Sustainability Metrics and Value Creation: Action in Motion Highlights of the 2022 MMPA Conference

Hosted by the **Master of Management & Professional Accounting (MMPA) Program** and **BIGDataAIHUB** at the **Institute for Management & Innovation (IMI)**, University of Toronto at Mississauga (UTM).

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Sustainability Metrics and Value Creation: Action in Motion: Highlights from the 2022 MMPA Conference

Introduction

The accounting profession has a critical role to play in helping organizations become more sustainable and in enhancing the quality of sustainability measures and disclosures.

Embracing sustainability requires organizations to create value while meeting stakeholder expectations along three dimensions: environmental, social, and governance (ESG).

Not only must companies consider the impact of these factors on the organization's value (the **investor/enterprise view**), but they also need to consider the organization's impact on surrounding communities, economies, and the environment (the **impact view**).

E+S+G: Three-letter simplicity is illusory

At the **2022 MMPA Conference**,[1] prominent scholars, industry leaders, and sustainability-reporting and assurance experts help us understand the issues of demand, difficulty, omission, politics, disparity and deception that the three simple letters hide. Importantly, the speakers show us hope, too, through the determined effort of accountants to move forward to make sustainability assessment and reporting uniform, universal, and assured.

ESG risks and opportunities have operational and financial impacts, so their integration into strategy development, financial statements, and investment decisions is important.

Integrated reporting "…explains to providers of financial capital how an organization creates, preserves, or erodes value over time, which is the foundation upon which investors [and broader groups] make informed capital allocation decisions. It offers a powerful tool that can move the organization away from siloed thinking and reporting and toward integrated thinking, planning, performance, and value management" (Hoffman, 2022).

Action in motion

Moving forward means current efforts of regulators and standard-setters are narrowing down the definition of "E" to **emissions** and are producing information for **investors** while other dimensions and broader groups – still vitally important – are entrained in the flow but need to enter mainstream.

FIGURE 1: ESG + I (SOURCE: SPEAKER KELSEY LEONARD, UNIVERSITY OF WATERLOO)

[1] Hosted by the **Master of Management & Professional Accounting (MMPA) Program** and **BIGDataAIHUB** at the **Institute for Management & Innovation (IMI)**, University of Toronto at Mississauga (UTM). The MMPA Program hosts a one-day MMPA Annual Conference on topics that are particularly important and timely for business and/or the accounting profession.

To say the way forward is tumultuous is an understatement. It is like a raging mountain river on its way to the sea: its turbulence represents issues and controversy, but it moves forward because it must.

Some recognize now, and others will recognize very soon, the value of adding another dimension to ESG; i.e., "I" for Indigenous. Why?

"E" is for emissions

"The environment is an all-encompassing term, including biodiversity, water scarcity and so on. By far, the most significant danger is from emissions."

Economist (July 2022)

Climate change is the largest existential issue the world faces today. Collectively, we have the ability to keep the earth's temperature rise below 1.5 degrees Celsius, but only if we act now to reduce greenhouse gases (GHG).

But the emissions problem cannot be solved without including "I" for Indigenous.

"I" for Indigenous

In Canada, "Indigenous Rights are becoming involved in nearly every major development project…especially those impacting land or natural resources. Generally, Indigenous interests are only considered as important for the financial bottom line after legal solutions are sought. However, better outcomes are achievable for Indigenous Peoples, corporations, and investors when Indigenous voices are heard outside of the high-stakes and high-conflict setting of a court room."

Kaitlin Littlechild (2021)

The **Intergovernmental Panel on Climate Change (IPCC)** in the press release for its 2023 report said that accelerated climate action requires much more investor financing of climate-resilient development to reduce greenhouse gas (GHG) emissions. To be effective, action must be rooted in diverse values, worldviews, and knowledges, including scientific knowledge, Indigenous knowledge, and local knowledge. Only this approach will lead to locally appropriate, socially acceptable solutions (IPCC, 2023).

