

Date Oct 25 2023



Finding Opportunities in Sustainability Standards

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Learning Objectives

1

Understand the shifts that Finance functions need to make

2

Appreciate the changing landscape of reporting driven by Sustainability Standards

3

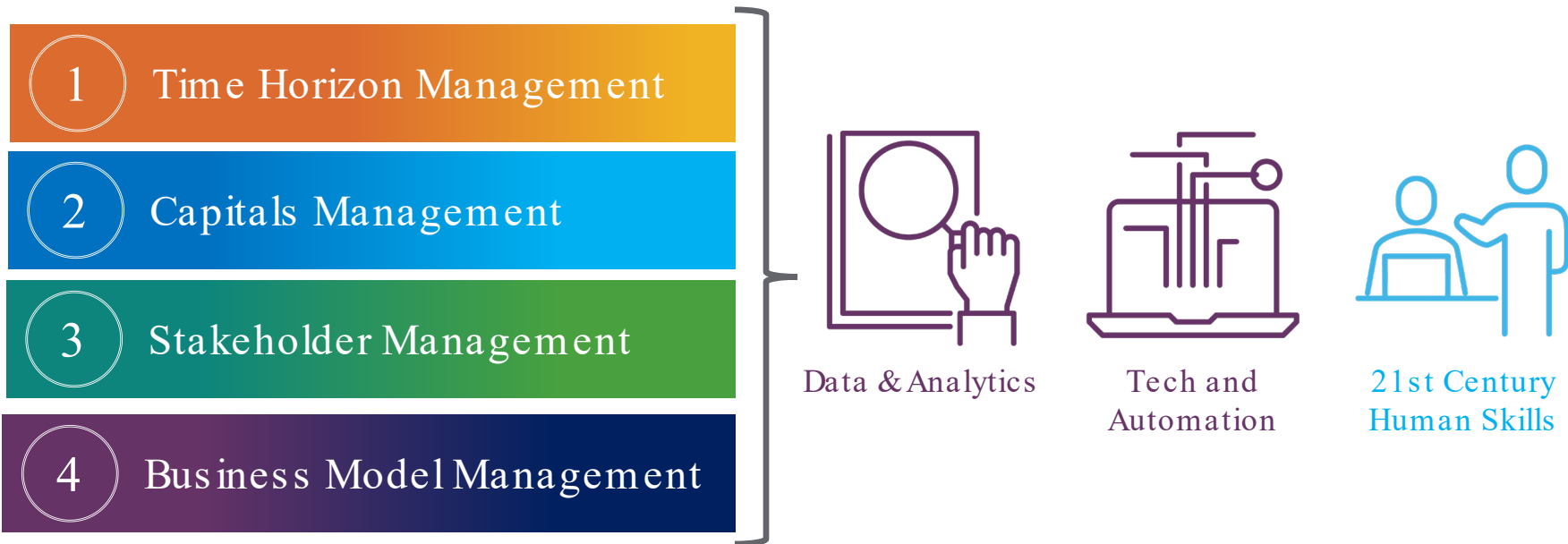
Identify areas of client advisory support engagement opportunities

The backdrop

- ✓ The 4 Big Shifts
- ✓ The enablers of the shifts

The 4 Big Shifts Required

Finance should be focused on maximizing **value creation** by driving decision-making towards effective & efficient allocation and deployment of **capital, resources & relationships, transforming business models for long term success.**





New horizons in time

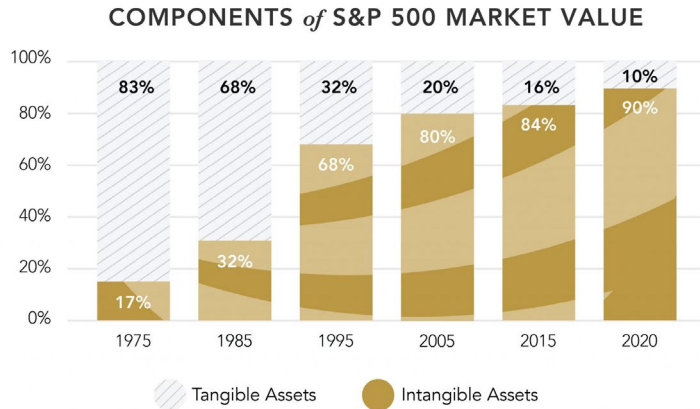
3. This Standard requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term.

