



# Climate Change & Sustainability Services



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# Responsibility & Accountability

**As Corporate Responsibility and Accountability issues move up the political, business and regulatory agenda, it is critical for all to have an effective response. We advise private corporations and public sector organisations on their strategy and the integration of ESGs into their business functions to help them better understand, improve and report on their environmental, social and ethical performance. KPMG sustainability professionals support our clients from start to finish, by offering customised services to help them align their strategy, performance and communication with their values and business practices. Our work focuses on assessment, risk management, strategy, implementation and assurance activities.**

## **Materiality & Risk Analysis**

A structured Materiality Assessment is the essential foundation for effective sustainability strategies and for setting goals that are relevant to a business and its stakeholders. Structured Materiality Assessment also supports internal communication within an organisation and serves as a tool for risk assessment and trend-spotting.

## **ESG Due Diligence**

In today's business world, issues like child labour, carbon emissions, fair tax and corruption bring complex and costly risks, as well as the opportunity to gain competitive advantage by doing things differently. The way a company handles environmental, social and governance (ESG) issues can affect its long-term performance and its valuation. We perform a screening of high-level ESG risks and opportunities, through research, site visits and technical assessments.

## **Sustainable Finance**

KPMG supports corporate clients to improve their ESG performance and relationship with investors, as well as asset owners and managers aiming to incorporate ESG in their investment strategy.

## **Business and Human Rights**

KPMG supports corporate clients to identify any human rights infringements related to their business, and to address them quickly and effectively.

## **Sustainable Supply Chain**

Businesses working with a complex supply base across multiple countries face a range of environmental, social and governance risks. KPMG professionals help clients to increase transparency in the supply chain, mitigate risks and manage supplier relationships.

## **Climate Risk/TCFD**

KPMG supports companies to apply the TCFD recommendations by assessing their readiness to report, mapping and managing climate-related risks and adapting the business strategy.

## **True Value**

True Value, a methodology developed by KPMG, helps clients to identify and quantify their externalities, recognise what is driving internalisation and understand the implications for their corporate value creation. It also puts clients in a stronger position to develop response strategies that protect and create value both for their shareholders and for society.

### **Sustainability Assurance**

Independent assurance on the corporate responsibility (CR) or sustainability performance of organisations. This may relate to historical information, management systems or behaviour and is usually reported in a CR, Sustainability, Environmental Social and Corporate Governance (ESG), Corporate Citizenship, Corporate Social Responsibility (CSR), Social or Health and Safety Environment Report, or as part of an organisation's financial accounts.

### **Circular Economy**

Challenges like resource availability, volatile commodity prices and changing consumer preferences are forcing us to rethink wasteful and inefficient models of production and consumption. KPMG provides solutions to companies in order to design products or services from the start for longer-term use, reuse and recycling.

### **ISO 37001 & ISO 37301**

KPMG provides support to clients wishing to be successful and sustainable in the long term, requiring to maintain a culture of integrity and compliance, and needing to acknowledge the needs and expectations of their stakeholders. KPMG provides

support for the implementation of an Anti-Bribery Management Systems and a Compliance Management System.

### **Green and Social Bonds**

KPMG supports by providing advice and assurance services to organisations in order to issue green, social and sustainability bonds.



# Materiality & Risk Analysis

**Materiality is the fundamental principle of reporting management and systems for any business disclosure and especially sustainability and external communications.**

## GRI's G4 Sustainability Reporting Guidelines

Organisations are faced with a wide range of topics on which they could report. Relevant topics are those that may reasonably be considered important for reflecting the organisation's economic, environmental and social impacts, or influencing the decisions of stakeholders and, therefore, potentially merit inclusion in the report. Materiality is the threshold at which aspects become sufficiently important that they should be reported.

