

SUSTAINABILITY:

The Role of the Accountancy Profession

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International
Federation
of Accountants

A large, stylized globe of the Earth is the central focus of the right side of the slide. The globe is rendered in shades of blue and green, with a grid of latitude and longitude lines. It is surrounded by several white, curved lines that suggest a globe or a network, and some small white dots are scattered around the globe. The background is a solid blue color.

**IFAC GLOBAL
SUSTAINABILITY
DIALOGUE**

AGENDA

Call to Action for Accountancy Profession

Role of Accountants as “enablers” of sustainable transition

1. Sustainability Starts Inside of Companies: “Integrated Mindset”
2. Building a Global System for Reporting: Building Blocks Approach
3. Trust & Confidence in Disclosure: High-quality Assurance

Getting to Net Zero

Accelerating Sustainability

IFAC'S CALL TO ACTION

1. We need high-quality sustainability information
2. We must champion our profession

TIME FOR ACTION ON SUSTAINABILITY: NEXT STEPS FOR THE ACCOUNTANCY PROFESSION



With the establishment of the International Sustainability Standards Board (ISSB), the way forward is clear: The accountancy profession must lead on climate reporting and other material environmental, social and governance disclosures and their assurance—contributing to strong and sustainable financial markets and economies and enabling the UN's Sustainable Development Goals.

ACTIONS

- 1 Advocate for smart sustainability-related policymaking & regulation—starting with support for the new ISSB and requiring assurance of sustainability disclosures.
- 2 Adopt an integrated mindset—breaking down information silos within companies and promoting an interconnected approach to what companies report and have assured.
- 3 Be proactive on climate reporting—complying with existing standard-setter requirements and best practices.
- 4 Demonstrate sustainability-related skills and competencies—ensuring professional accountants continue to expand the value-added services they are able to offer in the future.

ACCELERATE SUSTAINABILITY

- To address the climate crisis
- To promote sustainable organizations that create long-term value for investors, stakeholders, and society
- To enable reporting entities and investors to measure and assess progress towards sustainability objectives

THE OBJECTIVE

ENABLE HIGH-QUALITY & DECISION-USEFUL INFORMATION

AVOID REGULATORY FRAGMENTATION

- To promote consistency and comparability for investors and capital markets
- To reduce cost, complexity, and confusion for reporting entities



Support and promote the ISSB—the accountancy profession is an essential stakeholder

- The path to globally comparable, decision-useful, and assurable sustainability disclosure starts with a comprehensive baseline of standards set by the ISSB. This is **Block 1 of the Building Block Approach**: investor-focused information.
- The accountancy profession should encourage and contribute to the completion of the ISSB's climate standard in 2022, with potential endorsement by IOSCO. This is step one in the ISSB's mission to develop standards addressing a broad range of environmental, social and governance factors.

- Now is the time to engage with local policymakers and regulators about how to build on the success of IFRS Accounting Standards adoption and to develop a similar **pathway for IFRS Sustainability Disclosure Standards**.
- Policymakers must collaborate and align jurisdiction-specific requirements with global requirements developed by the ISSB.



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1. SUSTAINABILITY & VALUE CREATION

It all starts inside of companies

Championing an Integrated Mindset

- What is an integrated mindset; why needed?
 - Better decision making
 - Better reporting
- Breaking down information silos
 - Engaging the CFO and Finance Team
- Building trust in information

Chairs of the IASB and ISSB articulate a future path for the Integrated Reporting Framework and Integrated Thinking Principles

CHAMPIONING AN INTEGRATED MINDSET TO DRIVE SUSTAINABLE VALUE CREATION 

What is an integrated mindset and why is it needed?

An integrated mindset is essential to an organization's ability to advance sustainable value creation. As the world in which businesses operate has radically changed, sustainability and financial risks are converging. Achieving sustainable value creation requires organizations to think, measure, manage and report in a more integrated manner, and incorporate sustainability matters in governance, strategy, risk management, metrics and targets, and corporate reporting.

At its core, an integrated mindset is about improving the quality of sustainability information and processes and connecting these to financial reporting and the value of the business. This leads to better decision making and communication with stakeholders, and consequently to reduced risk and cost of capital, as well as growth opportunities.