Shifts in Capital and Time-Horizon Management

Shareholder Returns



Societal Impact



SOURCE: OCEAN TOMO, A PART OF J.S. HELD, INTANGIBLE ASSET MARKET VALUE STUDY, 2020

Asset Management

- Manufactured
- Financial

FINANCIAL REPORTING



Intangible Asset Management

- Human
- Natural
- Intellectual
- Social/Relationship

SUSTAINABILITY REPORTING



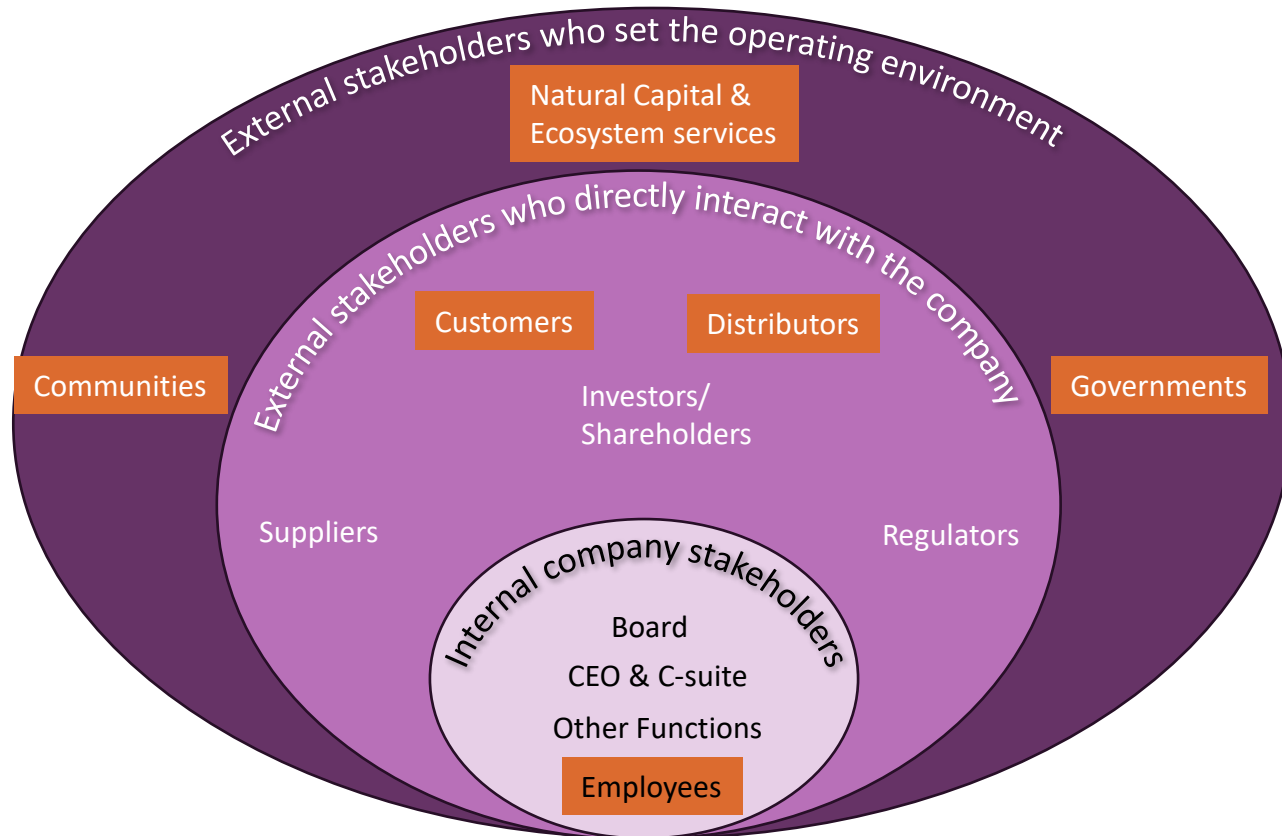
New connections

21. An entity shall provide information in a manner that enables users of general purpose financial reports to understand the following types of connections:

(b) the connections between disclosures provided by the entity:

(ii) across its sustainability-related financial disclosures and other *general purpose financial reports* published by the entity – such as its related financial statements.

Shifts in Stakeholder Management

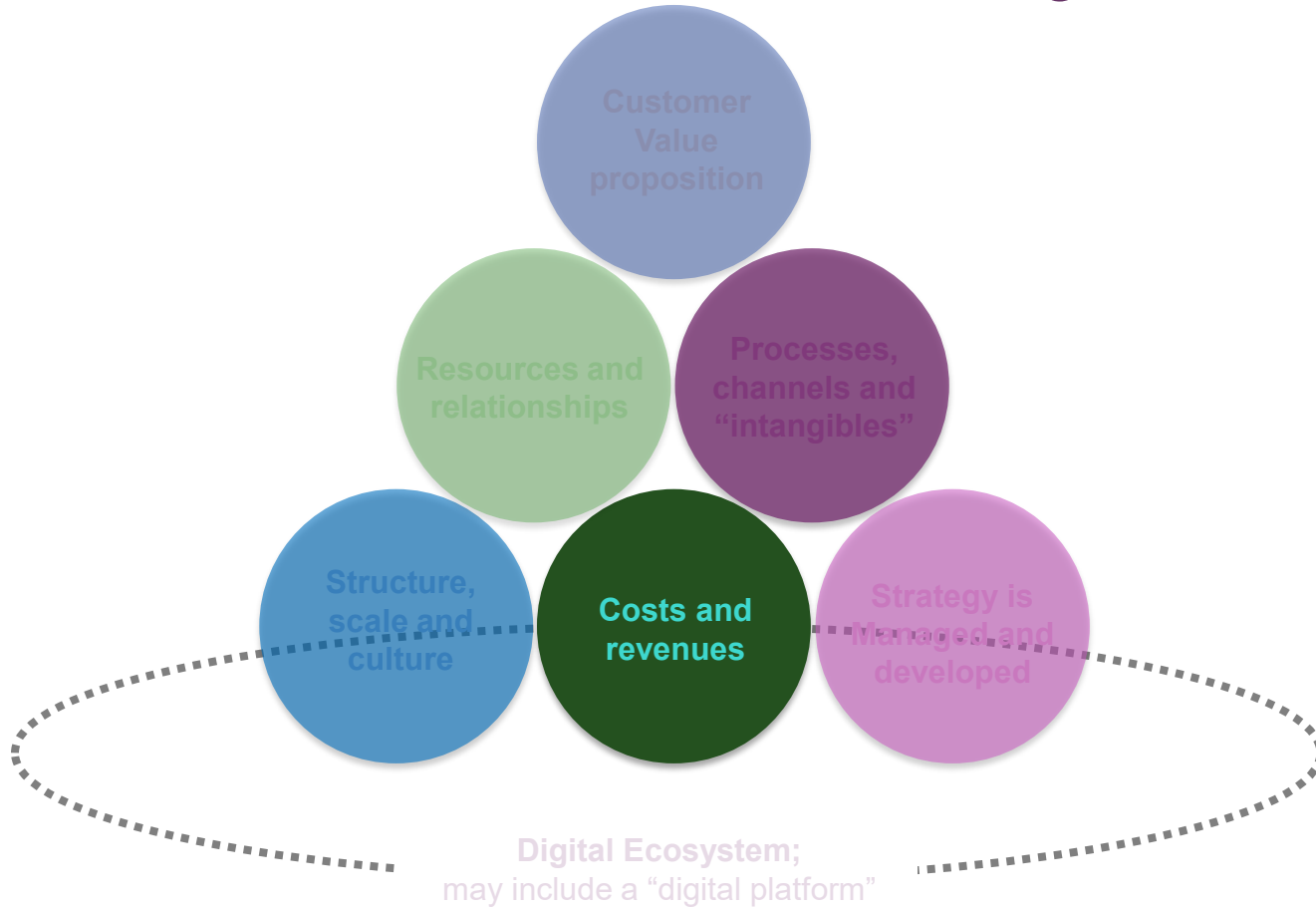




New horizons in space

2. Information about sustainability-related risks and opportunities is useful to primary users because an entity's ability to generate cash flows over the short, medium and long term is inextricably linked to the interactions between the entity and its stakeholders, society, the economy and the natural environment throughout the entity's *value chain*. Together, the entity and the resources and relationships throughout its value chain form an interdependent system in which the entity operates.