In Canada, before proceeding with economic development projects, governments and companies, if acknowledging and implementing the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) and the Truth and Reconciliation Commission's Call to Action 92, must commit to meaningful consultation, building respectful relationships and obtaining **free** (of coercion), **prior** (to any project), and **informed** (all relevant information provided) **consent** (to proceed, or not) from Indigenous leaders. Governments and companies must provide equitable access to jobs, training, and education. They must understand the history and multi-generational harms of residential schools, and train management and staff in human rights and anti-racism. They need to understand the principles of Indigenous data sovereignty: the rights of Indigenous Peoples to govern the creation, collection, ownership, and application of data concerning their territories, communities, cultural heritage, traditional knowledge, and ways of life.

Indigenous nations seek to "…safeguard air, land, water and medicine sources from the impacts of resource development" and to receive a fair share of benefits and ownership from projects undertaken in traditional territories (FNMPC, 2021).

Accountants [CPAs] as superheroes

The goal of the conference is to elucidate the issues and the way forward to make sustainability a foundation of our economy. How does all of this affect the accounting profession?

"Accountants [CPAs] have many opportunities to initiate change in this world, particularly because of their roles at the base of finance and access to power. With that power is great responsibility," said speaker **Kelsey Leonard**. "Take the lessons of this conference and the lessons that you'll continue to hear from marginalized voices and amplify them in your work."

Road map to the conference summary

This conference summary is divided into six parts, each about a 10-minute read in length. Each part provides the reader with topic summaries based on speaker presentations, as well as spring 2023 updates to late-breaking information. References are given for further reading, in addition to links to speaker biographies. Videos and slides of the conference speakers can be found on the conference website.

Part 1: Demand and Difficulty provides an overview of the sustainability landscape: • increased demand for sustainable investing, corporate social responsibility and sustainability reporting • how sustainability reporting will change through the International Sustainability Standards Board (ISSB) • concurrent regulatory initiatives in Europe, the U.S., and Canada • ESG trade-off issues • difficulty of measuring ESG, compared to traditional financial measures.

Part 2: Omissions in the ESG Landscape looks at the necessary inclusion of "I" in meeting reconciliation and climate goals • a reminder that there is more to ESG than emissions, investors, and consultation alone • United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) and its incorporation into Canadian law • **F**ree, **P**rior, and **I**nformed **C**onsent (FPIC) • FAIR CARE principles of Indigenous data sovereignty • alternative approaches to resource development in Canada • the problem of accepting trade-offs between the United Nations Sustainable Development Goals (SDGs) instead of meeting all of them.

Part 3: Financial Implications and Integrated Reporting looks at the financial implications of climate change risks and opportunities: • the need to integrate sustainability reporting and financial reporting • • the move forward to integrated reporting and integrated thinking, where ESG+I are integrated into the core of a business.

Part 4: Politics, Disparity and Deception looks at politics that counter changes in corporate behaviour • the compromise of mandating corporate disclosure • real effects of corporate disclosure • disparity between ESG scores • the risk of greenwashing and other unintended consequences when disclosure is mandated, but not regulated or assured.

Part 5: Toward Uniform, Universal Standards spotlights the momentum of the International Sustainability Standards Board (ISSB) • justification of an investor focus • coordination with the Global Reporting Initiative (GRI) to broaden that focus • a warning that "not material" to investors can be very real and hazardous to communities • the proposed new ISSB standards • defining the relationship between sustainability and value creation, and • necessary, but lagging adjustments for the inclusion of "I" and nature-related financial disclosures.

Part 6: Assurance and Sustainability Reporting looks at: • the need for assurance services to improve confidence in ESG-data quality • the current and future states of ESG reporting and assurance • opportunities and responsibilities of CPAs in reporting and assurance, and • corporate Canada's role in adopting the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) and committing to meaningful consultation, building respectful relationships with Indigenous Peoples, and obtaining the free, prior, and informed consent of and ensuring long-term sustainable benefits for Indigenous communities before proceeding with economic development projects.