## AA1000 AccountAbility Principles

Materiality is determining the relevance and significance of a topic to an organisation and its stakeholders. A material topic is a topic that will influence the decisions,

actions and performance of an organisation or its stakeholders. To make good decisions and actions, an organisation and its stakeholders need to know what topics are material to the sustainability performance of the organisation. To determine what is material requires a materiality determination process. The process is designed to ensure that comprehensive and balanced information is input and then analysed.

It is crucial that companies keep a hand on the pulse with materiality, so that risks can be proactively managed and first-mover opportunities can be found. We assist our clients understand their material topics when considering any or all of the below goals.



### Vision and strategy

Support in the development of the company's CSR strategy.

Basis for identifying the risks and opportunities in relation to CSR.

1

### Reporting

Generation of CSR reporting content and global standards compliance.

Identification of strategies and initiatives to capitalize on CSR.



2

### Communication

The structured and documented approach facilitates high-level communication about the most material topics inside and outside of the organization.



3

### Future Trend-Spotting

Identifying new expectations that may become relevant to the company's business in the future.

Discuss and prepare for new expectations from stakeholders.



4

# True Value

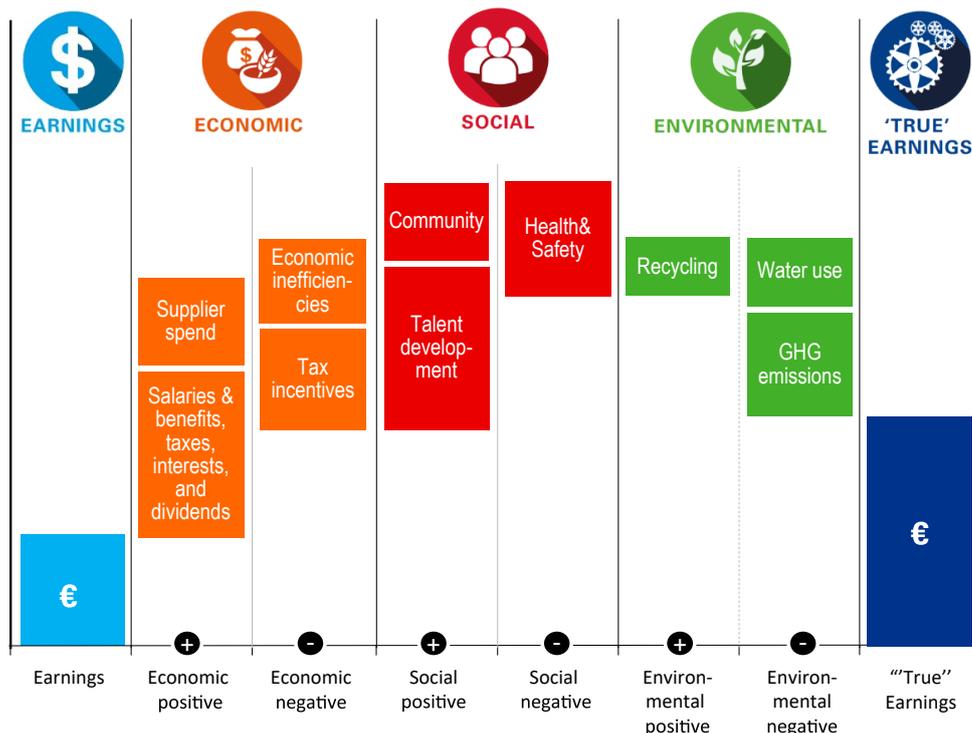
**Companies are under increasing pressure to show they make a positive contribution to society, as well as generating profits for shareholders. Focusing on the financials alone is no longer enough. A growing trend is to express all economic, social and environmental impacts in a common financial metric; doing this can inspire productive conversations in the boardroom and management meetings, and help to change thinking and action within organisations.**

KPMG analysts carry out a detailed assessment of your organisation's most significant economic, social and environmental impacts, both positive and negative. The assessment is totally scalable: it can be applied to a single product or service, to a company's global operations or to the entire value chain including suppliers and the downstream use of the company's products. It can also be applied to compare alternative investments.