Shift in Business Model Management



Shift in Business Model Management



New language of accountancy



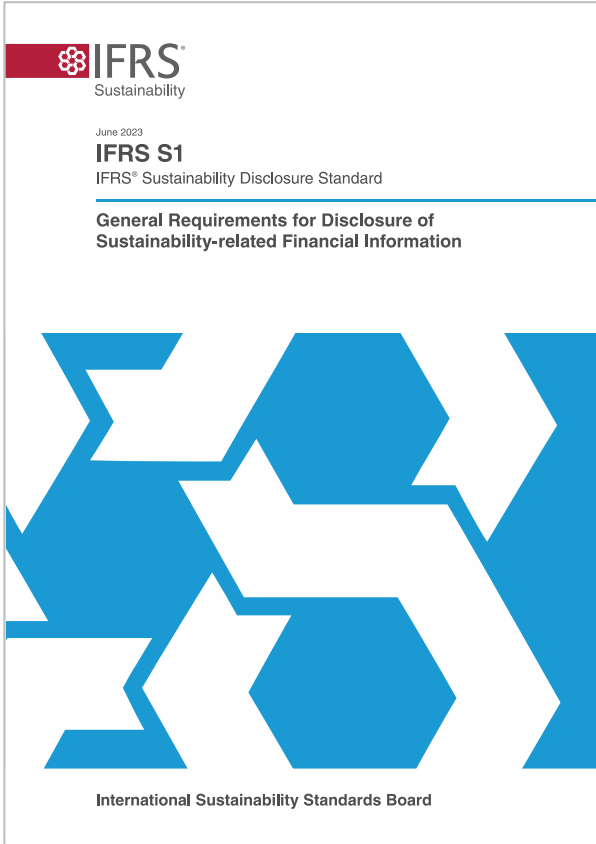
B4. Resources and relationships that an entity depends on and affects by its activities and outputs can take various forms, such as natural, manufactured, human, social or financial. They can be internal – such as the entity’s workforce, its know-how or its organisational processes – or they can be external – such as materials and services the entity needs to access or the relationships it has with suppliers, distributors and customers. Furthermore, resources and relationships include, but are not limited to, the resources and relationships recognised as assets in the entity’s financial statements.

The Standards

✓ Global baseline

✓ USA

✓ Europe





PROPOSED RULE:

The Enhancement and Standardization of Climate-Related Disclosures for Investors (March 2022)

DISCLOSURES:

Newly created section of 10-K requires qualitative disclosures and metrics:

- Climate-related risks and their actual or likely material impacts on the registrant's business, strategy, and outlook;
- Governance and oversight of climate-related risks and relevant risk management processes;
- Greenhouse Gas ("GHG") emissions aggregated and disaggregated for Scope 1 and Scope 2, Scope 3 (upstream/downstream activities in value chain) if material, or if a GHG goals include Scope 3;
- Climate-related targets and goals, and transition plans, if any.

Attestation Requirements

- Scope 1 and Scope 2 GHG emission disclosures subject to limited assurance during a phase-in period, followed by reasonable assurance. Assurance is not required for small reporting companies

NEW CALIFORNIA LAWS



Private and Public Businesses Operating in the State (reports due January 1, 2026)

SB 253: The Climate Corporate Data Accountability Act

- revenues greater than \$1 billion
- report emissions, including scopes 1, 2, and 3
- obtain third-party assurance of the reports

SB 261: The Climate-Related Financial Risk Act

- revenues greater than \$500 million
- prepare and submit an annual climate-related financial risk report



EU's Corporate Sustainability Reporting Standards (CSRD), effective date 1 January 2024



- Applies to all companies listed on EU regulated markets and companies of > 250 people, including EU subsidiaries of non-EU companies
- Disclosures are published in a dedicated section of the company's management report (e.g., annual report)
- EU sustainability reporting standards (ESRS) require:
 - Sustainability topics covering environmental, social and governance matters and information about strategy, governance, and sustainability-related impacts, risks and opportunities
 - Double materiality assessment (financial and societal impact)

EU's CSR Directive

In the EU alone, the CSRD will ensnare over 50,000 organizations, a massive jump up from the relatively paltry 11,000 falling within the NFRD.

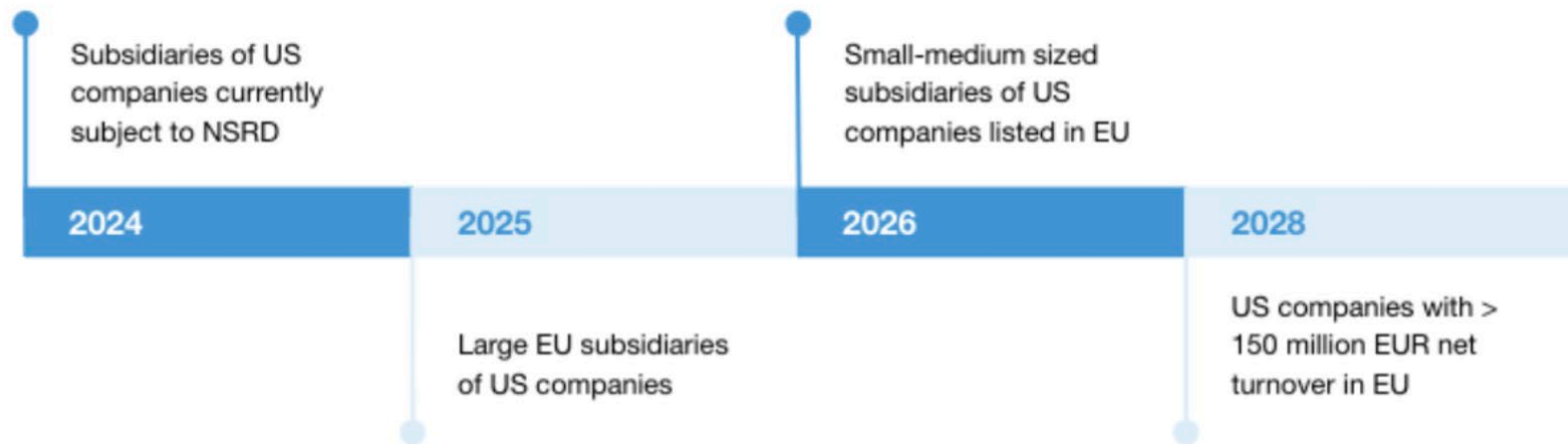


European Sustainability Reporting Standards



| Cross-cutting standards | | |
|---|--------------------------------------|----------------------------|
| ESRS 1 | General requirements | |
| ESRS 2 | General disclosures | |
| Topic specific standards | | |
| <i>Environmental</i> | <i>Social</i> | <i>Governance</i> |
| ESRS E1 - Climate Change | ESRS S1 - Own workers | ESRS G1 - Business conduct |
| ESRS E2 - Pollution | ESRS S2 - Workers in the value chain | |
| ESRS E3 - Water & marine resources | ESRS S3 - Affected communities | |
| ESRS E4 - Biodiversity & ecosystems | ESRS S4 - Consumers & end-users | |
| ESRS E5 - Resource use & circular economy | | |
| Coming soon... | | |
| Sector-specific standards & SME / Non-EU parent proportionate standards | | |