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Part 1: Demand and Difficulty: Overview of the Sustainability Landscape

Terminology

The terminology of sustainability varies and is confusing: sustainability, corporate social responsibility, environment/social/governance (ESG), and more. Conference speakers discuss various terms, and companies use different terms, depending on what they are reporting and to whom. "Sustainability reporting" is used as a general term that encompasses ESG topics, even though companies often focus on greenhouse gas emissions (GHG). Throughout this conference summary, the terms vary as introduced, but context makes them clearer. Similarly, "company" has been used in place of its synonyms, firm, corporation, and business.

Demand for sustainable investing and corporate social responsibility

In 1970, Milton Friedman famously wrote that the social responsibility of business is to increase its profits.

In effect, interprets speaker **Hans Christensen**, Friedman asserted that executives, as agents of the stockholders, should focus on making money and leave social responsibilities to individuals, and externalities[2] to governments through laws and regulations.

If, instead, corporate executives try to hold down product prices to help fight inflation or reduce pollution more than the law requires, Friedman (1970) would say that they are imposing taxes on the stockholders, which is the role of governments. He might add that changes in policies affecting corporate obligations, e.g., associated policies and taxes, must come from governments through the political process, which may reflect shifts in public preference.

In the more than fifty years since Friedman's article, Christensen says that debate on the purpose of the corporation continues, but he asserts that opinions are shifting away from Friedman's. Evidence includes increased investor demand for "sustainable investment" and increased shareholder advocacy.

Increased sustainable investment and shareholder advocacy

Globally, sustainable investment assets -- loosely defined as including some ESG factors in portfolio selection and management -- increased by 15% to USD35.3 trillion between 2018 and 2020. This amount represented more than a third of all professionally managed assets across Europe, the United States, Canada, Australasia, and Japan (Global Sustainable Investment Alliance (GSIA), 2021, p. 5).

In 2020, the U.S. portion was about half of that total, at USD17.1 trillion (GSIA, p. 9) (Figure 2).

Note, however, the change in 2022 (Figure 2): U.S. sustainable assets apparently dropped to **less than half of the 2020 amount**, to USD8.4 trillion. Why? Because the loose definition was no longer sufficient. No longer would assets under management be counted in the total if information were not provided on

[2] Side effect of a company's activities (e.g., on the environment) not reflected in the cost of its goods and services.

specific ESG criteria used in investment decision-making and portfolio construction (**US SIF Forum for Sustainable and Responsible Investment**, 2022a, 2022b, p. 1).

Demand may not have changed, but scrutiny of ESG-fund legitimacy had. [For more on greenwashing by information omission, see ***Part 4: Politics, Disparity, and Deception***.]

Leaving externalities to governments, as Friedman suggested, would be difficult even if the political process were efficient, said Christensen. Drawing from research by Hart and Zingales (2017a, b), Christensen said *prosocial* investors, who may care about more than money, have asked companies to take social or environmental factors into account: *indirectly* through an increase in sustainable investing (above) and *directly* through shareholder advocacy (Figure 2).

Especially if political change is hard to achieve, asking for action at the corporate level through shareholder proposals is a reasonable substitute for government action, say Hart and Zingales (2017a). The 2021 and 2022 proxy seasons made this clear. The number of shareholder proposals submitted to public companies registered with the U.S. Securities and Exchange Commission (SEC) rose 11% in 2021 from 2020 levels to 802. Shareholder proposals in 2022 rose "…8% from 2021 to 868—the highest number of shareholder proposal submissions since 2016" (Gibson Dunn, 2021, 2022).

Even though executives (officers) and directors owe loyalty to the company and its shareholders, Hart and Zingales believe a newer perspective than Friedman's, consistent with fiduciary duty, is that companies should maximize shareholder *welfare*, not shareholder *value* (2017b).

