



# KPMG Webcast

## ESG, Human Capital Management and the Public Markets Impact on Compensation and Rewards

April 22, 2021

[kpmg.us](https://www.kpmg.us)



# Speakers

## **Leann Balbona**

Managing Director  
Global Reward Services  
KPMG LLP

## **Annalisa Barrett**

Senior Advisor  
Board Leadership Center  
KPMG LLP

## **Parmjit Sandhu**

Principal  
Global Reward Services  
KPMG LLP

## **Ameena Majid**

Partner  
Seyfarth Shaw LLP

## **Candace Quinn**

Senior Counsel  
Seyfarth Shaw LLP

# Agenda



**Introduction**



**Key ESG developments**



**Board governance and ESG**



**ESG metrics for impact, rewards and the role of disclosure**



**What's ahead**

# Administrative



## CPE regulations

### **KPMG is approved by NASBA to deliver CPE-worthy training**

In order to receive CPE credit:

- attend for entire session
- participate in online questions

Questions will appear in the slide portion of your media player, and may or may not be verbally addressed by presenters.

Participation is tracked, and failure to actively participate will result in denial of CPE credits.



## Technical issues

- Use the ? button in the upper-right corner of your webcast player to access our online help portal.
- If this does not resolve your issue, please submit a question through the Ask a Question box. You can access replies from our technical staff by clicking “Answered Questions.”



## Content questions

- Submit all content questions through the Ask a Question box in your media player.

# CLE credits

**CLE credit is available for this webcast through Seyfarth Shaw only.**

- **CLE Credit for this webinar is approved in the following states: CA, IL, NJ and NY. CLE Credit is pending for GA, TX and VA. Credit will be applied for, but cannot be guaranteed, in all other eligible jurisdictions. Please note that in order to receive full credit for attending each webinar, the registrant must be present for the entire session.**
- **CLE code will be provided at the end of the program.**
- **For questions regarding CLE, please contact Seyfarth Shaw at [cle@seyfarth.com](mailto:cle@seyfarth.com)**

# Introduction

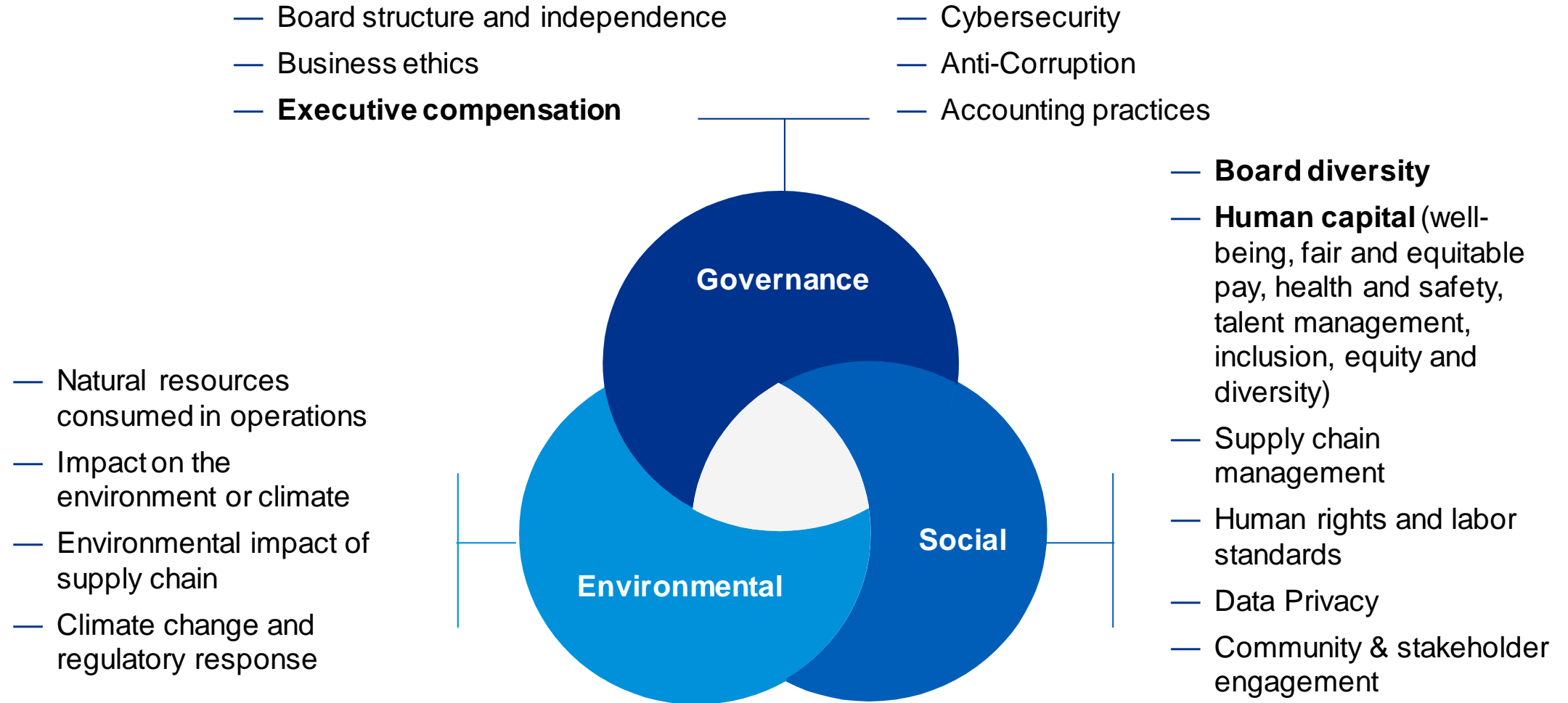
## Importance of your Human Capital Strategy on ESG Rating

- COVID-19 has increased awareness on a company's **response to ESG risks**.
- Stakeholders **increased emphasis on management** of ESG-related policies and practices.
- Investors desire ESG policy **transparency and accountability**. The need for capital in this space is rising.
- Although there are numerous challenges, there are **substantial investment opportunities**.



- **New business models and innovation in production**  
Pressures on available resources have helped build the case for transformation across a number of industry ecosystems and production models from linear to circular and more sustainable in the long run.
- **Companies have an opportunity to increase measurement and transparency** tied to the impact of their current operations on the planet, communities, and the wider society.