CSRD / ESRS adoption timeline & assurance



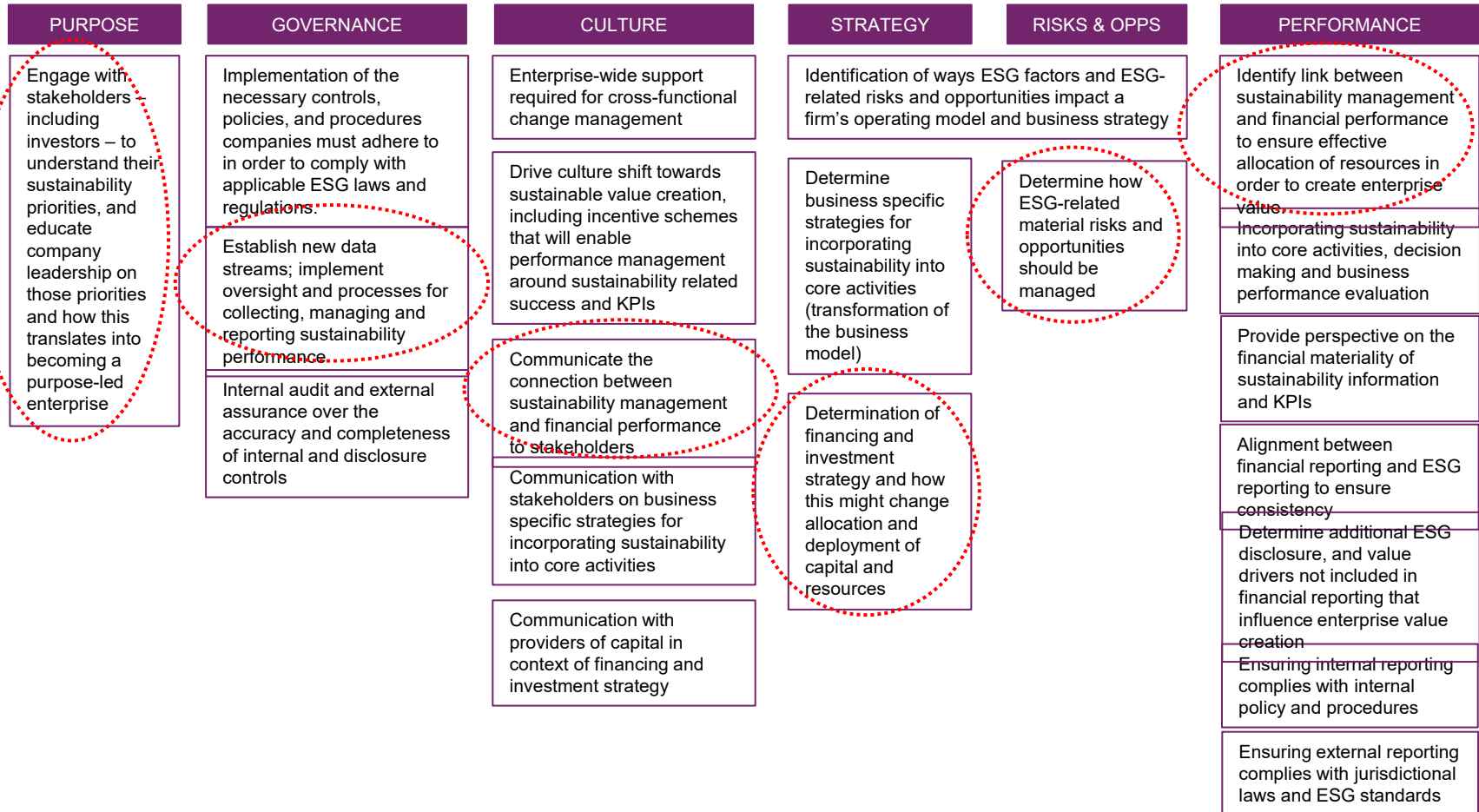
The Opportunities

✓ Strategy

✓ Business implementation

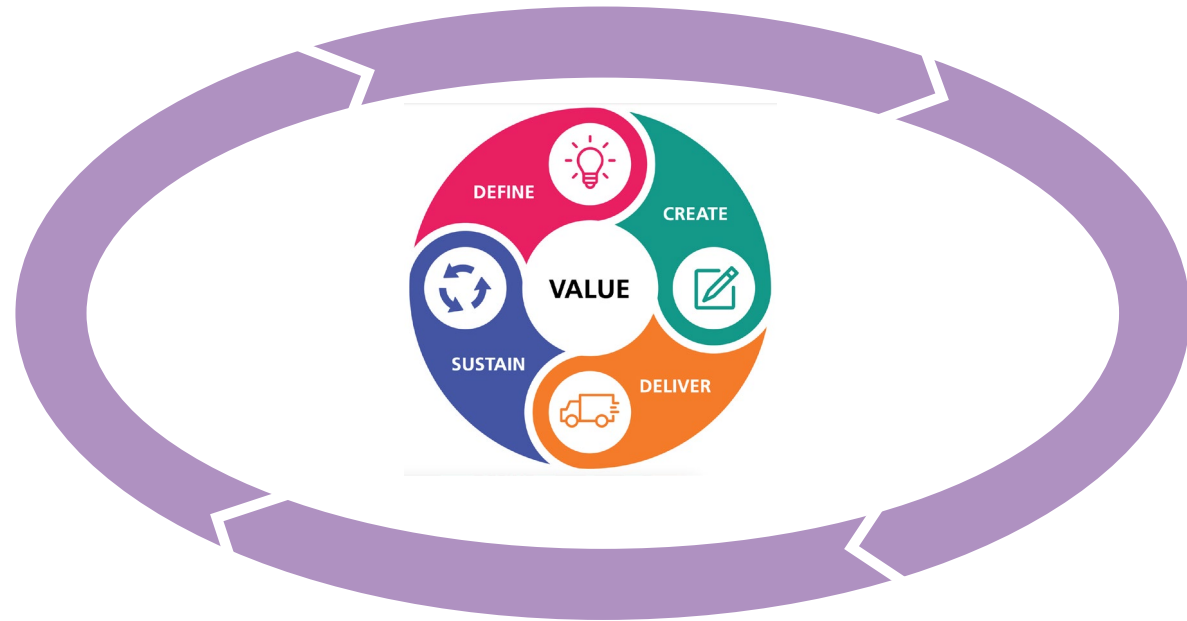
✓ Reporting

The Finance Function and sustainability



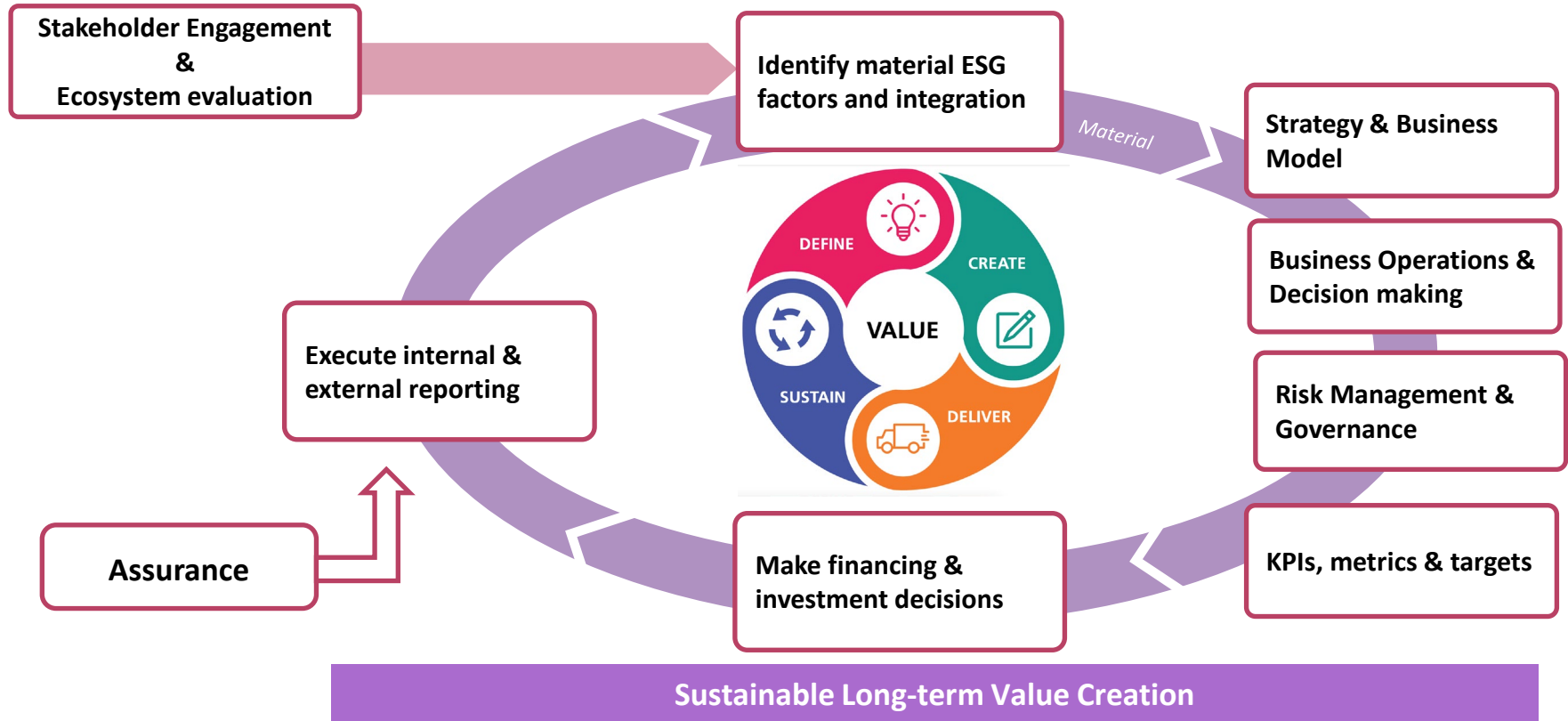


Wide ranging implications for ESG & Sustainability



Sustainable Long-term Value Creation

Wide ranging implications for ESG & Sustainability



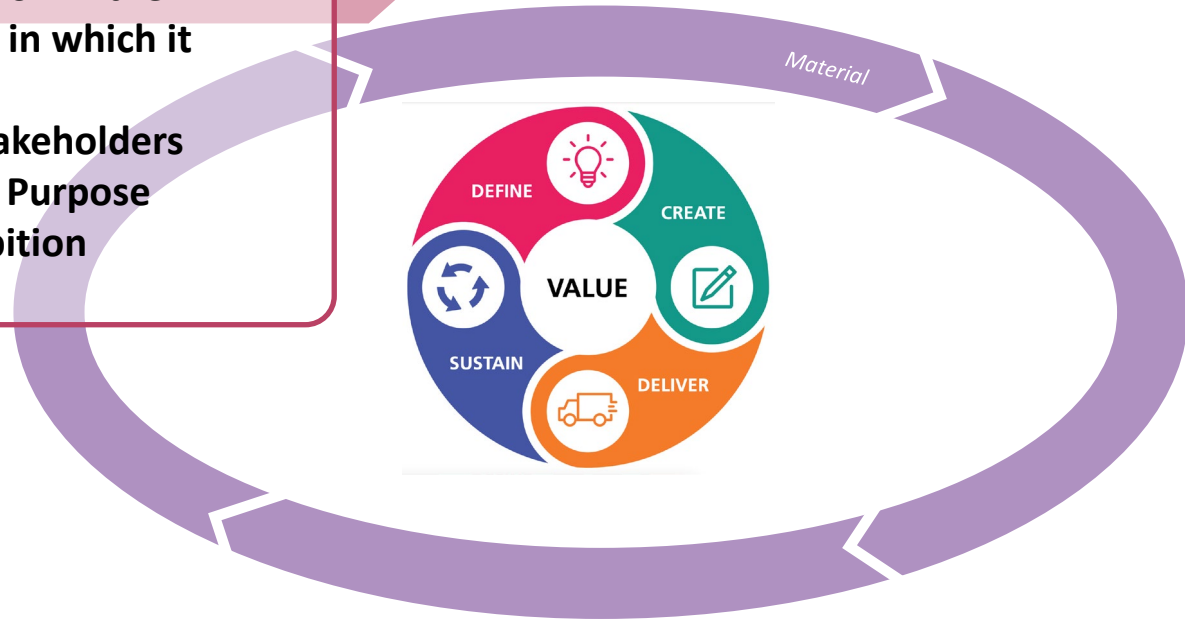
Note: the specific role of the CFO / accounting & finance teams will vary by organization. In all cases, finance will partner with internal and external stakeholders.