FIGURE 2: SUSTAINABLE INVESTING IN THE UNITED STATES 1995-2022. SOURCE: US|SIF (2021) FAST FACTS

Demand for ESG reporting

Demand for sustainability reporting is also increasing. It is being driven by investors, governments, and others, each with their own ESG expectations, said **Scott Morrison**, PwC Canada (Figure 3). The relative

importance of ESG topics depends on the stakeholder,[3] and how ESG is reported by a company depends on its target audience.

FIGURE 3: ESG REPORTING EXPECTATIONS[4] (SOURCE (MODIFIED): SPEAKER SCOTT MORRISON, PWC CANADA)

Who does the reporting?

Reporting can be done by companies directly, and their numbers have grown.

In 1993, just 12% of companies in KPMG's first biennial *Survey of Sustainability Reporting* published sustainability reports. By 2020, numbers had grown to an estimated 80% of companies worldwide (N100) and over 90% of the world's largest companies by revenue (G250) (KPMG, 2020, p. 7).[5]

Demand for reporting is also fulfilled by third-party analytics agencies that may survey companies or aggregate disclosed information to provide ratings or scores.

Despite the increased demand for sustainability information and this increase in its supply, reporting has been mostly voluntary and lacks oversight and assurance. As a result, many agencies have developed **frameworks**[6] or **standards**[7] that companies follow. But the frameworks and standards differ, so

[3] Kelsey Leonard, University of Waterloo, reminded the audience that in Canada, 630 First Nations and Inuit and Métis have nation-to-nation or similar relationship with the Crown or federal government of Canada. They should be treated as nations, not stakeholders, she emphasized. For more information, see Government of Canada (2022) in references.
[4] **Scott Morrison**, PwC Canada, cautioned that the list in Figure 3 is not exhaustive. **Kelsey Leonard**, University of Waterloo, reminded the audience that in Canada, 630 First Nations and Inuit and Métis have nation-to-nation or similar relationship with the Crown or federal government of Canada. They should be treated as nations, not stakeholders, she emphasized. For more information, see Government of Canada (2022) in references.
[5] KPMG uses two samples: G250 is the world's 250 largest companies by revenue based on the 2021 Fortune 500 ranking; N100 is a worldwide sample of the top 100 companies by revenue in 58 countries, territories and jurisdictions.
[6] A framework is a set of principles and guidance for "how" a report is structured.
[7] A standard is specific, replicable guidance on what to report for each topic.

reported information is inconsistent, explained speaker **Khrystyna Bochkay**, University of Miami, and companies are frustrated with:

- the number of issues to report on
- the time required to collect data and answer [third-party] surveys
- disparate ratings and rankings by third parties.

Companies are confused about the audience for their sustainability reports: should it be investors or a broader audience (Figure 3)?

How will reporting change?

> *"Over the past three decades, sustainability reporting has been largely voluntary…Today, policymakers are on the precipice of adopting mandatory and regulated sustainability reporting, and the reporting landscape is poised to change drastically."*
>
> *Big shifts, small steps: [Website for the] Survey of Sustainability Reporting 2022* (KPMG, 2023)