# The World of ESG: Not Just About Disclosure



# Pressure points





# Key ESG Developments

Ameena Majid and Candace Quinn

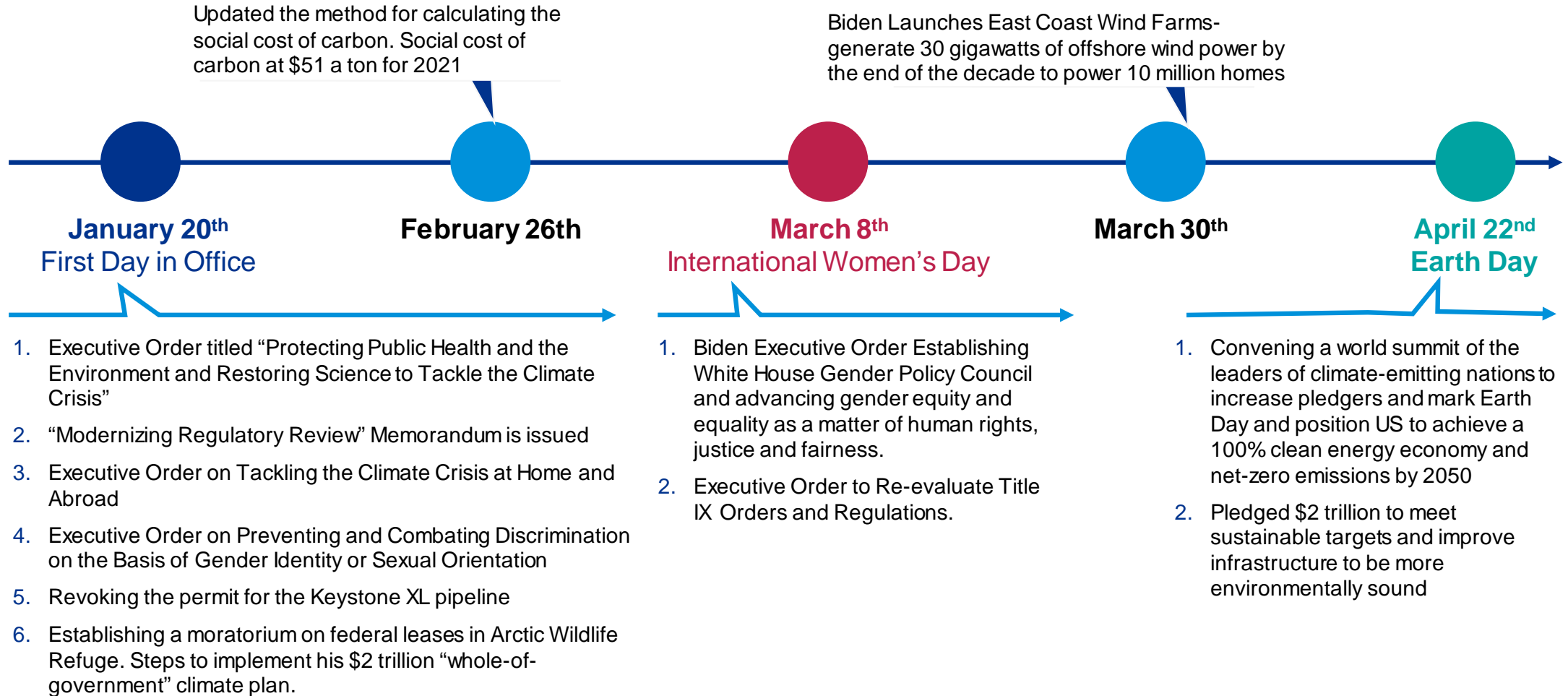


# Biden administration – Ushers in the ESG Era

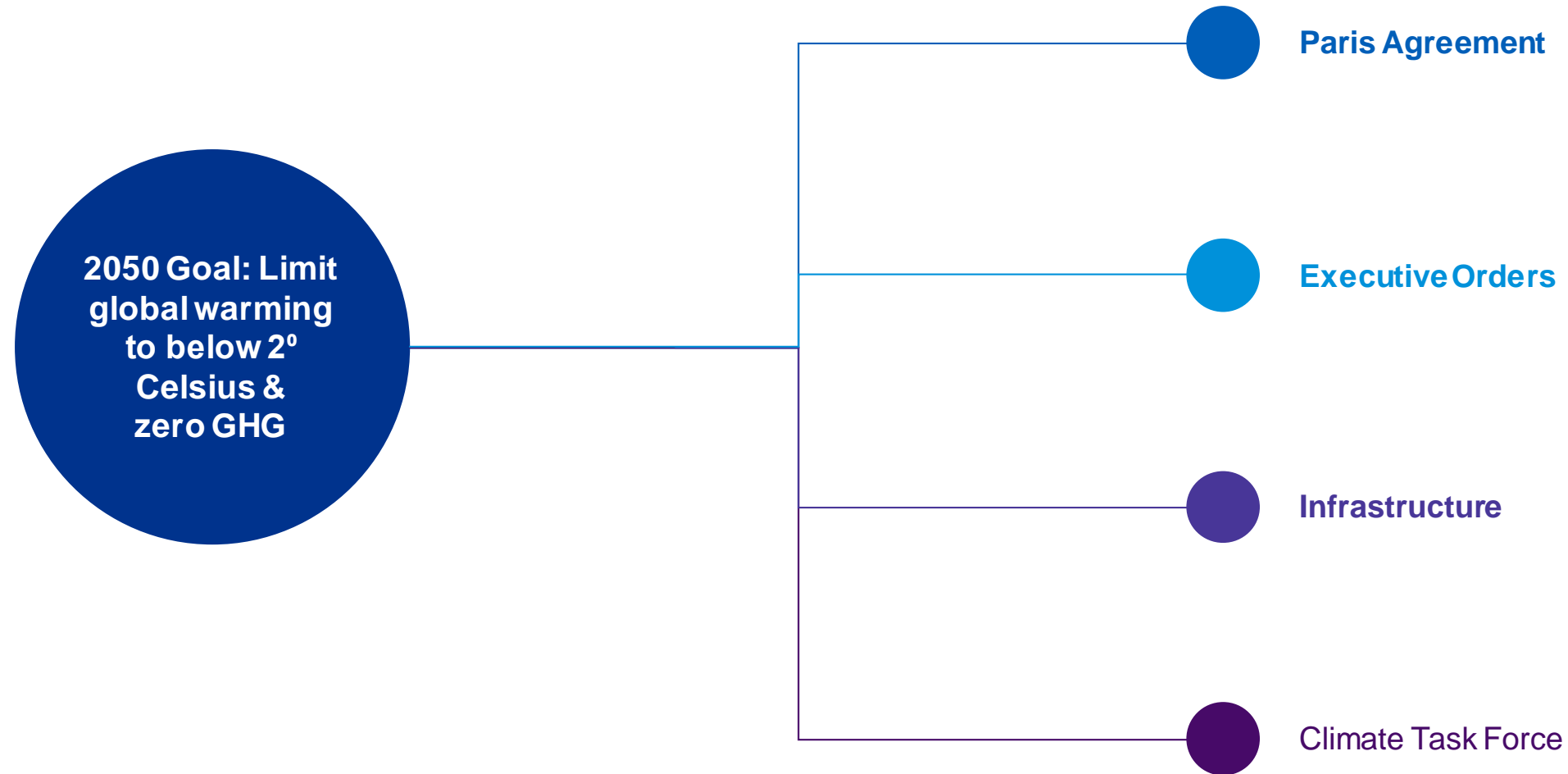
We see a significantly greater focus and prioritization on ESG policies.