Sources: adapted from [KPMG's Integrating ESG into your business](#) and the [Task Force on Climate-related Financial Disclosures \(TCFD\) framework](#).

Wide ranging implications for ESG & Sustainability

Stakeholder identification in the enterprise's ecosystem in which it operates

- Identify relevant stakeholders
- Craft and agree the Purpose
- Articulate ESG ambition



Sustainable Long-term Value Creation

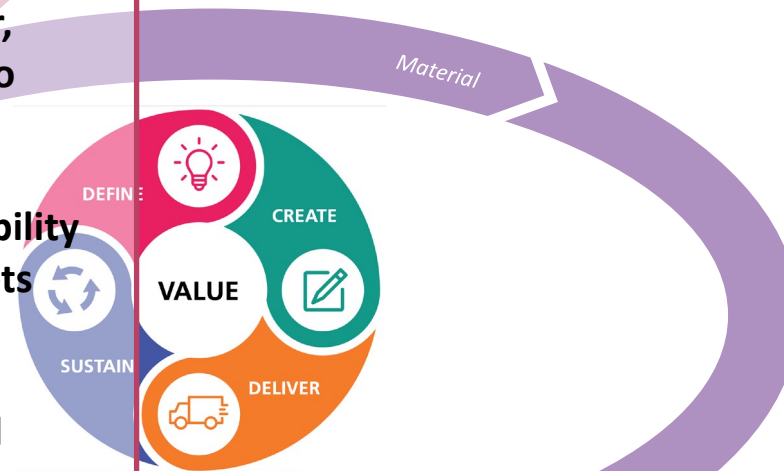
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Wide ranging implications for ESG & Sustainability