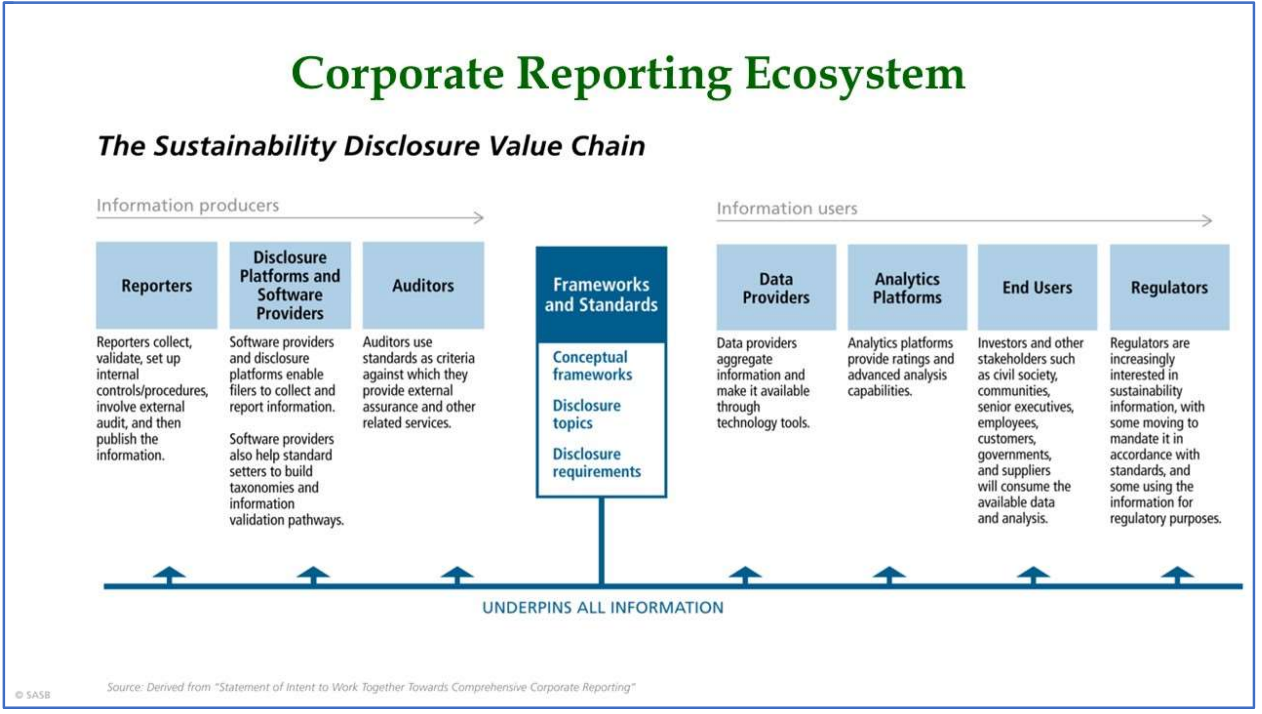
In 2017, the Task Force on Climate-related Financial Disclosures (TCFD), under the leadership of former Chair and Bank of England Governor Mark Carney, published its recommendations and framework on how risks related to climate change should be reported to **investors**. As part of its mandate, the Task Force assessed the alignment with its recommended disclosures of many existing voluntary and mandatory reporting frameworks and standards. It named five, in particular (TFCD, 2017, p. 33):

- CDP (formerly the Carbon Disclosure Project)
- Climate Disclosure Standards Board (CDSB)
- Global Reporting Initiative (GRI)
- International Integrated Reporting Council (IIRC), and
- Sustainability Accounting Standards Board (SASB).

In 2020, those five leading sustainability and integrated reporting organizations made a commitment to work together. They recognized that their standards and frameworks could act as a starting point for technical content, while the International Financial Reporting Standards (IFRS) Foundation, responsible for developing global accounting standards, could provide the governance, oversight, and added credibility needed to deliver internationally-accepted sustainability disclosure standards relevant to capital markets (CDP, et al., 2020).

Derived by SASB from this commitment, Figure 4 shows in more detail who produces and uses sustainability information and how frameworks and standards are so important in underpinning all of their information.

FIGURE 4: SUSTAINABILITY VALUE CHAIN: INFORMATION PRODUCERS & UNDERPINNING BY FRAMEWORKS & STANDARDS (SOURCE: SPEAKER KHRYSTYNA BOCHKAY AND SASB)



Formation of the International Sustainability Standards Board (ISSB)

As a result of the joint commitment, the IFRS Foundation announced the formation of the International Sustainability Standards Board (ISSB) at COP26 in Glasgow in November 2021.