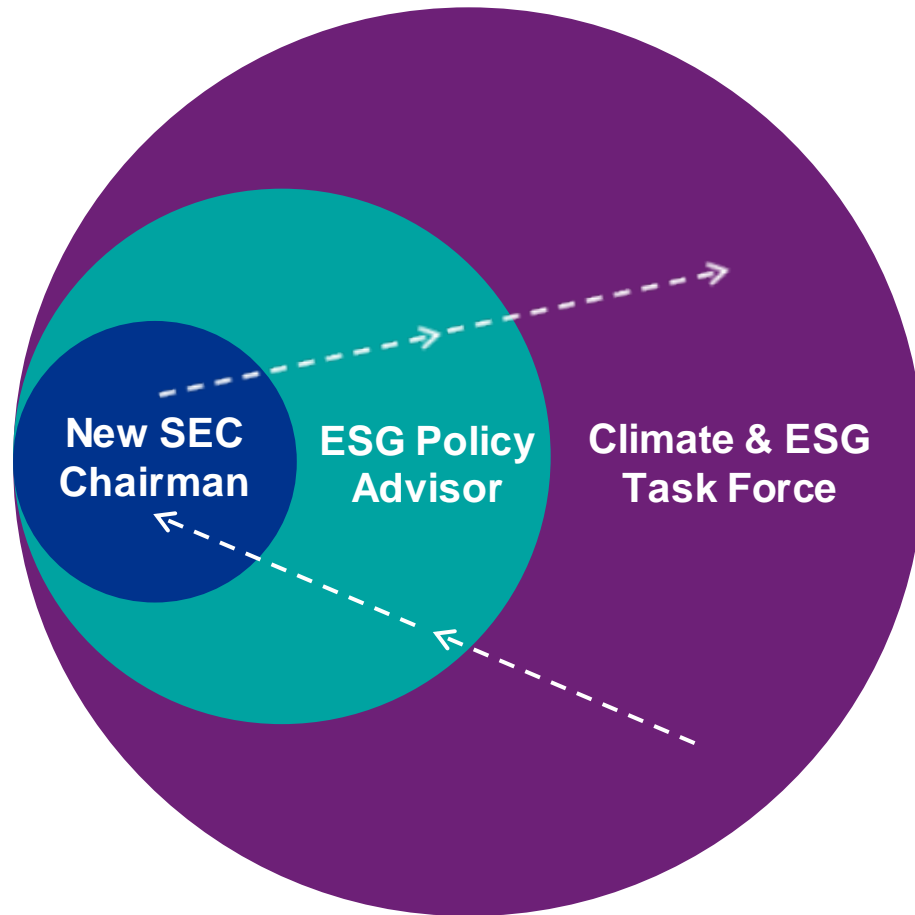
# ESG Timeline: Biden administration



# Climate change



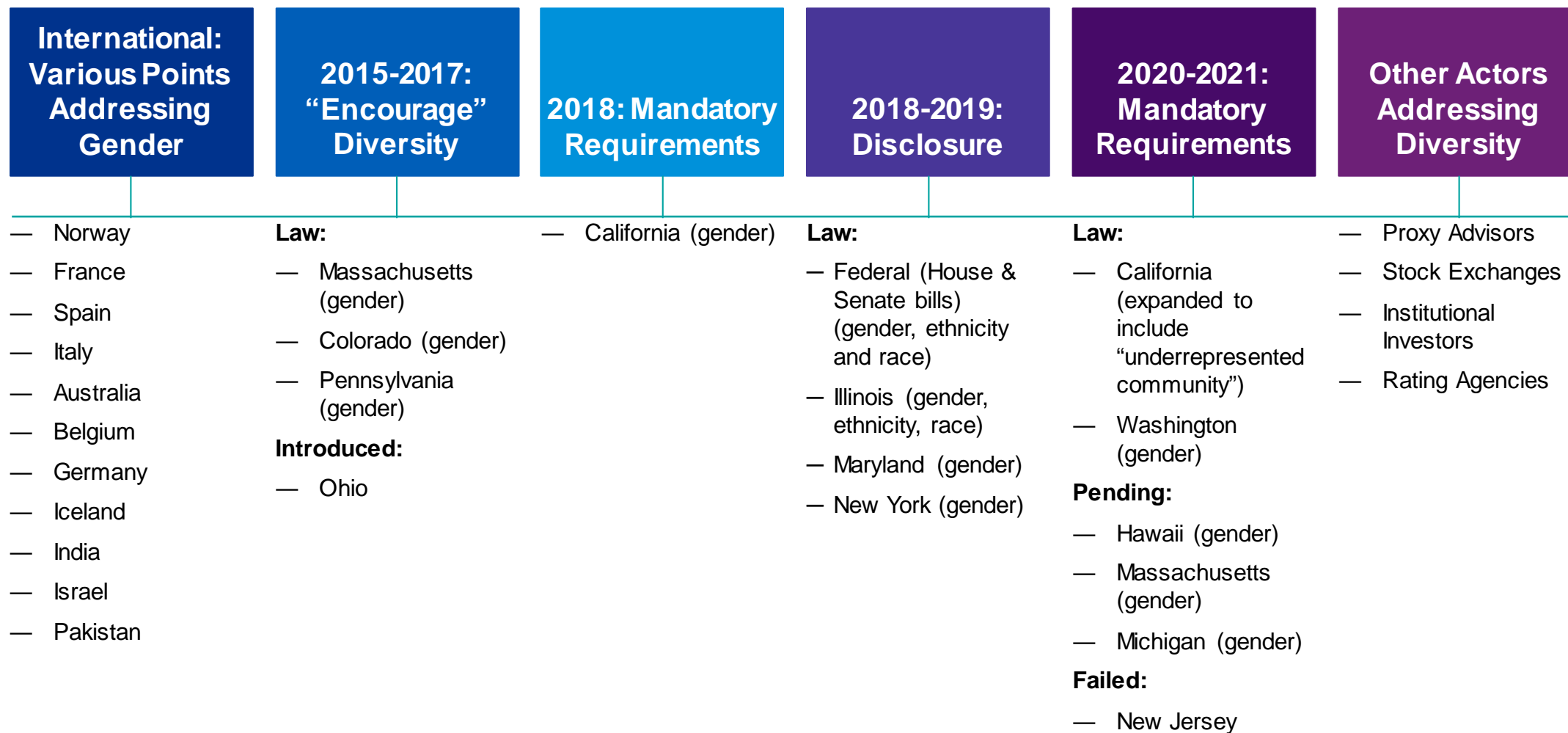
# SEC Activities



## Initial Areas of Focus:

- ESG Disclosures (generally and targeted to climate and HCM)
- Shareholder Proposals
- Examinations
- Coordination among SEC Divisions