Once we have defined the company's material impacts, KPMG analysts apply a financial value to them. They select the most appropriate valuation factors from KPMG's comprehensive database, which is sourced from academic research around the world and continuously expanded and updated.

Many KPMG True Value clients choose to express the results of their KPMG True Value analysis as a 'waterfall chart' or KPMG True Value Bridge. This chart can be used to compare the monetised values of the organisation's economic, social and environmental (ESG) impacts with its financial revenues and profits.

The bar sizes are proportional to the monetary value of each ESG impact; the positive bars add up value while the negative bars reduce value. Waterfall charts are commonly used by corporate finance professionals to illustrate changes in revenue or profit between two time periods. Using the KPMG True Value Bridge can be very effective in engaging corporate finance functions in discussion about sustainability and societal impacts.



# ESG Due Diligence

**In today's business world, issues like child labour, carbon emissions, fair tax and corruption bring complex and costly risks, as well the opportunity to gain competitive advantage by doing things differently. In short, the way a company handles environmental, social and governance (ESG) issues can affect its long-term performance and its valuation.**

In the current era of growing business uncertainty, investors and corporate boards are emphasising on evaluating the ESG risks in a long-term investment strategy. It is not just about maximising the returns, but also doing the right thing that can affect their most valuable intangible assets, including reputation, brand value, trust and relationships.

Unprecedented events such as pandemics and their associated socio-economic impact also underline the importance of factoring in unpredictable disruptions in business operations and their impact on future returns.

Investors and boards are increasingly looking at integrating ESG factors into their decision-making process. Companies that effectively incorporate ESG

risks and opportunities into their business or investment strategies and adopt a value-creation approach are more likely to sustain, improve the returns, reduce vulnerability and be future ready for the new normal of business.

KPMG's comprehensive ESG due-diligence process systematically assesses the critical regulatory compliance, policies and practices within the target organisation and identifies potential ESG risks and opportunities in the investment. With KPMG's global network of ESG experts, we also help with an overview of the emerging ESG mega-trends, best practices and benchmarking. At KPMG, our service offering covers, non exhaustively, the below ESG topics.

## Environment

- Resource efficiency, water and waste management and recycling
- Pollution of air, water and soil
- Impact on ecosystems and biodiversity
- Energy efficiency and carbon emissions
- Responsible sourcing of materials
- Readiness to respond to changing regulations and stakeholders' expectations on environmental performance.

## Social

- Working conditions, labour relationship and safety
- Approach to diversity and equal opportunities
- Approach to human rights, child labour and modern slavery
- Engagement with neighbouring communities
- Supply-chain risks, such as standards of working conditions in the supply chain
- Protection of customers' data and compliance with privacy laws.