In March 2022, through a memorandum of understanding (MoU), the IFRS Foundation and Global Reporting Initiative (GRI) agreed to ensure compatibility and interconnectedness of the ISSB standards aimed at investor-information needs and the widely used GRI standards aimed at the broader/multi-stakeholder audience (IFRS, 2022, March 24) (Picard and Lord, 2022).

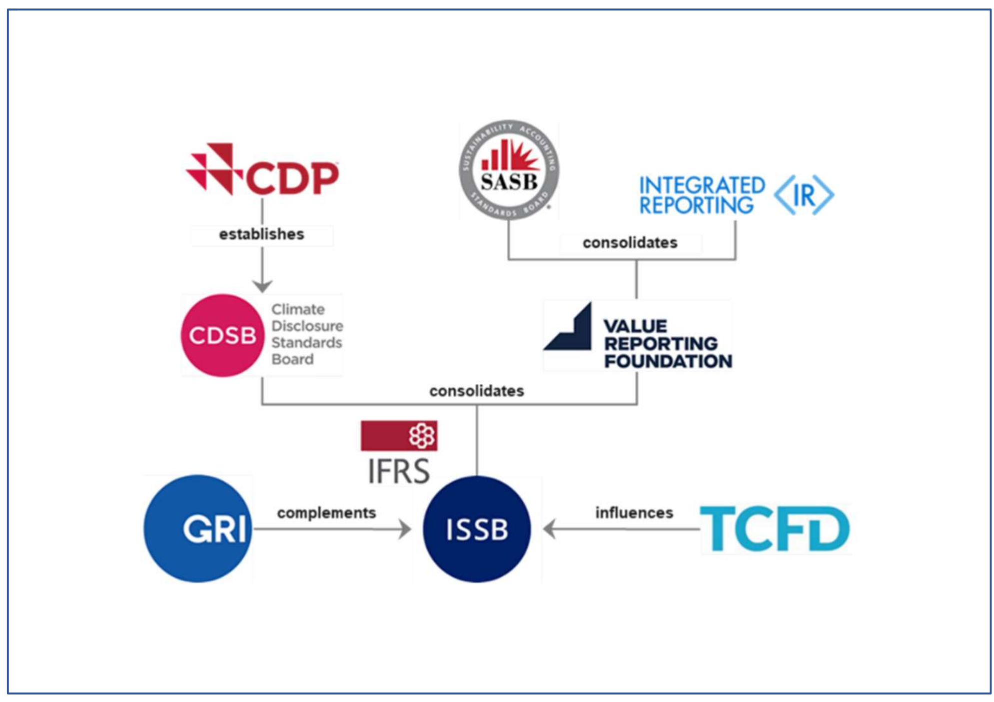
"The MoU between GRI and the IFRS Foundation is a strong signal to capital markets and society that a comprehensive reporting system, which combines financial and impact materiality for sustainability reporting, is possible on a global scale. Aligning GRI's established and widely adopted standards for sustainability impacts with the investor-focused standards being developed by the ISSB will benefit both companies and investors, as well as a wide range of stakeholders around the world."

Eelco van der Enden, CEO of GRI (IFRS, 2022, March 24)

ISSB standards will meet the information needs of investors in assessing enterprise value and the **impact of ESG issues on business**. The extant GRI standards will continue to focus on information useful to a wider group of stakeholders in assessing the **impact of business on the world** around it (Picard and Lord, 2022).

By June 2022, the IFRS had consolidated the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (which had already merged the IIRC's Integrated Reporting (<IR>) and the Sustainability Accounting Standards Board (SASB)) (Figure 5).