BETTER DECISION MAKING TO ENABLE BOARD AND MANAGEMENT ACCOUNTABILITY

Management and boards are enabled to make informed decisions and provide effective oversight of sustainable value creation by taking into account all relevant information. This involves ensuring all material sustainability impacts and dependencies, related risks and opportunities, and their financial implications, are identified, measured, tracked and considered in decision-making.

Sustainability information relevant to strategy and business model is used to identify company priorities that best lead to the creation and protection of value for the organization, as well as the environment and society.

Resource allocation and performance is aligned by incorporating sustainability priorities into planning, capital allocation decisions, performance dashboards and reporting across the organization.

BETTER REPORTING TO ENABLE TRANSPARENCY AND DECISION-USEFUL DISCLOSURE

Investors, capital markets, regulators and others demand improvements in corporate reporting to enhance transparency and to ensure capital is allocated toward sustainable value creation.

Sustainability disclosure is evolving quickly to meet investor and other stakeholder needs.

- IFRS Sustainability Disclosure Standards will create a comprehensive global baseline and connect sustainability risks and opportunities to economic decision making and the value of the business (i.e., enterprise value creation).
- Jurisdiction-specific initiatives can complement global requirements, particularly in relation to multi-stakeholder, impact-focused reporting.

Decision-useful disclosure will only follow if financial and sustainability information and their supporting business processes and systems are integrated, and the quality of sustainability information, as well as its connectivity to financial position and performance, is improved. Connecting sustainability information also provides greater insight into intangible knowledge assets that drive enterprise value.

IFAC calls on businesses to promote and enable an integrated mindset to enhance decision making and corporate reporting

HOW IS AN INTEGRATED MINDSET ACHIEVED?

Breaking down silos: The Role of the CFO & Finance Team

Boards and CEOs are turning to CFOs to enhance the connectivity and maturity of information by:

- Consolidating and prioritizing relevant issues and information from various corporate functions and external sources about sustainability impacts and significant opportunities and risks, and subsequently ensuring integration of this information into planning, financial analysis, and scorecards.
- Connecting information and reporting processes—i.e., governance, risk, ESG, financial—into a more integrated corporate reporting process that provides a comprehensive picture of performance and value creation to the organization, its investors, and other stakeholders.
- Objectively analyzing and reconciling trade-offs—i.e., between stakeholder interests within and outside the organization, and potential initiatives and their relative contribution to value creation.
- Leveraging the professional accountant's expertise in reporting processes, systems and controls; regulatory compliance and adherence to standards; and building confidence through internal and external assurance.

The professional accountant's skillset, ethics and business acumen are critical to high-quality and decision-useful sustainability information

Building Trust in Information

Confidence in sustainability data and information can be achieved by:

- Boards and audit committees fulfilling their oversight responsibilities for instilling a culture of integrity and ethics, and comprehensive, interconnected corporate reporting and related risk management, and assurance.
- Applying financial reporting principles and controls to material sustainability disclosure so that sustainability information is reliable, relevant, decision-useful and timely (i.e., it can be disclosed at the same time as the financial statements).
- Establishing an organization-wide data and decision-making architecture that provides consistency to relevant metrics and KPIs—thereby enabling reliability and comparability across regions, business units, and subsidiaries.
- Leveraging technology—i.e., automation of data extraction, digital workflows with embedded controls, and use of analytics.

Explore case studies highlighting the role of CFOs and their teams in sustainability.

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2. BUILDING A GLOBAL REPORTING SYSTEM

Standard setting update

ISSB / IFRS Foundation

- Exposure Drafts for Climate and General Requirements
- Collaboration agreement with GRI
- Working groups

Pathway to a Global Baseline

- “Necessary institutional and technical underpinnings” to be completed by year-end.
- G7 endorsement of global baseline
- IOSCO endorsement will provide basis for how to adopt or be informed by ISSB stds.