# Board diversity – Evolution & current status

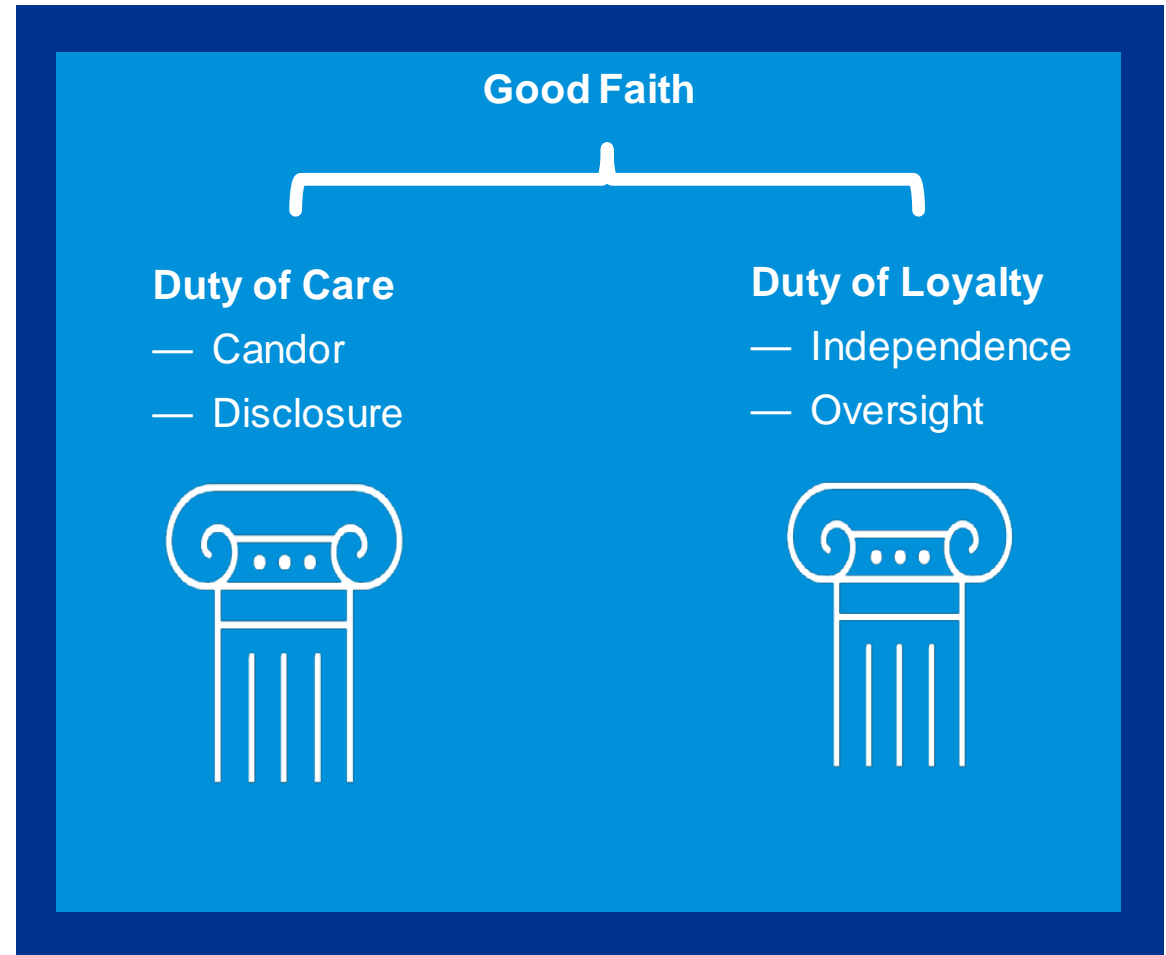


# Current ESG Risk in the U.S.

- Federal Securities Law Exposure
  - Section 10(b) / Rule 10b-5 (periodic SEC filings or other (even informal) disclosures)
  - Section 11 (in prospectus for initial or secondary offerings)
- Liability may attach if voluntary ESG disclosures are deemed **materially misleading** or **false** – more than just aspirational
  - To date, cases have been largely unsuccessful
  - but some have survived motions to dismiss (statements in code of conduct/ethics, or related to safety)

# Fiduciary Duties and Governance of the E & S

- Role of the Board vs. Role of Management
- Board Oversight - Tested in the Courts
- Fiduciary Duties





# Board Governance and ESG

Annalisa Barrett

KPMG Board Leadership Center



# Institutional investors and ESG



34% (\$17.1 trillion) of U.S. professionally managed assets have sustainability guidelines, up from 26% in 2018.<sup>1</sup>



\$40.5 trillion in global assets under management in funds that weigh sustainability factors, up from \$22.9 trillion in 2016.<sup>2</sup>



96% of U.S. investors expect to increase prioritization of ESG as investment criteria (post COVID-19).<sup>3</sup>



*No issue ranks higher than climate change on our client's lists of priorities.”*

— Larry Fink, Chairman and CEO, BlackRock  
(\$8.7 trillion assets under management)



*The past year has cast a stark light on systemic vulnerabilities and reinforced the connections we see across sustainability, inclusion, and corporate resiliency.”*

— Cyrus Taraporevala, President and CEO, State Street Global Advisors  
(\$3.5 trillion assets under management)

1. *Sustainable and Impact Investing—Overview*, US SIF Report, July 2020.