Identify material ESG factors based upon ISSB classification

- Identify relevant categorization of sector, industry and disclosure topics relevant to each of the segments of the business
- Metrics for specific channels of financial impact for each industry based sustainability topic, including revenues and costs, assets and liabilities, and cost of capital.
- Firm understanding of the connection between sustainability performance and financial performance.
- Understand the impacts that the management of sustainability issues will likely have on a company's financial condition or operating performance

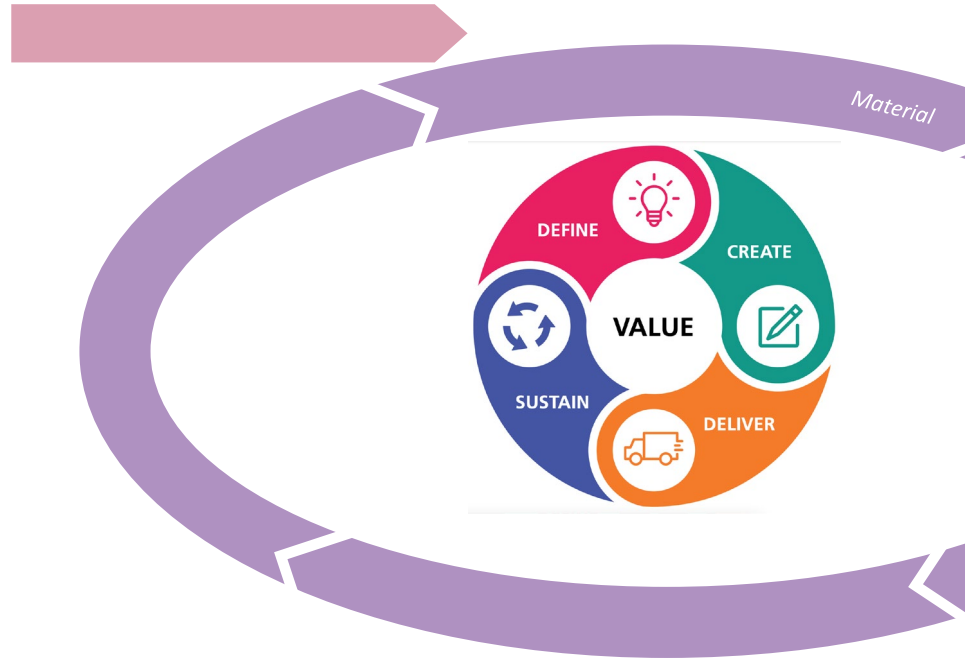


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Wide ranging implications for ESG & Sustainability



KPIs, metrics & targets

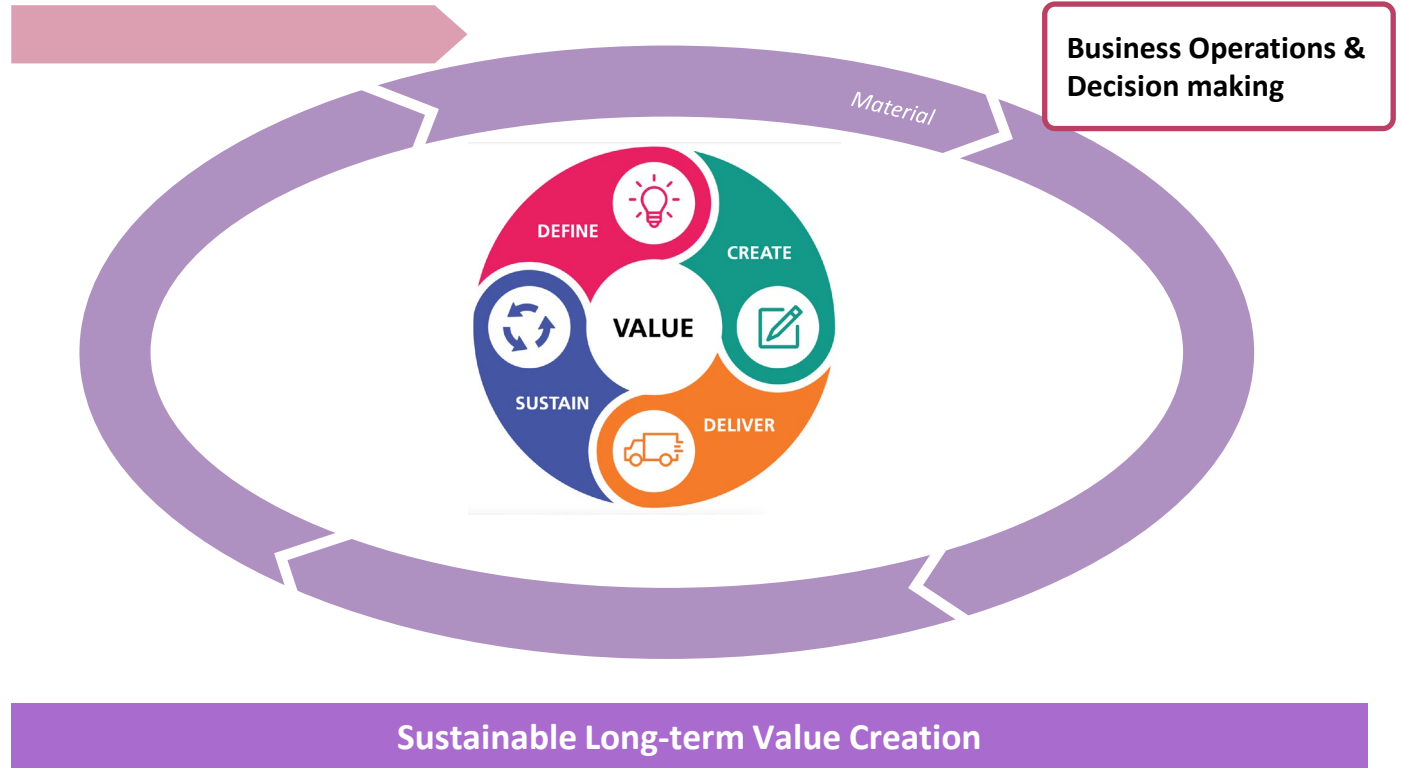
- **Chose the right disclosure topics and Metrics based on industry**
- **Identify the accurate sources of data.**
- **Deploy technology to capture, track and report.**
- **Build into business performance**