2. BUILDING A GLOBAL REPORTING SYSTEM

Standard setting update

U.S. SEC Climate-Related Disclosures for Investors

- Stakeholder consensus that SEC and ISSB requirements share key areas of alignment

EFRAG's European Sustainability Reporting Standards (ESRS)

- Stakeholder concerns over granularity and complexity, alignment with ISSB, too much too fast

IFAC Supports Key Global Themes

- Alignment between ISSB & jurisdictional reporting
- Two perspectives on materiality
- Leveraging existing frameworks / standards
- Mandatory reporting and assurance
- Global, IAASB assurance standards
- Connecting ESG and financial information



2. BUILDING A GLOBAL REPORTING SYSTEM

Simplifying Complexity

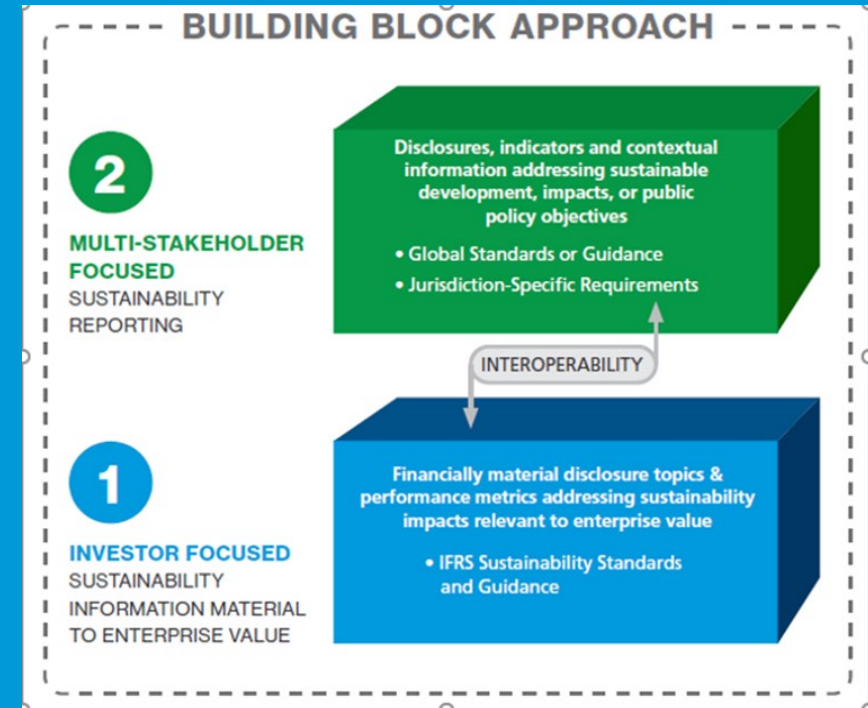
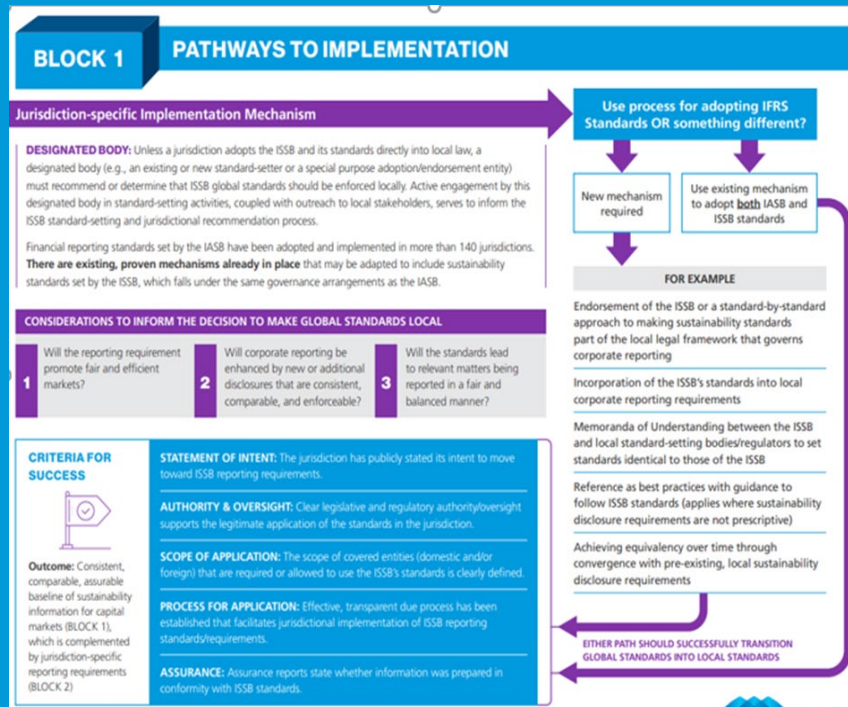
Engage with local authorities - Consistent, comparable, assurable *global baseline* for capital markets that may be *complemented* by jurisdiction-specific requirements