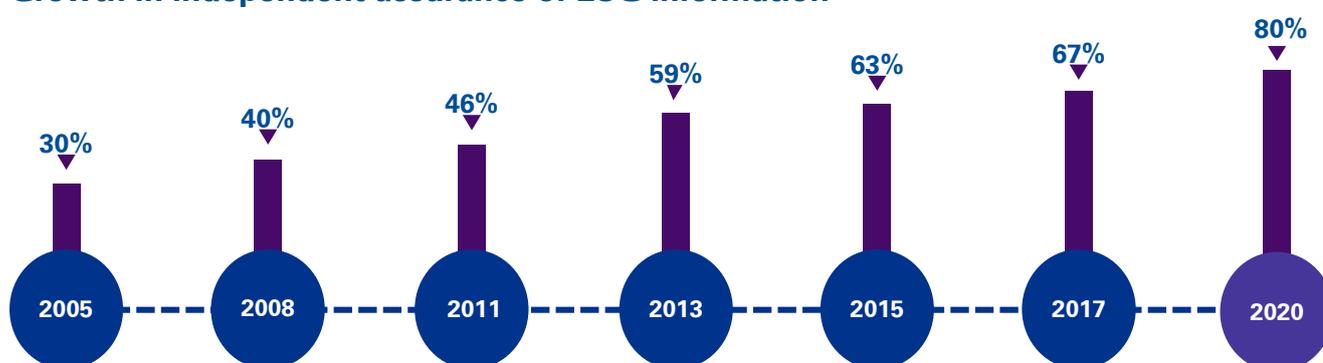
## Governance

- Robustness of ESG risk management at top management level
- Guidelines for ethical business conduct for organisation and business partners
- Fraud, anti-bribery and corruption policies
- Presence of appropriate whistle-blower and grievance mechanisms
- Incidents of anti-competitive behaviour
- Technology adaptation
- Stakeholder inclusiveness.

# Sustainability Assurance

The number of companies investing in third-party assurance of their ESG reporting has grown steadily since 2005. KPMG's global methodology is the first ever to be developed for an audit firm and one that will contribute to a more robust and consistent approach for performing high quality sustainability assurance services. KSAM is mandatory for all sustainability assurance engagements performed by KPMG member firms.

## Growth in independent assurance of ESG information



Base: N 100 companies that report on ESG

Source: KPMG Survey of Corporate Responsibility Reporting 2020

1

### The risks we face globally are changing

- The World Economic Forum's table of top global risks is demonstrating a strong shift from economic to environmental, social and geopolitical risks

2

**Investors** are increasingly interested in correlation between ESG indicators and long-term financial performance. This is aided by expanding availability of ESG data (for listed companies), e.g. Bloomberg terminal, MSCI, Thomson, Dow Jones, S&P

3

### ESG reporting requirements from stock exchanges and corporate governance codes

- UK, Japan, India, South Africa, Mexico and the US, among many others

4

### Increased regulation driving ESG reporting

- EU Directive on non-financial reporting

5

### Global voluntary non-financial disclosure frameworks are gaining popularity, for example:

- Task Force on Climate-related Financial Disclosures
- UN Sustainable Development Goals

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# Sustainable Finance

The market for sustainable investments is growing fast and millennials prefer these investments. There is a growing body of evidence that good ESG performance is correlated with good financial performance and lower cost of capital. Investors are taking an increasing interest in the ESG performance of the companies they invest in. Requirements on ESG reporting are expanding worldwide and so is available corporate ESG data.

## Growth in independent assurance of ESG information



## Investors view ESG as an indicator of good governance and resilience.

- Broader adoption by investors – Mainstream Investors and financial institutions are now widely using ESG criteria
- Increased fund flow into ESG – More capital has been flowing to sustainable or ESG oriented funds
- Advanced Investment approaches – Older 'divestment' approach has been replaced by ESG integration (using ESG as additional investment criteria in general investment decisions), portfolio theory (managing ESG risk in a broad investment portfolio), engagement (seeking ESG information from companies) and impact investing (seeking positive impact along with financial returns).

## How KPMG can assist:

- Identify ESG topics and develop disclosures relevant for investors and the LEEFF programme
- Develop an ESG strategy with targets and governance structures
- Identify climate-related risks
- Improve quality of ESG data aligned to international standards
- Provide assurance on ESG data and disclosures.

# Circular Economy

**The circular economy is rising up the corporate agenda. Challenges like resource availability, volatile commodity prices and changing consumer preferences are forcing us to rethink wasteful and inefficient models of production and consumption.**

