



Board Oversight: Transforming Environmental Risk into Long-Term Value

The Board's role in understanding and helping to mitigate environmental risks to preserve and create value

External

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2026



Sustainability is a Strategic Imperative

Sustainability has always been about protecting and growing enterprise value. External reporting on how sustainability considerations were embedded into business strategy came to the fore with the rise of sustainability reporting regulations. Even with the political pushback, sustainability remains a critical **business risk and a driver of resilience**. Climate volatility, resource scarcity, and expanding disclosure requirements are already impacting operations, cost structures, and access to capital, while also creating opportunities to **innovate, enhance efficiency, and future-proof business**.

Boards help to ensure management effectively mitigates risks, seizes opportunities, and builds long-term business resilience.

Three forces putting your business at risk today



Operational and financial disruption from increasingly frequent and severe weather events

- **Up to 14%** global increase in **extreme wildfires** by 2030 ⁽¹⁾
- **Up to \$25 trillion** in projected losses to global supply chains by 2025 ⁽²⁾

Board Considerations

How are climate change risks integrated into enterprise risk management, resilience investments, and capital allocation decisions?



Energy, water and raw material constraints driven by AI expansion and geopolitical instability

- **69%** of global CEOs allocating up to a **fifth of their budget on AI** ⁽³⁾
- However, **AI alone** could use as much energy each year as **22% of U.S. households** ⁽⁴⁾

Board Considerations

How are efficiency initiatives, circularity/reuse programs, and energy/resource diversification efforts being implemented, measured, and monitored?



Rising expectations for transparency, assurance, and accountable governance

- **2,000+** public and private companies must report under **California climate** disclosure rules starting **January 1, 2026** ⁽⁵⁾
- **57% of global GDP** will require reporting under ISSB ⁽⁶⁾

Board Considerations

How are reporting processes, non-financial and financial data integration, and AI being leveraged to support informed decision-making?

Source:

(1) [Environmental Change Institute](#)
 (2) [Nature](#)

(3) [2025 KPMG Global CEO Outlook](#)
 (4) [MIT Technology Review](#) (as cited in [Climate Crisis 247](#))

(5) [California Air Resources Board](#)
 (6) [Progress on Corporate Climate-related Disclosures IFRS](#)



Preserve Value, Capture Opportunity, Mitigate Risk

Sustainability has become synonymous with **resilience, efficiency, and long-term value**. Organizations that integrate sustainability into strategy can turn risk into opportunity – preserving value, unlocking growth, and strengthening governance in a rapidly changing business environment.

Strategic Opportunities

Preserve value: How is the Board helping to ensure the organization is reducing operational and regulatory exposure?

Create value: How can the organization drive innovation, cost savings, and enhance brand trust through its environmental and social practices?

Secure capital: How is the organization meeting investor and lender expectations for credible ESG performance?

Strengthen governance: Are sustainability targets embedded into the board's oversight and strategic decision-making?

Risk of Inaction

Operational & Regulatory Risk: How is the board ensuring the business is not exposed to operational disruptions or regulatory penalties from inaction?

Financial Risk: How could failing to integrate sustainability into capital decisions impact our cost structures, access to capital, or long-term profitability?

Reputational Risk: Is management protecting the organization from scrutiny, litigation, or greenwashing claims?

Strategic Risk: Is the organization anticipating rather than reacting to defining sustainability risks over the next decade?

92% of global CEOs predict the cost of inaction will be higher than the cost of energy transition ⁽¹⁾

65% have fully embedded sustainability into their business, believing it is critical for long term success ⁽²⁾

Only 29% are fully integrating sustainability into capital allocation and investment decisions ⁽²⁾



Board Oversight

Boards play a critical role in helping to ensure the organization efficiently and effectively mitigates compliance risks

Relevant Global Reporting Regulations

The sustainability reporting landscape continues to rapidly evolve. **Key issued and effective standards to watch:**

Mexico Normas de Informacion de Sostenibilidad (NIS)

Australian Sustainability Reporting Standards (ASRS)

European Deforestation Regulation (EUDR)

California Climate Disclosure Laws

EU Corporate Sustainability Reporting Directive (CSRD)

EU Corporate Sustainability Due Diligence Directive (CSDDD)

Risk Mitigation & Cost Discipline

- Has management defined and communicated mitigation strategies for energy independence, national energy and mineral security, and severe weather operational risks that are material to the business?
- Is there a streamlined reporting strategy, strengthened governance, and AI-enabled compliance to reduce cost and reinforce investor confidence?

Board Considerations and Management Actions

Understand Global Regulatory Expectations

- **Board consideration:** Are we positioned to meet evolving global reporting expectations and market requirements?
- **Management action:** Monitor regulatory and standards development and maintain a roadmap to align current disclosures to emerging requirements.

Define a Clear Reporting Strategy

- **Board consideration:** Do we have a resilient, flexible reporting strategy that can adapt to regulatory timing and scope changes?
- **Management action:** Design a modular reporting approach with defined alternatives and scenario-based implementation plans.

Link to Financial Results

- **Board consideration:** Are sustainability initiatives clearly linked to financial performance, risk management, and long-term value creation?

- **Management action:** Implement data-driven linkage between sustainability metrics, financial results, and enterprise risk reporting.

Reassess Governance

- **Board consideration:** Does our governance structure provide sufficient oversight of sustainability-related risks and opportunities?
- **Management action:** Evaluate governance structure, clarify roles and escalation paths, and recommend enhancements where needed.

Sharpen the Narrative

- **Board consideration:** Is our sustainability narrative clear, differentiated, and compelling to priority stakeholders?
- **Management action:** Refine core messaging, align to enterprise strategy, and embed consistently across disclosures, investor materials, and external communications.



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