FIGURE 5: THE EVOLVING REPORTING LANDSCAPE: FORMATION OF THE ISSB. (SOURCE: KIRKLAND & ELLIS, 2022)



Through its use of the TCFD framework, its inclusion of global regulators on its steering committee, and its status as the sister board of the **International Accounting Standards Board** (IASB), whose accounting standards are used in 167 countries worldwide, the ISSB has international support for producing uniform and universally accepted sustainability disclosure standards.

It will begin with two standards and will seek feedback on four projects in 2023 to set its agenda priorities: biodiversity, ecosystems, and ecosystem services; human capital; human rights; and connectivity in reporting (a potential joint project with the IASB) (IFRS, 2023).

Concurrent regulatory initiatives

Speaker **Khrystyna Bochkay**, University of Miami, compared and contrasted the two largest ESG reporting initiatives underway concurrently with the formation of the ISSB; those of Europe and the U.S. Speaker **Nura Taef** , Deloitte Canada, provided an update for Canada.

European Financial Reporting Advisory Group (EFRAG)

The **European Financial Reporting Advisory Group** (EFRAG) released the first set of [draft] European Union (EU) Sustainability Reporting Standards in April 2022. The standards, resulting from the European Commission's adoption of the Corporate Sustainability Reporting Directive (CSRD), in force in January 2023, are mandatory, not voluntary.

Speaker Nura Taef added that Canadian companies doing business in the EU or having any kind of subsidiary operations in the EU and meeting certain size thresholds will also be scoped into the European requirements.

U.S. Securities Exchange Commission (SEC)

The **U.S. Securities Exchange Commission (SEC)** issued its proposed Enhancement and Standardization of Climate-Related Disclosures for Investors Rule on Climate Disclosures in March 2022. The proposed rule would require SEC-registered companies to disclose "…information about climate-related risks that are reasonably likely to have a material impact on their business, results of operations, or financial condition, and certain climate-related financial statement metrics in a note to their audited financial statements. The required information about climate-related risks also would include disclosure of a registrant's greenhouse gas emissions, which have become a commonly used metric to assess a registrant's exposure to such risks" (SEC, 2022).

Overwhelming response and opposition have delayed the January 2023 implementation.

To help understand the proposed disclosure requirements, speaker Nura Taef said, "Think of a large multinational company that consolidates numerous subsidiaries and operates in numerous jurisdictions, [going] through their financial-statement line items to identify what transactions and what account balances are being impacted by climate events -- whether that's physical events or transitional events, changes to regulation, to policies, marketplace consumer behavior changes. That's onerous. There's really no financial reporting system in place to be able to do that."

Canadian Securities Regulators

Taef explained that Canadian securities regulators were among the first to issue their proposed standards. Similar to the SEC and ISSB, they have based their disclosure requirements on the TFCD, but they have taken a lighter approach than the SEC and ISSB. In acknowledgement of the onerous task of compiling the data, they have removed some of the TFCD requirements. For that reason, they have delayed issuing their final standard for Canadian companies while they await the outcome of the SEC proposal.

"For us in Canada, being in tune and parallel with the U.S. when it comes to financial reporting often is very important. [Many] peers of our Canadian companies sit in the U.S., so we see an attempt to be as consistent as possible with the U.S. where it makes sense," Taef said.

The new Canadian Sustainability Standards Board, which will promote use of ISSB standards, could mandate how both public **and** private companies will report on sustainability information.

Similarities between the regulators' approaches

Bochkay said that even though the proposed ESG reporting initiatives differ in their objectives and scope, they are all built on four TFCD principles. That is, companies would be required to disclose information about their:

- governance and management oversight of sustainability reporting
- strategy to address significant sustainability-related risks and opportunities
- process(es) by which sustainability-related risks and opportunities are identified, assessed, and managed
- measurement, goal setting, and monitoring of sustainability-related risks and opportunities.

Speaker Scott Morrison added that the EU's Corporate Sustainability Reporting Directive (CSRD) "…brings sustainability reporting closer to financial reporting by requiring assurance of [EFRAG] sustainability information." He said that the SEC's proposed rules include "assurance requirements, including a timeline to move to reasonable assurance."