Sustainable Long-term Value Creation

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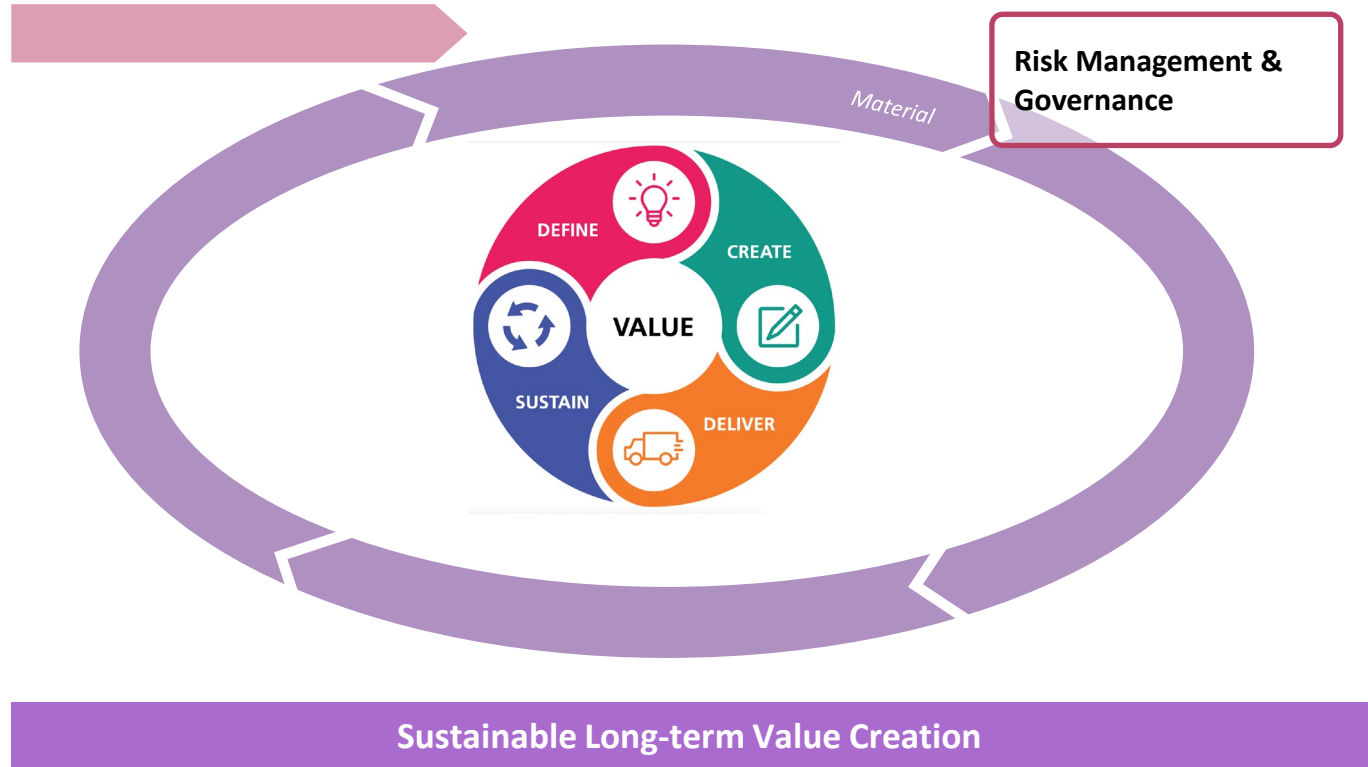
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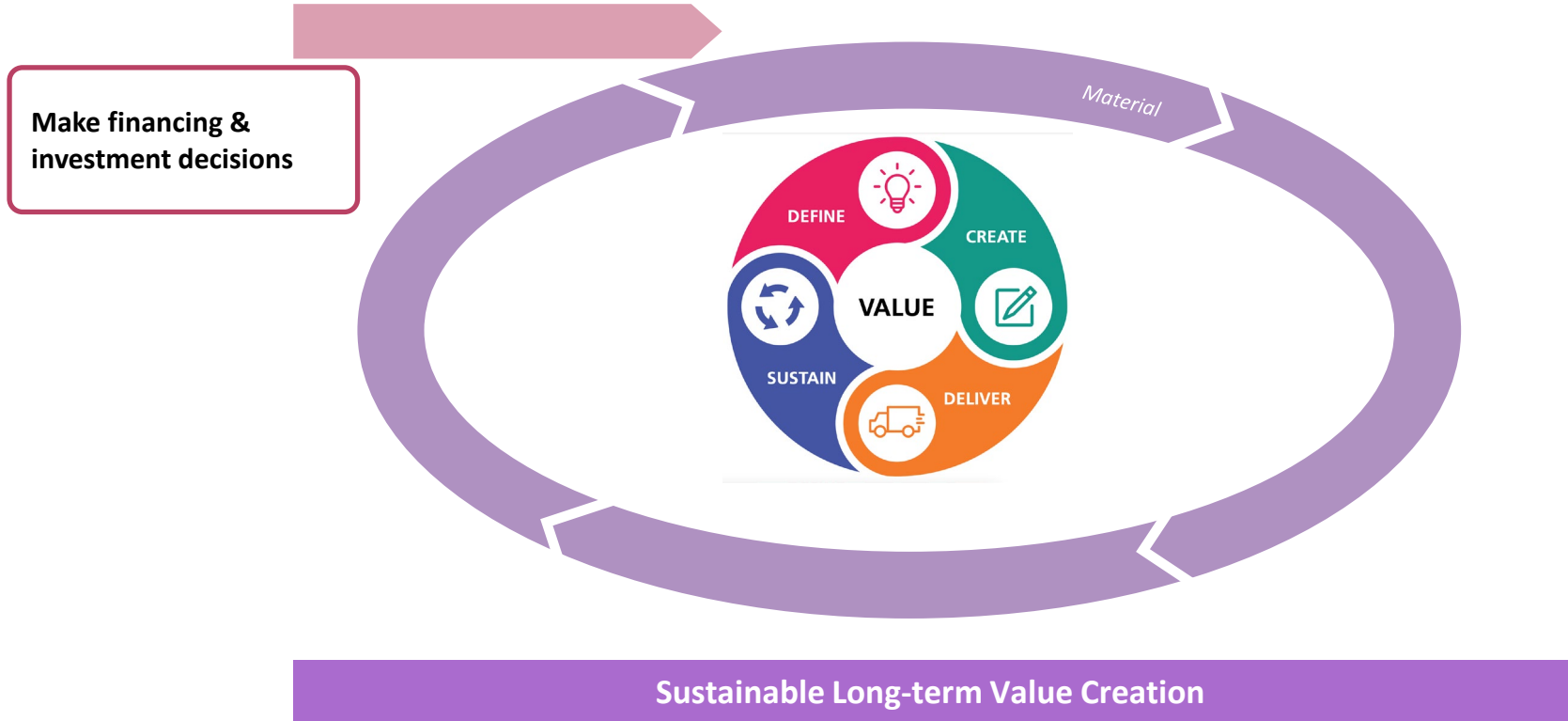
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Wide ranging implications for ESG & Sustainability