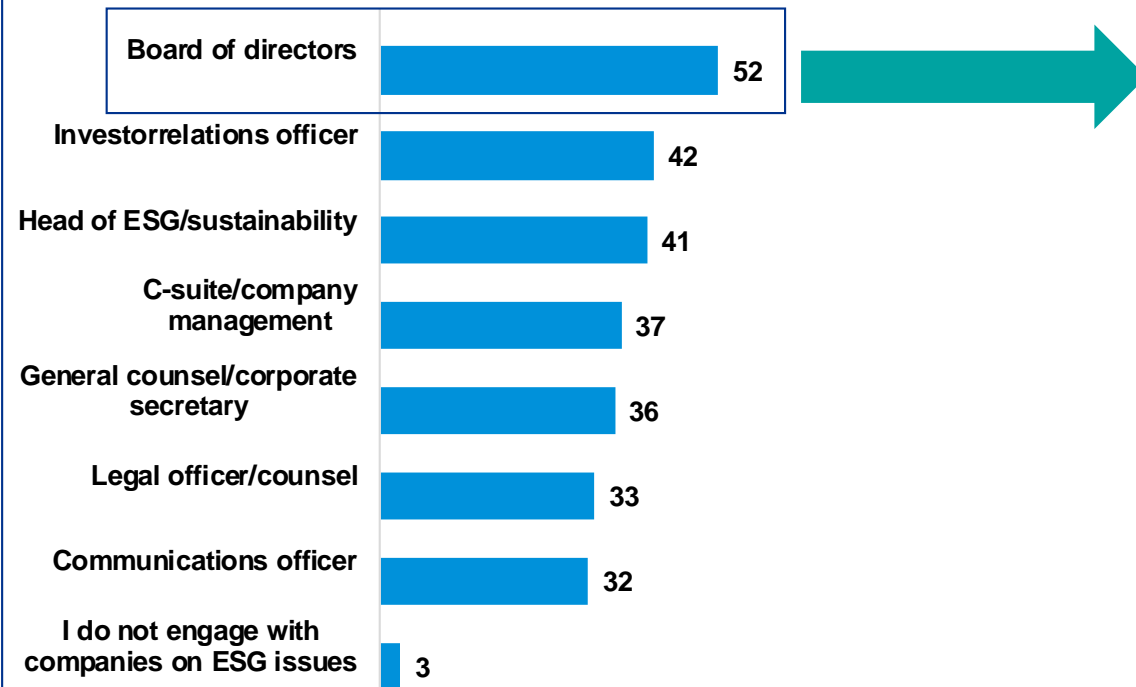
2. *ESG Metrics Help CFOs Attract New Investors, Reduce Costs*, Maitane Sardon, The Wall Street Journal CFO Journal, February 8, 2021.

3. *Edelman Institutional Investor Survey*, November 2020.

# Investors expect board engagement on ESG issues

## Percentage of U.S. investors surveyed

### Which leaders are being engaged on ESG by investors



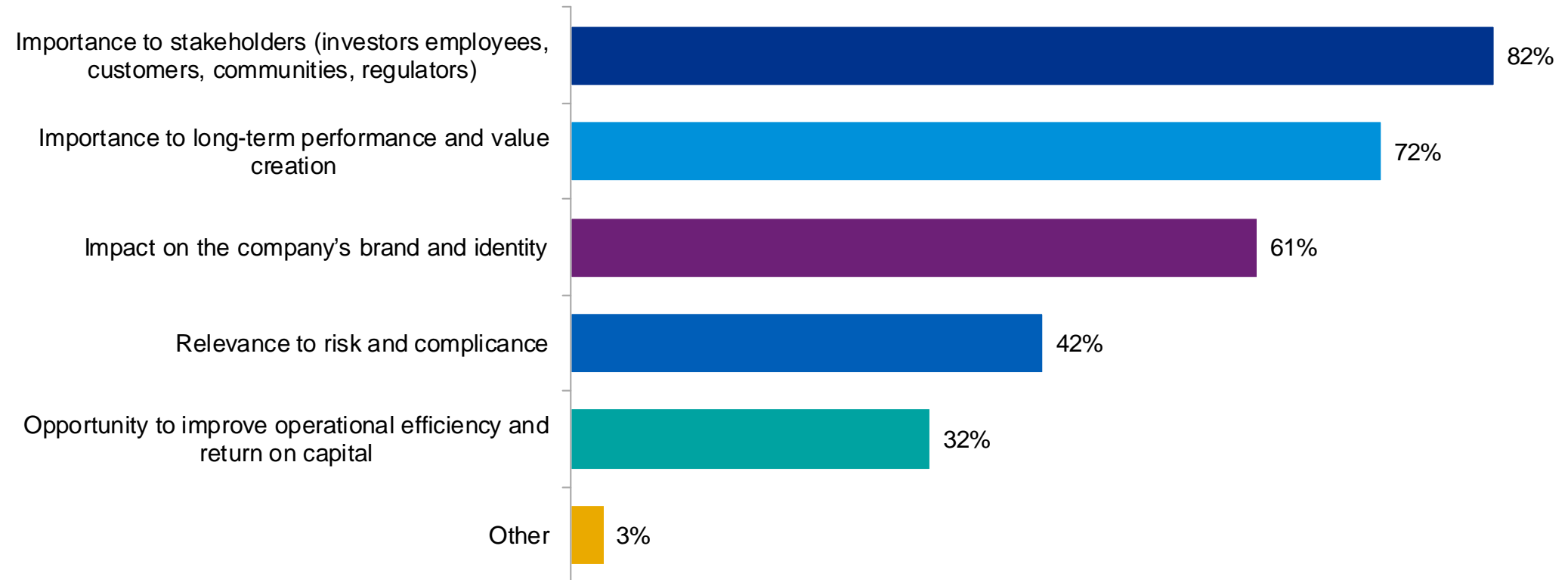
99% of investors expect the board of directors to oversee at least one ESG topic

ESG Topic	% Selected
Employee health and safety	52
Social issues in their local community	50
Human capital management	46
Data privacy and cybersecurity	45
The impact of climate risk on the company	39
Corporate culture	38
Eco-efficiency of the company's operations	36
Diversity and inclusion	35
Supply chain environmental and social risk	30
Resource scarcity	30

Source: Edelman Trust Barometer Special Report: Institutional Investors

# Views from the boardroom: Why focus on ESG?

From your board's perspective, what are the important reasons to focus on ESG issues?  
(Select all that apply)



Source: KPMG Board Leadership Conference survey, January 12-13, 2021.

# Board oversight of ESG issues

## Incorporating ESG into the board's oversight of strategy

Adding an ESG-lens to strategy, incorporating ESG risks into the overall ERM process, and establishing and tracking metrics that include strategically significant ESG initiatives may require significant organizational change.