Perspective 1:

Outside-in disclosures – Material impacts on EV/performance

Perspective 2:

Inside-out disclosures - Multi-stakeholder / society impacts



3. THE STATE OF PLAY: UPDATE

Reporting & assurance of ESG information

**THE STATE OF PLAY IN REPORTING
AND ASSURANCE OF SUSTAINABILITY
INFORMATION: UPDATE 2019-2020
DATA & ANALYSIS**



JULY 2022



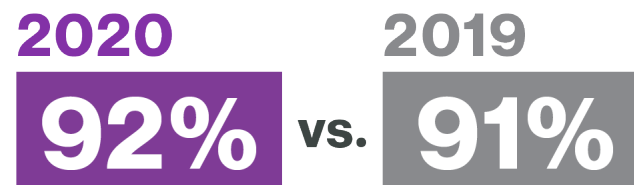
Based on 2020 reporting

- New data on rapidly evolving market
- Supports evidence-based policy development
- Reinforces [IFAC Vision](#) for High-Quality Assurance (December 2021)
- 2021 reporting cycle data is next

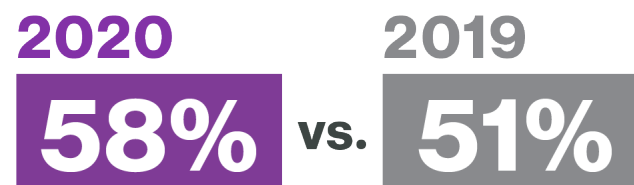
MAPPING GLOBAL REPORTING AND ASSURANCE PRACTICES

This study was designed to update understanding (based on 2020 reporting) of market practice for the assurance of environmental, social, and governance (ESG or sustainability) information, globally. 1400 companies across twenty-two jurisdictions were reviewed. (See Methodology Section.) A company was considered to have reported ESG information or obtained assurance, regardless of how much information was provided or assured (i.e., one GHG number counts).

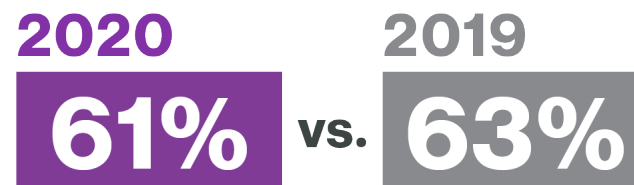
KEY FINDINGS: 2020 VS. 2019



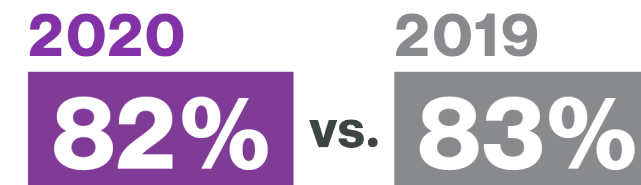
reported some ESG information



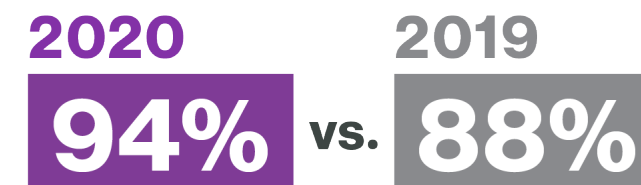
obtained some level of assurance



of assurance engagements were conducted by Firms



of assurance was limited in nature



of Firms applied ISAE 3000 (Revised)

For the second year, our analysis indicates that while the frequency of reporting ESG information is high, the incidence of assurance is not, and there are meaningful differences in practice across jurisdictions.

SUMMARY CHANGES: ASSURANCE



ASSURED ESG INFORMATION.