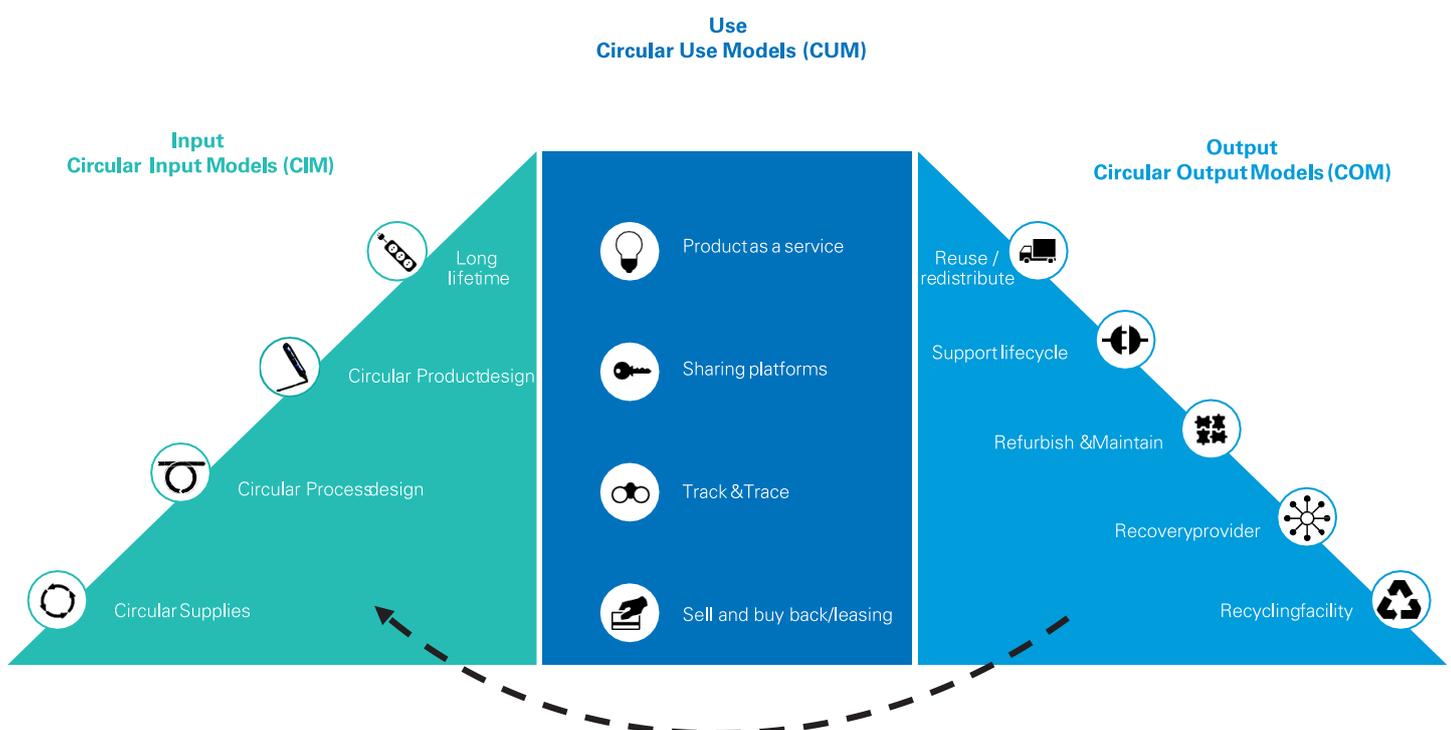
More companies are now designing products or services from the start for longer-term use, reuse and recycling. Markets are increasingly disrupted, as leasing and sharing business models challenge traditional 'linear' models of product manufacture, ownership and disposal.

What's more, governments are recognising the potential of the circular economy to drive business competitiveness, sustainable economic growth and job creation. China, Japan and the EU are among those with circular policy strategies and programmes.

For businesses adopting circular models, benefits include greater efficiency and profitability, less waste and cost, better innovation and stronger relationships with customers. Research suggests the economic opportunity

for business is huge. In Europe alone, adopting circular principles could generate net economic benefit of €1,8 trillion (US\$ 2 trillion).

However, unlocking these benefits demands a dramatic shift from business-as-usual to blue-sky circular thinking. Strong specialist capability in developing and implementing circular policies and strategies is critical. KPMG circular economy teams combine skills in strategy, innovation, business modelling and finance to help you understand the challenges you face. We have the knowledge and experience to help you move from linear to circular and assist in the design of new business models in order to retain high economic value of resources.



