights into how finance leaders are approaching these topics. Below are key areas that Corporate Controllers and CAOs are focused on as they navigate the economy and prepare for ESG regulations.

Economic Overview

Financial leaders have a sharp focus on economic outlooks, both in the US and globally, as they plan for the next 18 months. Factors such as a cooling labor market, inflation, elections and global conflicts are influencing how executives are planning for what lies ahead in the near-term. For the most current updates, visit the KPMG Economics website.

Overall, CAOs and Controllers are seeing cost pressures and depressed customer sentiment, with consumers stretched by prices for necessities, including housing, groceries and fuel, and these pressures hitting lower income buyers the hardest. In one stark example, the average transaction price of new vehicles has risen from $35,000 pre-pandemic to around $48,000 in 2024. Cost pressures have also prompted many buyers to purchase cheaper store brand alternatives over name brand items. This trend towards more discretionary purchases is creating winners and losers among brands. Those able to offer value to consumers in the current inflationary environment are gaining market share against their peers.

Many organizations could enter a holding pattern with capital spending plans as they await the outcome of US elections in November of this year. Alongside domestic uncertainty, there are a number of geopolitical issues that affect both the global economy and supply chain. Leaders are watching what happens in European elections, while unrest in areas like Ukraine, the Middle East and Taiwan have leaders looking for alternatives for their suppliers. While financial leaders are monitoring these factors, it is challenging, if not impossible to remain on top of everything. As a result, the mindset of many is to focus on what they can control and react to any developments as they come.

ESG

Finance leaders are moving forward with their ESG reporting preparations while at the same time awaiting new guidance from the US and various jurisdictions around the world contemplating adoption of the ISSB standards and as additional interpretations come from the European Union. There is a trend of companies preparing sustainability reporting initiatives to a certain point, then maintaining a holding pattern while they await more clarity (e.g., the SEC rule which is currently stayed). For example, bifurcating efforts between greenhouse gas emissions and financial statement impacts allows organizations to continue to progress in some areas while pausing work in others. As they await more defined standards, some are looking to other stringent reporting frameworks, such as the EU's directive on corporate responsibility reporting (CSRD) or the rules being implemented by California in the coming years for possible direction on where regulations may land.

Structures

The expected demands of ESG on both resources and time have prompted leaders to be strategic in how they structure ESG within their organizations. While some organizations have created new roles such as an ESG Controller to oversee efforts, others have put cross-functional sustainability teams in place to provide governance and tracking for ESG activities. These teams are increasingly including members with experience in financial reporting to help bring order and expertise in terms of reporting, controls, processes, etc. In the drive towards completeness, consistency, and accuracy in reporting, emphasis is being placed on accountability—having someone actually sign their name affirming the accuracy of the data makes them more conscientious about the information they are producing.

Compliance considerations are shaping how organizations decide to carry out reporting. The industry and nature of the business can also determine whether a company relies on consolidated reporting or opts for single entity reports. In some cases, organizations are doing both—running double materiality assessments at the entity level and leveraging consolidated reports as a sort of template that can be tailored at the local level. Reporting at the entity level can also serve as a sort of "test balloon" for compliance before a similar approach is used elsewhere.

Regulations

There remains a lot of uncertainty about the rigor of regulations because many countries and states in the US are still finalizing their guidelines. In the US, the Securities and Exchange Commission (SEC) put its climate rule on a stay in April, and now is expected to finalize regulations later this year. The European Union put their Corporate Sustainability Reporting Directive (CSRD) in place in January of 2023, and many companies are using that as a template, pending further guidance from the SEC. In addition, many companies are looking to regulations enacted by California,. Regulation in California continues to move ahead, with California Air Resources Board (CARB) now funded, it is expected that rules will be final in 2025.

Materiality

Materiality remains a challenge as organizations work to define financial materiality across all of the standards. A key area of focus is performing a double materiality assessment for CSRD that will satisfy all other sustainability reporting standards, but not require disclosures that would put the company at legal risk. In preparation for CSRD compliance, companies are establishing procedures to carry out double materiality assessments (DMAs). As organizations sort out what must be included and who must be involved, many are turning to third-party experts, either by outsourcing the initial DMA or engaging outside help to provide pre-assurance of DMAs performed in-house. Assurance of proper documentation is viewed as the "lynchpin" of disclosures as everything else depends on the accuracy and completeness of the documentation. In initial run throughs of DMAs, some leaders are finding similar materiality results to what they disclosed in voluntary assessments, dimming hopes that they might be able to pare back what information they are required to share.

Systems and Tools

Due to the data- and reporting-heavy nature of sustainability, companies are looking for new data systems and tools that can provide tracking and interoperability for the many datasets needed to track these large-scale initiatives. Products may range from Excel spreadsheets to more sophisticated tools that are tailored to ESG data collection and reporting. As sustainability teams review and demo different products, price disparities between one kind of tool and another are driving a focus on what a specific company really needs. Common products being used include Microsoft Sustainability Manager, Workday, Workiva (which is specially used with ESG reporting), and AuditBoard among others.

As organizations explore solution options, there is a recognition that there is no "silver bullet" tool for sustainability reporting. While some tools are good at greenhouse gas emissions data, others help track documentation and controls. Given the broad nature and scope of information companies are trying to collect, there may not be one single tool that handles every aspect of ESG. For this reason, interoperability and data management are key considerations when establishing an ESG systems ecosystem, as organizations will need to manage information across a variety of tools.

Costs of Implementing ESG

With many multinational companies, KPMG is seeing additions of three to six full time staff that form the nucleus core group to manage their ESG initiatives. For the most complex organizations, this number can increase to 25. That, plus putting new data and tracking systems in place, can cost companies between $5 million and $13 million, spread over a few years, depending on how quickly the company puts its ESG program in place.

Even as other issues demand their attention, the economy and sustainability reporting remain at the top of the agenda for financial leaders. In both cases, many leaders are taking a "plan-and-see" approach given the volatility in both areas. They are preparing for different economic and political outcomes as they await developments. In the ESG realm, they are putting resources and processes in place but often pausing efforts until more concrete regulations and standards emerge.

Additional resources

Sustainability Reporting

KPMG Economics

Contact us

Dana Foote
Audit Head of Markets
+1 816-802-5229
dfoote@kpmg.com

Maura Hodge
ESG Audit Leader,
KPMG US
+1 803-606-8370
mhodge@kpmg.com

Ken Kim
Senior Economist,
KPMG Economics
+1 212 954 6144
kennethkim2@kpmg.com

Learn about us: | **kpmg.com**