The percentage of companies which obtained assurance on some of their 2020 ESG reporting increased from:

Double-digit increases were noted in Australia, Brazil, Canada, Italy, Russia, Turkey, and the U.K.

51%

in 2019

to

58%

in 2020

WHO PROVIDES ASSURANCE.

Of **833** separate assurance reports from **741** companies:

61%

of engagements (i.e., 505 out of 833 reports) were conducted by audit firms or their affiliates—a nominal change from **63% in 2019**.

The majority of assurance engagements in Hong Kong S.A.R., China; India; Indonesia; South Korea; U.K. and U.S. were not conducted by audit firms or their affiliates.

Assurance Standards. ISAE 3000 (Revised) remained the most widely used standard for ESG assurance engagements—increasing from:

68%

in 2019

to

72%

in 2020

94% of Firms (or their Affiliates) used ISAE 3000 (Revised), while non-IAASB standards were most commonly used by other service providers (i.e., only 39% used IASE 3000).

Level of Assurance. **97% of audit firm-related engagements** resulted in limited assurance reports. In contrast, **59%** of engagements conducted by other service providers resulted in limited assurance, while moderate assurance (**23%**) and reasonable assurance (**18%**) were also prevalent.


IFAC VISION FOR HIGH-QUALITY SUSTAINABILITY ASSURANCE

Emerging Best Practices

- **Regulatory frameworks** - deliver decision-useful information (with assurance)
- **Alignment** - between sustainability and financial information
- **Interconnected approach** – between financial audit and sustainability assurance engagements

Foundation of High-Quality Global Standards

- **Harmonized, global reporting system** – provides best basis for high-quality assurance
- **IAASB Standards** – drive evolution and consistency of assurance engagements
- **Regulation and enforcement** – deliver uniform application of global standards

IFAC'S VISION FOR HIGH-QUALITY ASSURANCE OF SUSTAINABILITY INFORMATION 

Sustainability-related disclosure is finally taking its rightful place within the corporate reporting ecosystem, through global and jurisdiction-specific initiatives. Climate, human capital, and other ESG matters are becoming decision critical. The way forward is clear—with the establishment of the International Sustainability Standards Board and support from public authorities like IOSCO—for a system that delivers consistent, comparable, and reliable information.

In order to be trusted, sustainability disclosure must be subject to high-quality, independent, external assurance. Best practices are emerging—founded on high-quality standards.

EMERGING BEST PRACTICES

Regulatory frameworks should be designed to promote rigor and define the scope of what companies report and have assured—resulting in robust, decision-useful information. Regulation should disincentivize compliance-based reporting and assurance.

Aligning sustainability disclosure with financial reporting (i.e., applying an integrated mindset, improving timeliness, and including disclosures in management commentary or **integrated reports**) should break down information silos within companies and support an interconnected approach to both reporting and assurance.

Interconnecting sustainability assurance with financial statement audit engagements leverages the skills and competencies of professional auditors as well as their knowledge of company strategy, governance, business model, risks/opportunities, and performance—maximizing value to companies and their stakeholders.

Over time, transitioning from the current practice of limited assurance to reasonable assurance engagements would further enhance trust and confidence.

A proportional and phased approach to new reporting and assurance requirements, especially for smaller enterprises, allows appropriate time for implementation.

HIGH-QUALITY GLOBAL STANDARDS

A harmonized, global reporting system based on the **Building Blocks Approach** provides the ideal basis for robust, high-quality assurance. Sustainability standards should be developed with assurance in mind and assurance processes need to align with reporting frameworks.

Regulatory fragmentation at the global level creates unnecessary costs and reduces comparability and consistency. This applies to standards for reporting and assurance of sustainability information.

To meet stakeholder needs, **ISAE 3000 (Revised)** requires practitioner competence, compliance with quality control/management standards, and an ethical framework. This is the most globally-accepted standard and the logical foundation for driving evolution and consistency in sustainability assurance engagements.

Regulation and enforcement must deliver uniform application of standards across different service providers of sustainability assurance engagements. To do otherwise introduces doubt and confusion about the integrity and reliability of reported information.