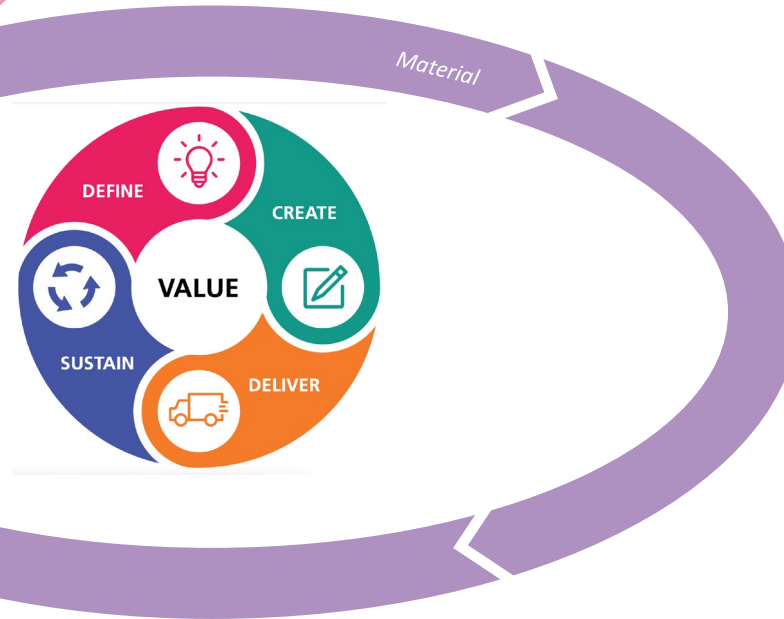
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Wide ranging implications for ESG & Sustainability

Execute internal & external reporting

- Use interpretive guidance and Principles based guidance.
- Determine what line item disclosure is required What companies report and how they report it.
- Determine the variety of channels including, annual reports, integrated reports, regulatory filings, annual sustainability reports, periodic web-based reports.
- Choose the disclosure channel best suited to the audience.



Sustainable Long-term Value Creation

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Resources



Learning & Certifications



Practice Management

Overview of AICPA & CIMA's ESG learning offerings



Strategic partnership with the University of Oxford's Saïd Business School to equip accounting and finance professionals with the tools and knowledge to make businesses more sustainable. We are jointly offering a new Online ESG & Sustainable Financial Strategy Course, giving participants access to faculty members with world-leading expertise in sustainability issues, and an unparalleled opportunity to develop a global peer group. The first cohort kicks off on 27 September 2023 and enrolment is now open.



Fundamentals of Sustainability Accounting (FSA) Credential, offering this to our members at a special discounted price through working with the IFRS Foundation. Finance and accounting professionals can learn to identify, analyze and communicate the sustainability factors that affect a company's financial position and operating performance with the FSA Credential.



Fundamentals of ESG Certificate to help accounting and finance professionals embrace ESG. The program offers a first step in the learning journey for the high-growth area of sustainability reporting and assurance.

CPA.com ESG Practice Development Program

Problem

Increase brand awareness and technical competency in a new category

Solution

ESG Practice Development Program

Market

MFG members looking for accelerated growth

Why now

Pending SEC Climate Reporting regulation

Key Program Phases

1. ESG Practice Design: Firm Roadmap

- ESG Practice design based on product market fit
- Product offering definition
- ESG Growth Roadmap
- Monthly peer review
- Quarterly trends & analytics

2. Thought Leadership: Position firm as market leader

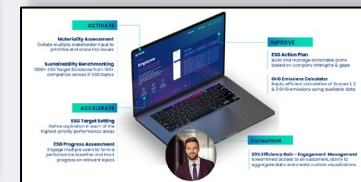
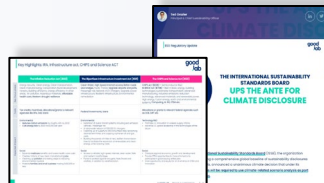
- Best analyses of SEC regulation (pre-kickoff)
- 20 ESG campaigns: article + meta data + post & email content
- 5 industry deep dives (articles + research data)
- 4 ESG webinar presentations
- 5 Research Reports or whitepapers
- 4 Case Studies
- Modular customer workshop (for boards)
- Quarterly SEO & SEM insights

3. Service Delivery Enablement

- Library of service delivery tools, templates and best practices
- 10 service delivery technical trainings
- 5 regulatory focused trainings
- Access to ESG SMEs upon request

4. Build the Business

- Sales template library: sales deck, scope, & pricing templates
- 5 ESG Sales trainings
- Access to SME sales support upon request



Monthly Subscription Model



Together as the Association of International
Certified Professional Accountants

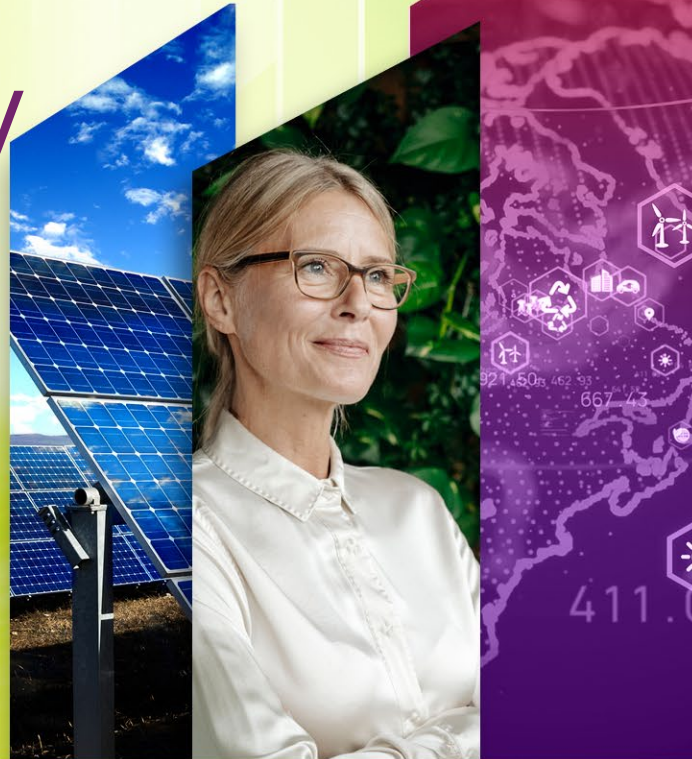
ESG & Sustainability Conference

*Implementation Imperative from
Theory to Practice*

December 13-14

Live online

Register at bit.ly/ESGconf



Save \$250 through Sept 1

Final thoughts and Conclusions



Business Learning
Institute

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