Source: Adapted from: Money Makes the World go round - (KPMG, Rabobank, Circle Economy, EBRD, ABN AMRO bank, ING Bank, Intesa SanPaolo, European Investment Bank, Circularity Capital)2016

# Business & Human Rights

Human rights challenges for business are multiple and complex. Companies have a responsibility to identify and manage human rights issues in their own operations and in their networks of suppliers, partners and contractors. Sometimes there are even legal requirements to do so.

## Common human rights challenges include:

 <p>Suppliers using <b>forced labour</b> (modern slavery) or child labour</p>	<p>Employees or customers <b>facing discrimination</b> by race, gender or sexuality</p>	<p>Local communities <b>being displaced</b> by projects</p> 
<p>Factories and industrial sites providing <b>unsafe</b> working conditions</p>	 <p>Security guards using <b>excessive force</b></p>	<p>Workers and communities being <b>denied the opportunity</b> to raise grievances</p>
<p>People's <b>health</b> being damaged through accidents and pollution</p> 	<p>Workers being <b>underpaid</b></p>	 <p>Workers being <b>denied rights</b>, such as freedom of association</p>
 <p><b>Critical water</b> sources being depleted</p>	<p>Customers' <b>data</b> not being protected properly</p> 	

Since 2011, respect for human rights has been formalised by the United Nations as a fundamental responsibility of business. As a result, corporations are under ever-increasing pressure to identify any human rights infringements related to their business and to address them quickly and effectively.

Failing to take the right action at the right time can risk legal action, investor divestment, negative publicity and financial and reputational damage. However, taking decisive and successful action on human rights requires deep specialist knowledge and experience, that can be limited within corporations.

That's why KPMG member firms have developed a worldwide network of professionals with specialist human rights experience, who provide clients with expert advice on these complex challenges. KPMG follows a comprehensive approach to design the policy and build capacity. Furthermore, we identify the risk, develop the strategy and engage stakeholders. Finally, we provide support during reporting and communication and set targets for the future.