Sustainability assurance depends on practitioners exercising professional judgement and skepticism and acting with independence—all in accordance with an ethical framework such as the **IESBA Code**.

ASSURANCE ENHANCES THE CREDIBILITY OF REPORTING

Authorities and regulators should maximize trust and confidence in sustainability disclosure by requiring high-quality assurance.

SUPPORTING THE ECOSYSTEM

- Corporate governance should provide effective oversight of all reported information, including over the drivers of enterprise value and/or societal impacts relevant to strategic decision-making, risk management, and investor/stakeholder confidence.
- Multidisciplinary firms enable professional accountants to be on the leading edge of sustainability subject matter expertise and to deliver value-added services.
- Professional accountancy organizations should provide member support, education, and technical guidance as well as promote high-quality reporting and assurance through discussions with policymakers, regulators, investors, and other stakeholders.
- Current legal liability regimes need to be updated to better ensure high-quality sustainability disclosure and assurance thereon.

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GETTING TO NET ZERO

A GLOBAL REVIEW OF CORPORATE DISCLOSURES ON EMISSIONS TARGETS AND ACTIONS FOR ACHIEVING THEM



Based on 2020 reporting

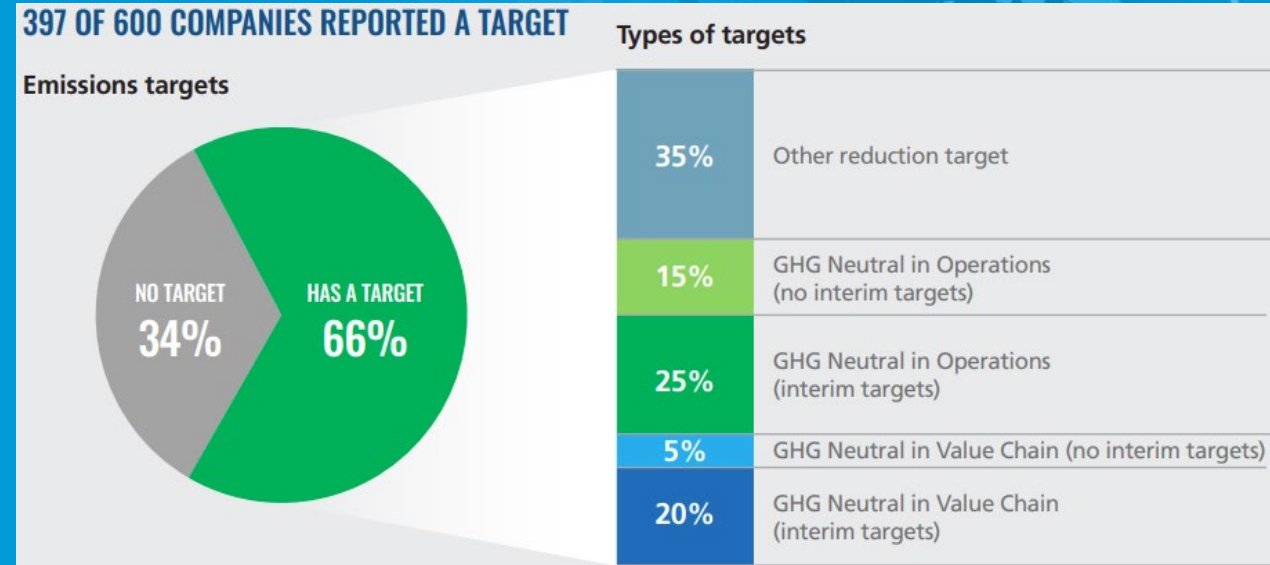
- Derivative work of SoP
- Focus on publicly available corporate disclosures
- 600 companies from G7 + 8 jurisdictions
- Details on terminology, content, consistency/comparability, and transition cost
- Supports evidence-based policy / regulatory discussion and development

FREQUENCY OF EMISSIONS TARGETS & PLANS

Evolving area of disclosure

- **66% of large companies reviewed** disclosed a numeric emissions reduction target
- State of Play research demonstrates **92% of companies report on GHG**

