Sustainability reporting and the SEC climate rule at TMT companies

2024 ESG Organization Survey: Insights for Technology, Media and Telecommunications (TMT)

April 2024

Foreword

The SEC climate rule is accelerating the need to close the gap between sustainability reporting strategy and execution

As global organizations face increasing regulatory pressure to disclose information about environmental, social, and governance (ESG) impacts, risks, and opportunities, the vast majority of TMT companies are set to spend more on sustainability initiatives over the next three years. However, most organizations not only view this as a compliance issue but also as a tool for enhancing financial performance. Yet despite this opportunity, and the new SEC climate rule that mandates reporting on climate-related risks, TMT organizations are facing real challenges in implementing their ESG initiatives.

KPMG conducted a deep dive on where organizations are investing in the coming years to maximize financial value while complying with disclosure requirements. Key TMT findings include a focus on:

- Investing in new ESG data collection and management tools
- Prioritizing sustainability analytics, including the use of artificial intelligence (AI)
- Employee training and education

The challenges TMT organizations face integrating sustainability into their broader business structure center around internal silos and divergent priorities. To address these, many companies are planning to restructure teams and outsource core ESG reporting.

Note: On April 4, 2024, the SEC issued an Order to stay its climate rule. The SEC believes the stay is warranted pending upcoming judicial review following legal challenges, but it maintains its position that it has authority and will continue to vigorously defend the rule's validity in court.

While the stay pauses the need for calculating the impact of certain climate-related events or conditions on the financial statements, the remaining provisions of the rule are required for other reporting regimes. Therefore, companies should continue to move forward according to plan and carry out an interoperability analysis.

"TMT organizations are focused on strengthening their ESG data collection and management capabilities to better measure and report on their sustainability performance. ESG integration across roles is another key area they are implementing to combat divergent priorities across teams."

Marcus Leach
TMT ESG Lead, Americas

Investment in ESG capabilities is a top priority

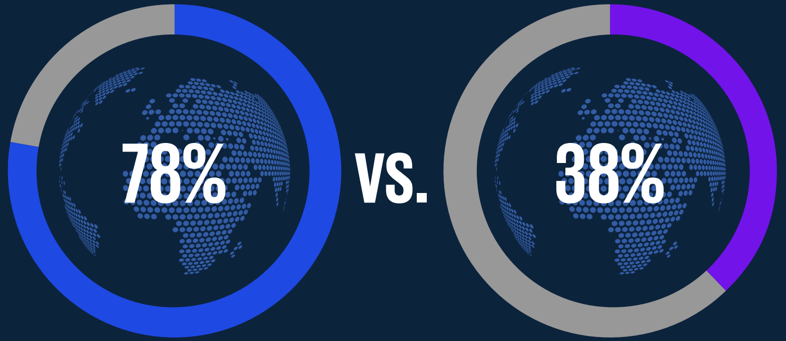
The TMT data

94% Will **increase their ESG investment** in the next 3 years

Top areas of future investment are:

1. Data collection and management tools
2. ESG-specific software
3. Employee training and education

There is a disconnect between perception and preparedness.



Many organizations believe they are ahead of peers regarding ESG reporting (78%), but some still use spreadsheets to manage their ESG data (38%).

Source: ESG survey, Oct. 2023

What does this mean for TMT?

With evolving regulatory requirements, TMT organizations are increasing investments in many areas of the sustainability reporting process. Regulatory requirements are also driving the need for more transparency and accountability over ESG information.

To meet accelerated reporting timelines, the sustainability reporting process must become more controlled and efficient, which is difficult to accomplish using spreadsheets. TMT organizations are prioritizing the adoption of advanced data collection tools to efficiently track ESG data.

Impact of the SEC Climate Rule

The final SEC Climate Rule is transformative and its impact spans the enterprise. It may act as a catalyst to increase ESG investments, which in turn may lead to:

- More competitive products and services in the transition to a low-carbon economy
- Greater ability to attract and retain talent
- Better ability to attract capital

Being at the forefront of turning ESG aspiration into action can create a competitive edge that not only mitigates risk but also increases shareholder value.

Data management is critical to integrate sustainability goals with overall business objectives

The TMT data

Innovative tech is growing in popularity, as:

71% of leading organizations use **advanced data systems** for ESG reporting

51% of organizations plan to improve ESG data collection with **artificial intelligence**

42% see improving **data management and reporting capabilities** as helpful in integrating ESG goals with business objectives

With access to better information,

74% anticipate an increase in **ESG integration** across roles

Source: ESG survey, Oct. 2023

What does this mean for TMT?

Data management software and advanced tech like AI enable organizations to efficiently track, analyze, and report on ESG-related data, which is crucial for making informed decisions and meeting regulatory requirements.

Unsurprisingly, TMT organizations outpace the market in adopting advanced data systems for sustainability reporting, given the sector's emphasis on innovative solutions.

From a human capital perspective, incorporating ESG considerations into all job functions will contribute to the development of the most valuable skills of the future. This should help TMT companies retain their employees amid the ongoing technical skills shortage.

Impact of the SEC Climate Rule

The SEC Climate Rule accelerates the need for publicly traded companies in the US to have standardized, quality data for their climate reporting.

Questions you should have answers for:

- What are our significant near- and long-term climate risks?
- Where are we prioritizing investments to transform our business?
- How do we organize ourselves for success?
- How do we quickly mature our collection of data and use of technology?
- How do we build a "fit for purpose" governance model and system of controls for nonfinancial reporting?