## Composition

Does the board have the composition, structure and processes to understand the company's ESG risks and opportunities and to oversee management's handling of these issues? If not, consider whether the board needs additional expertise, continuing education and/or input from third-party specialists.



## Information flow

What information should management provide to the board and in what form? What are the KPIs and metrics?



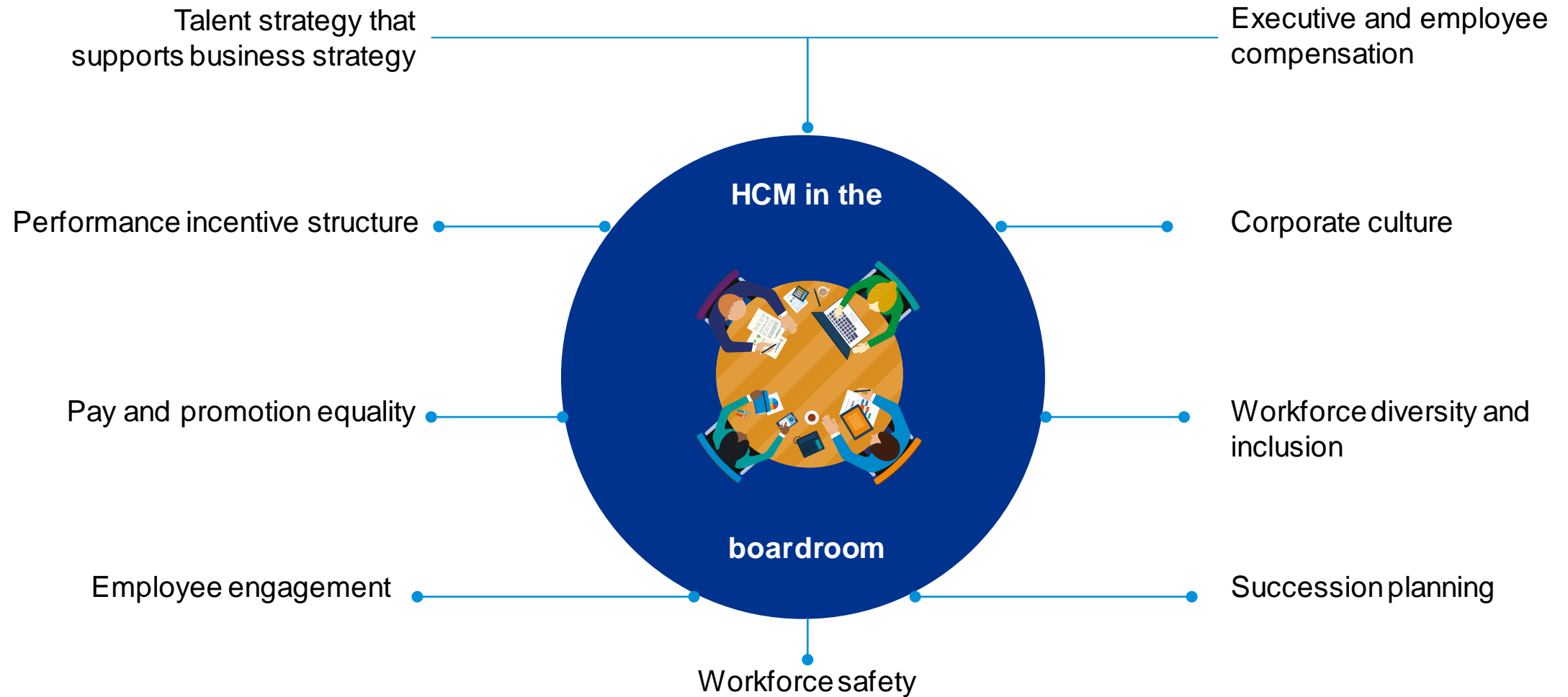
## Allocating responsibilities

What specific oversight activities and interaction with management should involve the full board and which are best handled by a committee? Consider the specific roles of the audit, nominating, and compensation committees.



**Board oversight**

# Executive and employee compensation





# ESG and Reward Disclosure

Parmjit Sandhu and Candace Quinn



# Historical and New Order View of ESG Metrics and Rewards

## HISTORICAL

Board directors focused executive pay awards on financial metrics, such as earnings per share, share price performance or revenue growth and less focus on ESG goals tied to compensation.



## NEW ORDER

**Boards are under pressure now to incorporate:**

- “E” environmental issues such as **climate change, water** and **waste**;
- “S” social issues such as **diversity, equal pay** and **stakeholders health**
- Also pressure to incorporate **safety consideration** and **metrics** into executive compensation pay awards.

**Non-traditional metrics as a factor of pay** has increased since the pandemic and the environmental and social demands from the investors and the public have mirrored its growth

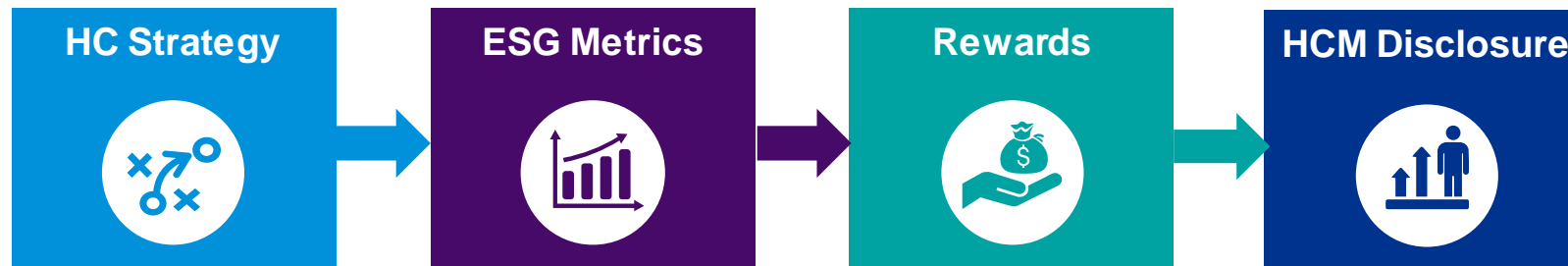
Focus has changed from shareholder to stakeholder

# Metrics need to align with strategy

The inclusion of the new ESG metrics is also driven by **the companies' response to investor demands to adopt metrics to align sustainability strategies** in order to drive financial performance.