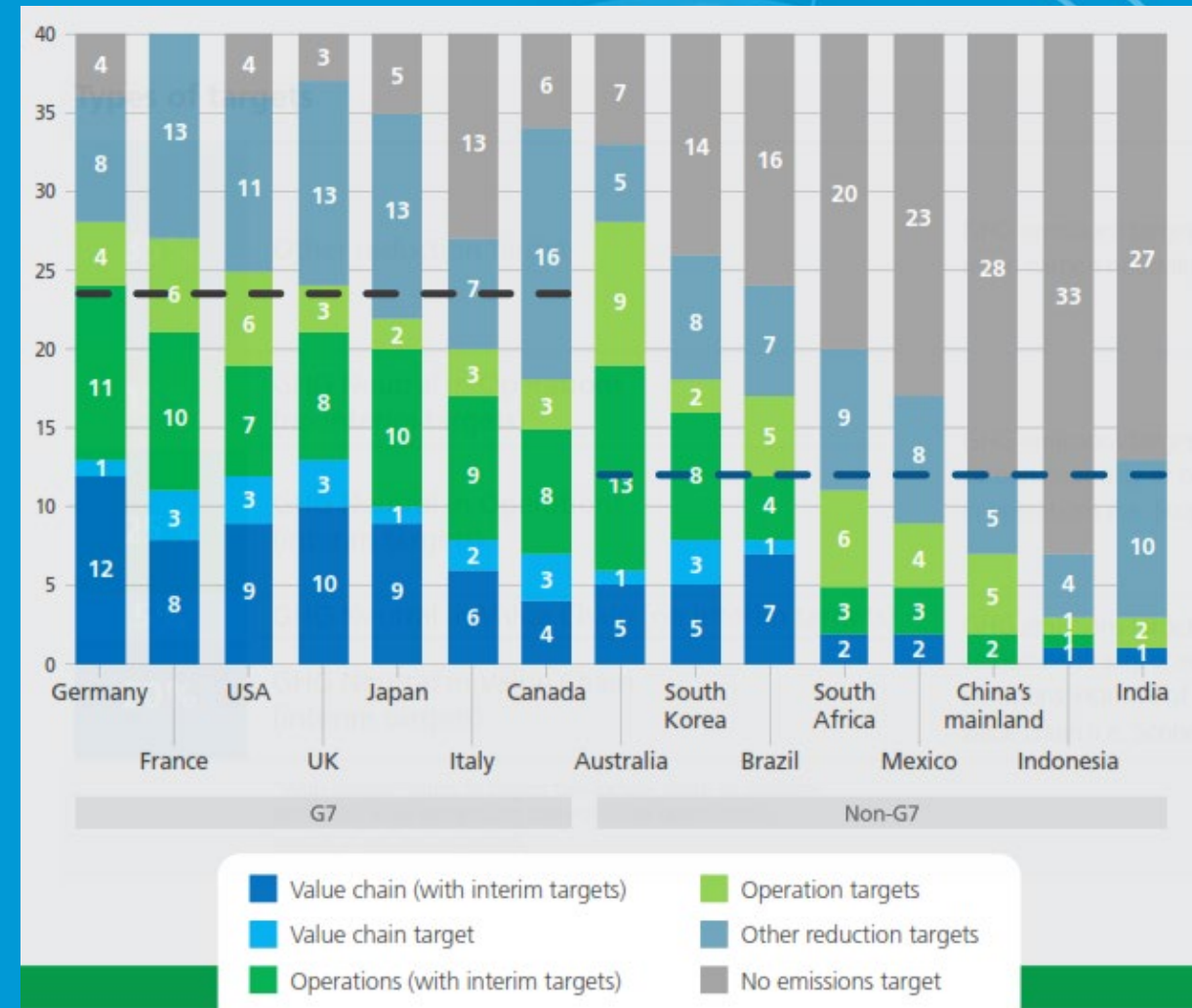
39% of companies incorporated Scope 3 (supply chain) emission in their targets