# ISO 37001 & ISO 37301

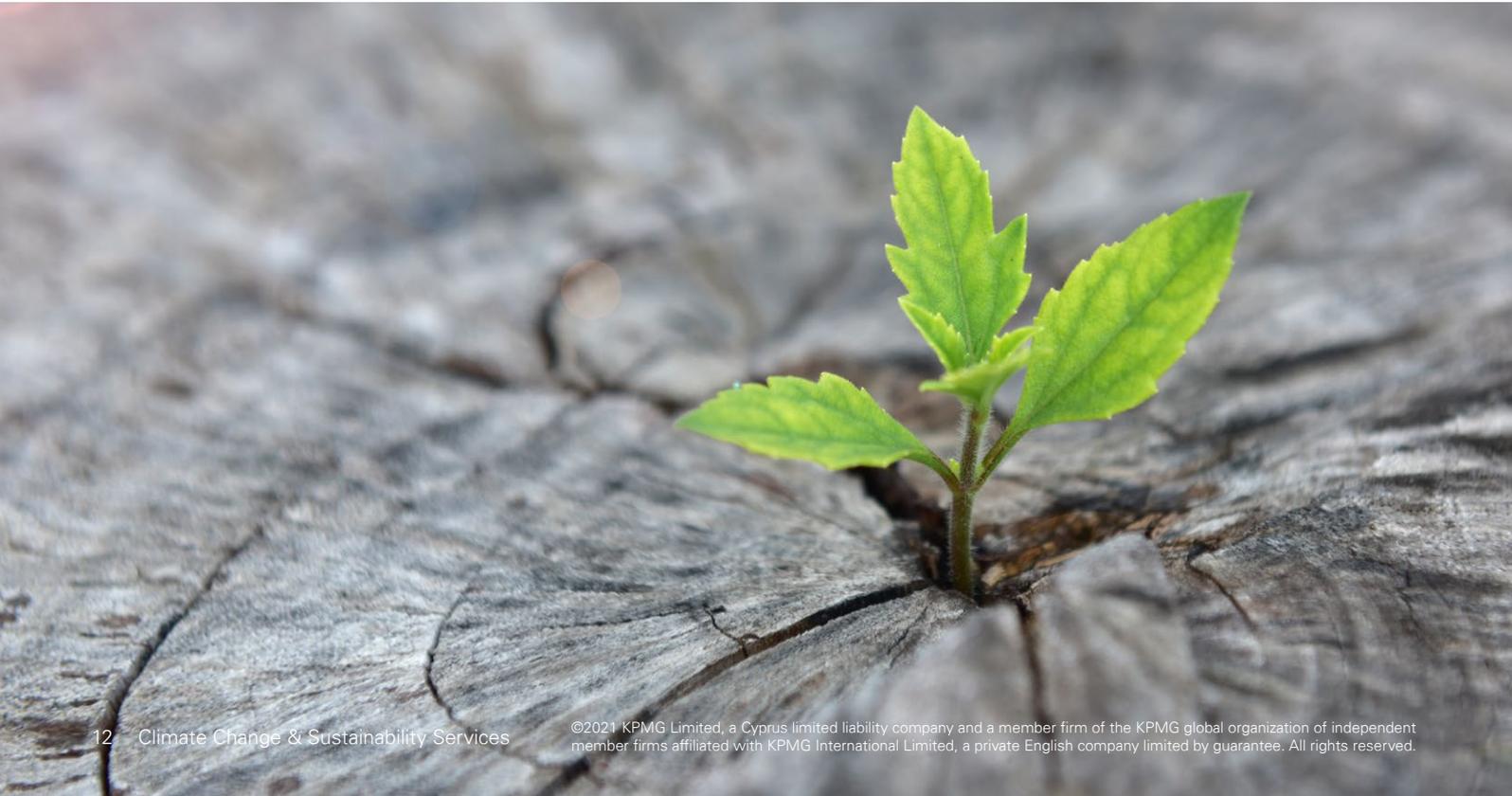
**Organisations wishing to be successful and sustainable in the long term, need to maintain a culture of integrity and compliance, and to acknowledge the needs and expectations of stakeholders. This challenge can be addressed by certification with ISO 37001 (Anti-bribery Management System) and ISO 37301 (Compliance Management System).**

ISO 37001 is an Anti-Bribery Management System standard for organisations, published by the International Organisation for Standardisation (ISO). ISO 37001 outlines the requirements and guidance for establishing, maintaining and improving an Anti-Bribery Management System. The requirements of ISO 37001 are intended to be applicable to all organisations regardless of type, size, nature and complexity, e.g. public, private, not-for-profit organisations, state owned enterprises, large organisations and Small Medium Entities (SMEs).

ISO 37301 is a standard for Compliance Management. It outlines the requirements and guidance for establishing, developing, maintaining and improving an effective and responsive Compliance Management System (CMS). The requirements of ISO 37301 are intended to be applicable to all types of organisations regardless of type, size, structure, nature and complexity. It is based on the size of principles of good governance, proportionality, transparency and sustainability.

KPMG can work with your organisation to develop a Management system and help you implement the required controls to ensure conformance with ISO 37001 and ISO 37301 requirements:

- Analysis of the organisation, in terms of size, structure, operations, statutory and legal obligations
- Determining the scope of Compliance Management system
- Understanding the needs and expectations of stakeholders
- Gap Analysis to identify actions to be taken for implementation of the requirements, as dictated by ISO
- Preparation of an Action Plan, including timeframes and responsible persons
- Pre-Certification review to identify progress of implementation of Action Plan.



# Sustainable Supply Chain

**KPMG sustainable supply chain specialists can help your business, no matter what stage you are at on your sustainable supply chain journey.**

Today's leading businesses are expected to take responsibility for how their suppliers affect people and the environment.