Structural challenges hinder the ability to integrate a sustainability strategy into broader business goals

The TMT data

Top challenges

46%
Internal silos

35%
Divergent priorities or goals

Source: ESG survey, Oct. 2023

To combat this

65% are planning to **restructure** teams to better align ESG goals with business strategy

72% of core ESG reporting activities are currently outsourced, or are planning to be **outsourced** in the next three years

What does this mean for TMT?

TMT organizations are focused on restructuring to integrate sustainability principles across their organizations, as many are facing internal silos and limited communication between departments.

Defining clear roles and responsibilities, including identifying leaders and subject matter professionals, and deciding when to outsource, are crucial for effective implementation and efficient ESG reporting.

KPMG has observed that companies are asking themselves how they can set up their sustainability unit to work effectively and properly at all levels of responsibility, including the board, leadership, management, and unit-level experts. Stakeholders are focusing on strong ESG governance as a key mechanism to accomplish this.

Impact of the SEC Climate Rule

TMT companies can respond to the SEC Climate Rule by adopting an ESG strategy that breaks down silos and considers all aspects of the business, including operations, accounting, and tax.

It's not just the SEC, but European, state, and local requirements are also creating intersecting reporting requirements that affect both public and private companies in the US.

Climate reporting now goes beyond compliance to tell a cross-functional story backed up by financial and nonfinancial information. This enhances stakeholder trust and drives business resiliency.

Tax is a crucial component of ESG planning and execution

As TMT companies hone their ESG strategy and invest further in data collection, management tools, and software, the tax function needs to be included since it is both a driver and a measure of sustainability. Reporting on tax is not only about transparency or about how much tax you pay, it is also about the principles applied and the impact your tax footprint makes. It is actively demonstrating the efforts your business is making to achieve sustainable and inclusive growth.

Tax as a driver of sustainability

Taxes are often used as a tool to influence decision-making. There are tax implications with all business decisions, such as how a company approaches transfer pricing, trade and customs, and supply chain operations. Tax and nontax incentives and benefits exist to encourage companies to make sustainable decisions and participate in sustainable tax planning.

Tax as a measure of sustainability

The taxes a company pays, and how they communicate their tax strategy, is a measure used to determine the sustainability of a business. Increasingly, companies are being more transparent about their tax affairs—sometimes to demonstrate how their approach to tax is advancing their ESG commitments, sometimes to address public confidence that they are paying their "fair share" of tax, and sometimes to achieve both of these objectives.

Telling your tax ESG story

Effectively telling your tax story and achieving your ESG objectives involves oversight across key areas in tax, including:

- Credits and incentives
- Economic and social impact studies
- Location services, including Qualified Opportunity Zones
- Renewable energy services
- Trade and customs
- Tax transparency
- Value chain management and sustainable supply chain

Impact of the SEC Climate Rule

The new SEC Climate Rule requires both quantitative and qualitative disclosures for climate risk mitigation initiatives, transition plans, and climate-related goals. In each of these categories, registrants are required to disclose material expenditures and material impacts on financial estimates.

While tax-related matters are not directly addressed in the final rule, tax may be an important topic addressed in some related qualitative disclosures. As many governments are offering clean energy tax incentives (usually in the form of tax credits, e.g., the US Inflation Reduction Act), these incentives may be material offsets to gross costs. Although we do not see tax credits reported as a reduction to quantitative expenditures, qualitative disclosures of tax credits and government incentives could be important disclosures related to these expenditures and initiatives.

Six steps to improve ESG reporting and strategic integration

1 **Assess your readiness** for the final SEC Climate Rule: Your entire climate journey can be tracked using the KPMG SEC Climate Rule Diagnostic. The tool provides rapid insights on current compliance, quality, and maturity aligned to our framework across four key phases.

2 **Set your sustainability ambitions:** Collectively agree upon a sustainability strategy for each of your material sustainability topics, establish action plans, and determine how to measure success. These actions link sustainability to your business strategy, and this information is required for regulatory reporting.

3 **Invest in ESG talent, including training and education for employees:** Improve sustainability reporting capabilities by investing in dedicated ESG personnel who can manage and oversee reporting processes, data collection, and analysis. Broaden access to sustainability information by creating a culture of ESG awareness across all departments through employee training and education programs. This knowledge will help you execute on sustainability goals within the broader business context.

4 **Design a holistic ESG technology architecture:** Sustainability information needs are ever evolving; having a structured but flexible ESG data architecture, like a data lake, will allow you to adjust efficiently to new and changing reporting requirements.

5 **Restructure teams to better align sustainability goals with business strategy:** Address structural challenges by redefining roles and responsibilities and identifying leaders and subject matter experts for effective implementation and efficient reporting.

6 **Seek external support:** To support internal capabilities and accelerate progress, consider outsourcing core sustainability reporting responsibilities.

About KPMG

How KPMG can help

With extensive experience in reporting and sustainability consulting, KPMG can help organizations streamline their ESG reporting processes, develop a sustainable governance structure, and integrate ESG goals into their overall business objectives. KPMG's dedicated team of professionals can provide tailored services to help organizations navigate complex ESG standards, optimize data collection and analysis processes, drive sustainable and responsible business practices, and create long-term value. Learn more at KPMG ESG.

About the survey

The data in this report was collected in the fourth quarter of 2023. There were 550 US and global respondents, equally distributed across 10 sectors, including technology, media, and telecommunications (TMT). Sixty-five percent of the responses were from senior management (VP and higher). Eight-five percent of respondents were either moderately, highly, or fully responsible for the development and operations of sustainability reporting in their organizations. From a company perspective, 66 percent had annual revenue of US$1 billion or higher in the last fiscal year.

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