TARGETS BY JURISDICTION

G7 vs. Non-G7 market-driven practices

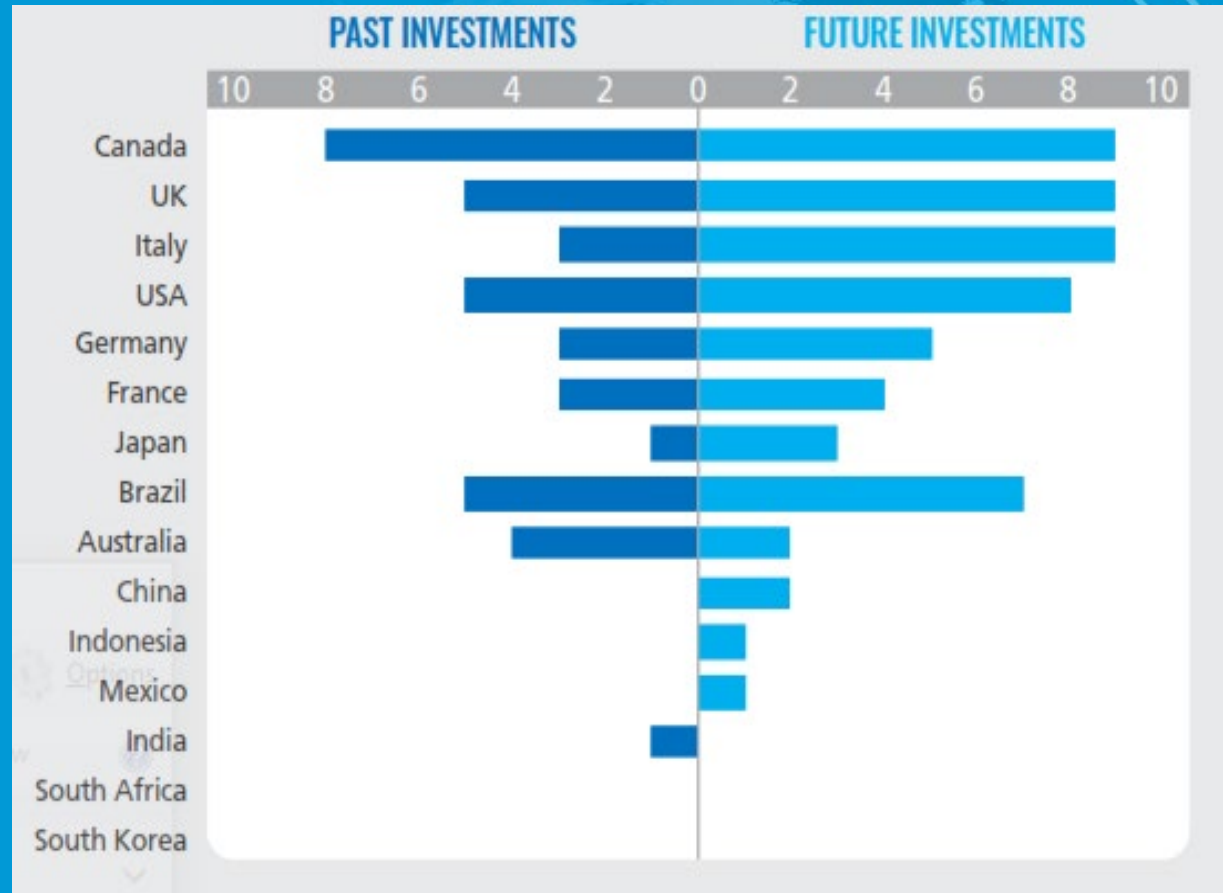
- 43% of companies reviewed disclosed carbon neutrality or net zero (“Blues & Greens”)
- 59% of companies in G7
- Average falls to 30% for Non-G7 companies
- Political / societal mandates or other market forces driving voluntary disclosures



THE COST OF TRANSITION

24% of companies disclose expenditures

- Only 14 companies provide both previous and future expenditures
- 70% of prior expenditure referenced efficiency projects and renewable energy projects
- Sustainable financing was the most frequently cited future expenditure, followed by unspecified investments



CONCLUDING REMARKS

Avoid Regulatory Fragmentation

- Reduce cost, complexity, and confusion
- Create level playing field
- Maximize access to global capital

Accelerate Sustainability

- HQ reporting addressing climate crisis
- Measurement and assessment of progress towards sustainability
- Organizations that create long-term value for investors and society

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