The list of issues to address can be daunting: from ensuring safe working conditions to paying fair wages; ending child labour to improving product traceability; using water responsibly to avoiding corruption. And there is no shortage of stakeholders ready to hold companies to account for their failings; regulators, journalists, lawyers, customers, consumers, communities and others are all piling on the pressure.

What's more, building a sustainable supply chain is not an easy task. Modern global supply chains are so vast and complex, that many companies just do not know where

their inputs come from. Gaining visibility and control can be a problem, as well as keeping pace with regulations and industry commitments across multiple jurisdictions.

KPMG professionals can help. Sustainable supply chain specialists working in KPMG member firms around the world understand the challenges you face and have the knowledge and experience to guide you through the sustainable supply chain journey. We address an array of supplier impacts

**Social impact** 

- Working conditions
- Health and safety procedures
- Fair wages
- Local/regional sourcing
- Labor standards and practices
- Human rights incl. use of child or forced labor
- Work force composition
- Fair trade
- Local employment
- Supplier diversity

**Environmental impact** 

- Carbon emissions
- Pollution
- Land use/rehabilitation
- Resource scarcity
- Sustainable farming/fishing/forestry practices
- Food miles
- Water consumption
- Waste and recycling
- Packaging
- Use of chemicals, pesticides
- Animal welfare
- Use of GMOs

**Governance** 

- Bribery and corruption
- Ethics & integrity
- Traceability

**Consumer experience** 

- Product safety
- Product labeling/access to information
- Disposal/recyclability

# Climate Risk / TCFD

**The perception of climate change within the financial sector is moving from a long-term environmental change to an immediate financial challenge. That is why, in 2015, the Financial Stability Board (FSB) formed the Task Force on Climate-related Financial Disclosures (TCFD) and asked it to recommend how companies should disclose their material climate-related risks to financial stakeholders.**

Climate change is rapidly emerging as a threat to the stability of our financial systems. More frequent and severe weather events are damaging infrastructure and disrupting supply chains. Transition to a lower carbon economy is bringing new policies, regulations and rapid changes to market dynamics. And some carbon-intensive companies are already facing lawsuits over their contributions to climate change.

Together these trends threaten to bring serious financial risks to companies and their investors, lenders and insurers.

Since then, many banks, pension funds, asset managers, insurers and others have put growing pressure on companies to apply the TCFD recommendations and hundreds of companies have signed up to doing so. For most companies assessing, disclosing and responding to climate-risk is a new challenge.

KPMG professionals can help. Our member firms can support clients in making sense of the TCFD recommendations and work shoulder-to-shoulder with you to identify climate-related risks and opportunities,

TCFD recommendations for  
climate-related disclosures



Source: TCFD publication –  
Overview of recommendations

# Green and Social Bonds

**Green bonds are taking off as the investment vehicle of choice for the private and public sectors to finance projects with environmental benefits. For example, clean power, low-carbon transport and energy efficient buildings.**

A green bond is a fixed-return investment vehicle that operates in the same way as traditional bonds. The difference is that the bond proceeds are invested exclusively in projects that generate environmental benefits.

Green bonds provide debt raising options for the public and private sector, as well as multilateral institutions.

KPMG provides an array of services ranging from reviewing financing options, designing new bond criteria, stakeholder engagement, third party independent assurance and developing monitoring indicators and metrics.



Though there is not yet a universally accepted regulatory standard for issuing green bonds, key guiding principles include:

1. The Green Bond Principles (GBP) Green Bond Indices - for example S&P and MSCI
2. Climate Bond Initiative (CBI)



A social bond is similar, but the proceeds are invested exclusively in projects that generate social benefits such as schools, hospitals and social housing.

A sustainability bond is similar focuses on generating a combination of environmental and social benefits.

The International Capital Market Association publishes voluntary guidelines for green, social and sustainability bonds.

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