Sustainable investing was grown globally and companies need to be *aligned* with ESG values and objectives including:

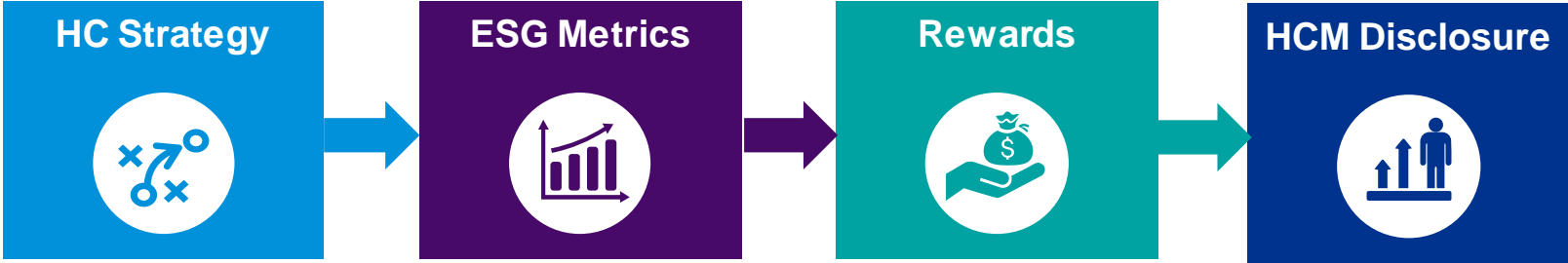
- rewarding executives with both long term incentive compensation **and**
- short term incentives for creating long term sustainable value for shareholders



# ESG Metrics and compensation incentives

## Short term bonus incentives *and* long term compensation incentives Targets Metrics for Executive Pay:

- **S** - diversity (e.g., gender, ethnic, racial and sexual orientation) within workforce, health and safety and pay equity
- **E** - energy usage, climate risk mitigation, carbon footprint, GHG emission reductions, waste and water



# Recent Public Disclosures - ESG Strategy & Rewards

Recent disclosures by 32 companies from Fortune 500 and Russell 1000

**100% had ESG strategy**

**Employee related:**  
**91% Diversity & Inclusion**  
**25% Health & Safety**  
**31% Company Culture**

**56% tied ESG to STI**

**Environmental related:**  
**53% Environmental impact**  
**13% Carbon Footprint**  
**31% Climate Change & Renewable Energy**

**3% tied ESG to LTI**

**Community related:**  
**19% Social Impact/Human rights**  
**19% Community**  
**6% Philanthropy**

Industry	# of Companies	ESG Corporate Strategy	ESG Short-Term Incentive Metric	ESG Long-Term Incentive Metric	ESG Strategy Categories									
					Employee Related			Environmental Related				Community Related		
					Diversity, Equity and Inclusion	Health, Safety, and Well-Being	Company Culture	Environmental Impact	Carbon Footprint	Climate Change	Renewable Energy	Social Impact/Human Rights	Community	Philanthropy
Auto/Manufacturing	1	1	1	0	1						1			
Consumer Goods	4	4	4	0	4	1	1	3		2	1	2		
Energy	2	2	2	0	2	1		1	1	1	1			
Financial Services	4	4	1	0	3	1		2		3	3	1		1
Healthcare, Life Sciences	4	4	2	0	4	3		3						
Media	3	3	2	0	3	1	2						2	1
Retail	6	6	1	0	5		6	5	1			1	1	
Technology	4	4	3	1	4		1	2	1	3	1	1	1	
Telecommunications	4	4	2	0	3	1		1	1	1	3	1	2	
<b>Total</b>	<b>32</b>	<b>32</b>	<b>18</b>	<b>1</b>	<b>29</b>	<b>8</b>	<b>10</b>	<b>17</b>	<b>4</b>	<b>10</b>	<b>10</b>	<b>6</b>	<b>6</b>	<b>2</b>
<b>% of Total Companies</b>		<b>100%</b>	<b>56%</b>	<b>3%</b>	<b>91%</b>	<b>25%</b>	<b>31%</b>	<b>53%</b>	<b>13%</b>	<b>31%</b>	<b>31%</b>	<b>19%</b>	<b>19%</b>	<b>6%</b>

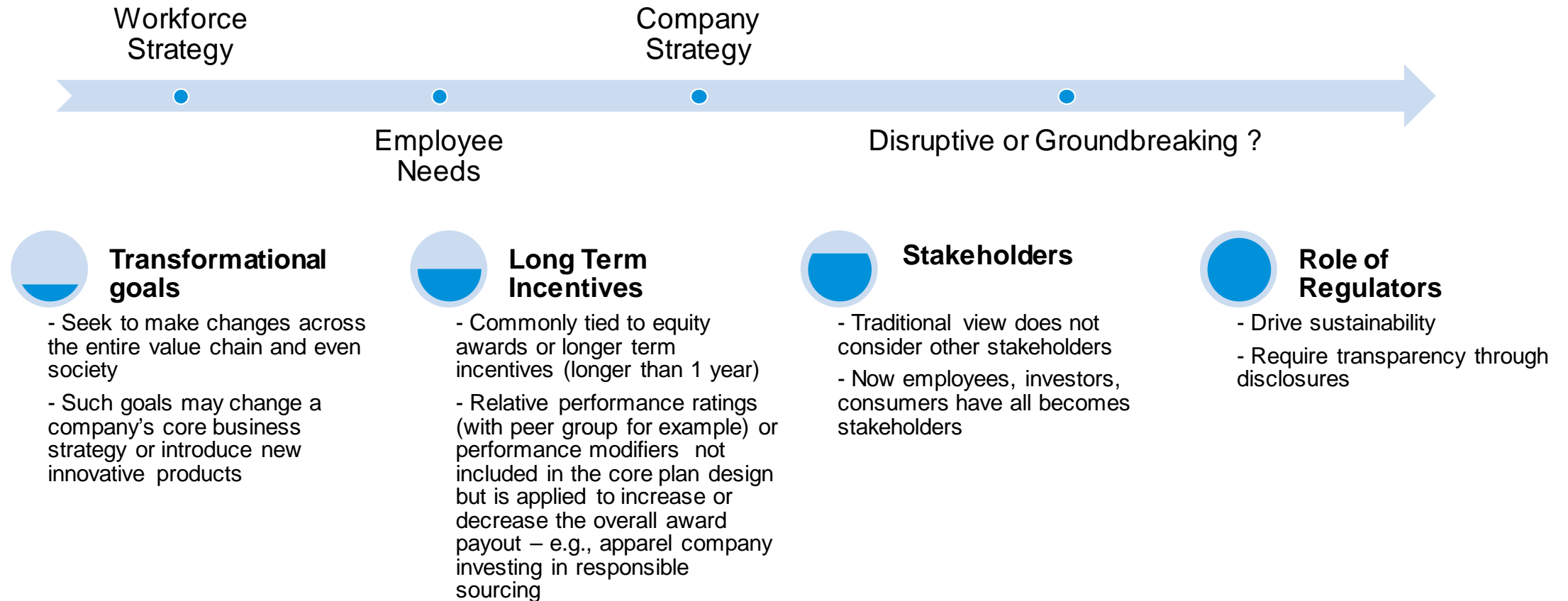


# What's ahead?

Parmjit Sandhu and Ameena Majid



# Future Incentives are a Governance Issue



# Q&A

If you submitted a question, someone from KPMG may contact you via phone or email. Or you may contact one of today's presenters directly:

<b>Parmjit Sandhu</b>	<b>+1 212 954 4063</b>	<b>parmjit.sandhu@kpmg.com</b>
<b>Annalisa Barrett</b>	<b>+1 858 750 7100</b>	<b>annalisabarrett@kpmg.com</b>
<b>Leann Balbona</b>	<b>+1 212 872 3671</b>	<b>lbalbona@kpmg.com</b>
<b>Ameena Majid</b>	<b>+1 312 460 5297</b>	<b>amajid@seyfarth.com</b>
<b>Candace Quinn</b>	<b>+1 212 218 3394</b>	<b>clquinn@seyfarth.com</b>

# Thank you for joining us

The player will now refresh to display an exit survey. Feel free to complete this survey and click the Submit button, your feedback is important to us.

Please send any questions to [us-taxwatch@kpmg.com](mailto:us-taxwatch@kpmg.com).

Visit us at [read.kpmg.us/TaxWatch](http://read.kpmg.us/TaxWatch) for information on upcoming webcasts and on-demand webcast replays. For the latest news, follow KPMG Tax on Twitter [@KPMGUS\\_Tax](https://twitter.com/KPMGUS_Tax)

## **CPE Credit**

If you qualify for CPE, you will receive a notification email approximately 48 hours after this session advising that your certificate is available for download

## **CLE Credit**

CLE credit is available through Seyfarth Shaw only. Please download the CLE form in the Event Resources section of the webcast platform and use code **SS2994**. For any questions regarding CLE credits, please contact Seyfarth Shaw at [CLE@seyfarth.com](mailto:CLE@seyfarth.com)



Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.



[kpmg.com/socialmedia](https://kpmg.com/socialmedia)

KPMG US does not provide legal services and is not part of the Alliance with Seyfarth Shaw LLP, and KPMG US would enter into a separate contract with the client for GMS services. The identification by KPMG US of any potential legal service provider, including Seyfarth Shaw LLP and/or a non-US KPMG member firm or its affiliate, or the provision of any legal services, is directed to the discretion and professional judgment of client's counsel, who will determine the appropriateness of engaging legal counsel to provide such legal services on behalf of the client. Also, any Immigration or Employment/Labor Law Services may only be provided by Seyfarth Shaw LLP or a non-US KPMG member firm or its affiliate under a contract between Seyfarth Shaw LLP and/or a non-US member firm or its affiliate and the client separate from any contract for services with KPMG US.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2021 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. NDP186259-1A

The KPMG name and logo are registered trademarks or trademarks of KPMG International.



# Resources



# HC Metrics to consider disclosing



## **Workforce demographics**

- # of full-time, part-time, and contingent workers
- Policies on and use of subcontracting and outsourcing

## **Workforce stability**

- Turnover (voluntary and involuntary)
- Internal hire rate

## **Workforce composition**

- Diversity
- Pay equity policies/audits/ratios

## **Workforce skills and capabilities**

- Training
- Alignment with business strategy
- Skills gaps

## **Workforce culture and empowerment**

- Employee engagement
- Union representation
- Work-life initiatives

## **Workforce health and safety**

- Work-related injuries and fatalities
- Lost day rate

## **Workforce productivity**

- Return on cost of workforce
- Profit/revenue per full-time employee

## **Human rights commitments and their implementation**

- Principles used to evaluate risk
- Constituency consultation processes
- Supplier due diligence

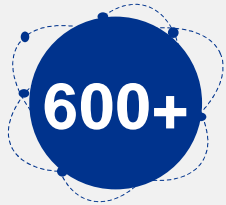
## **Workforce compensation and incentives**

- Bonus metrics used for employees below the named executive officer level
- Measures to counterbalance risks created by incentives

Source: Human Capital Management Coalition, an investor coalition led by the UAW Retiree Medical Benefits Trust and including 28 institutional investors representing over \$4 trillion in assets

# KPMG's ESG services, at a glance

## Dedicated global footprint



Dedicated **Environmental, Social, & Governance (ESG) and corporate social responsibility (CSR) professionals** globally

### Network

of US ESG subject matter practitioners that can support ESG program and reporting efforts

### 50+

Countries within the global network offering key geographic-specific insights

These professionals are supported by a wider network of 200,000+ professionals in 150+ countries.

## Diverse client and sector experience

 <b>Consumer Goods &amp; Retail</b>	 <b>Healthcare &amp; Life Sciences</b>	 <b>Industrial Markets</b>	 <b>Technology, Media &amp; Telecom</b>
 <b>Private Equity</b>	 <b>Energy &amp; Natural Resources</b>	 <b>Financial Services</b>	 <b>Government &amp; Public Sector</b>

## ESG services portfolio

For each stage of your ESG journey, KPMG offers tools and services to meet your needs, whether it be refreshing your ESG strategy or evaluating ESG program effectiveness



## Our differentiators

- Deep **industry knowledge** from dedicated teams
- ESG methodologies **demonstrated in the field**
- Subject matter professionals **experienced in ESG strategy, program development and reporting**
- **Seamless integration** with our industry specialists
- Track record of **delivering superior client value**

# Resources

**Seyfarth Publication:** [ESG: The Building Blocks of a Sustainable and Resilient Business Strategy \[Part 1 of 4\]](#)

**Seyfarth Publication:** [Getting into the ESG Disclosure, Rating and Ranking Game \[Part 2 of 4\]](#)

**Seyfarth Publication:** [ESG Disclosures: Lessons Learned and Best Practices \[Part 3 of 4\]](#)

**Seyfarth Publication:** [Building an ESG Strategy: The Role of the Board and Executive Compensation \[Part 4 of 4\]](#)

**Seyfarth Publication:** [New York's Disclosure Law and Other Laws and Regulatory Mandates Regarding Women on Corporate Boards](#)

**Seyfarth Publication:** [The SEC Paves a Path to Formally Address ESG From All Sides](#)