"Audit requirements are not within the ISSB's remit, though regulators may choose to require assurance" (KPMG, 2022, p. 9).

Differences between the regulators' approaches

Some of the differences between the regulators' initiatives are outlined in Figure 6.

FIGURE 6: SOME KEY DIFFERENCES BETWEEN REGULATORS ON INFORMATION TO REPORT (SOURCE (MODIFIED): SPEAKER KHRYSTYNA BOCHKAY AND EY *ACCOUNTINGLINK*, JULY 2022)

SEC	EFRAG	ISSB
Scope – Type of disclosures		
▸ Includes disclosure only for climate-related matters	▸ Includes disclosures for climate-related matters, other environmental matters, social matters and governance matters	▸ One proposal covers climate-related disclosure requirements ▸ One proposal covers general requirements for all sustainability topics ▸ However, the ISSB has a broad remit to deliver a comprehensive set of sustainability-related disclosure standards
Sector-specific requirements		
▸ Does not include industry-specific requirements	▸ Would eventually include sector-specific requirements, but these requirements have not yet been proposed	▸ Would require entities to comply with sector- and industry-specific requirements ▸ Proposed requirements are generally based on the standards that were previously issued by the Sustainability Accounting Standards Board

Source: EY AccountingLink July 2022

The SEC will target only publicly listed companies, whereas EFRAG will also include large unlisted firms (Lashitew, 2021).

Difficulty of assessing ESG

"When it comes to traditional, 'shareholder-centric' investing, we have a single metric: money earned, the more the better. When it comes to incorporating sustainability or ESG factors into investing the answer is not so simple because there's more than one way to measure ESG."

Speaker Aneesh Raghunandan, London School of Economics

ESG trade-off issues

Aneesh Raghunandan, London School of Economics, introduced the problem of trade-offs between "E," "S," and "G" by using the examples of Amazon and Tesla.

A fundamental problem with "S," the social dimension of ESG, is that it encompasses a number of different stakeholders -- customers, employees, community -- whose needs may be directly at odds. And although emissions have gained primacy in representing "E," the environmental dimension, there's more to "E" than emissions, said Raghunandan. Consider two examples: Amazon and Tesla Inc.

Amazon, the world's largest online retailer, may have excellent customer service, but warehouse conditions are difficult for employees, said Raghunandan. Amazon's emissions, packaging, and policies of fast shipping and easy returns (Heffernan, 2021) pit its environmental impact "E" against customer satisfaction "S" and employee welfare, another dimension of "S."

Tesla Inc. produces no-emission EVs, but it had more health and safety infractions and fines between 2020 and 2022 than all other U.S. automakers combined. It is being sued for alleged racism and harassment at a California plant (Ohnsman, 2022). To prospective investors or purchasers, does its low-environmental impact, "E," make up for its treatment of employees, "S"?

The answer is not an objective one, but a value judgment, and this is what can make the label of "ESG friendly" or "sustainable company" hard to apply and claims of "socially responsible" difficult to assess, Raghunandan explained.

What does ESG include?

Speakers **Khrystyna Bochkay**, University of Miami, and **Nura Taef**, Deloitte Canada, provided snapshots of ESG as 26 topics under five broad dimensions of sustainability "…that reflect areas of performance management around impacts and dependencies of the business on society and the environment."[8] (Figure 7).

These ESG issues were the starting point for the Sustainability Accounting Standards Board's (SASB) development of **industry-based** standards beginning in 2012, said Bochkay. "Sustainability reporting is reporting on externalities of the business, and externalities vary widely, depending on the operations companies run," explained Bochkay. So, instead of a "one-standard fits all" approach, the industry-specific approach recognizes the differences in operations between an airline or online retailer or service company, etc.

SASB's materiality approach

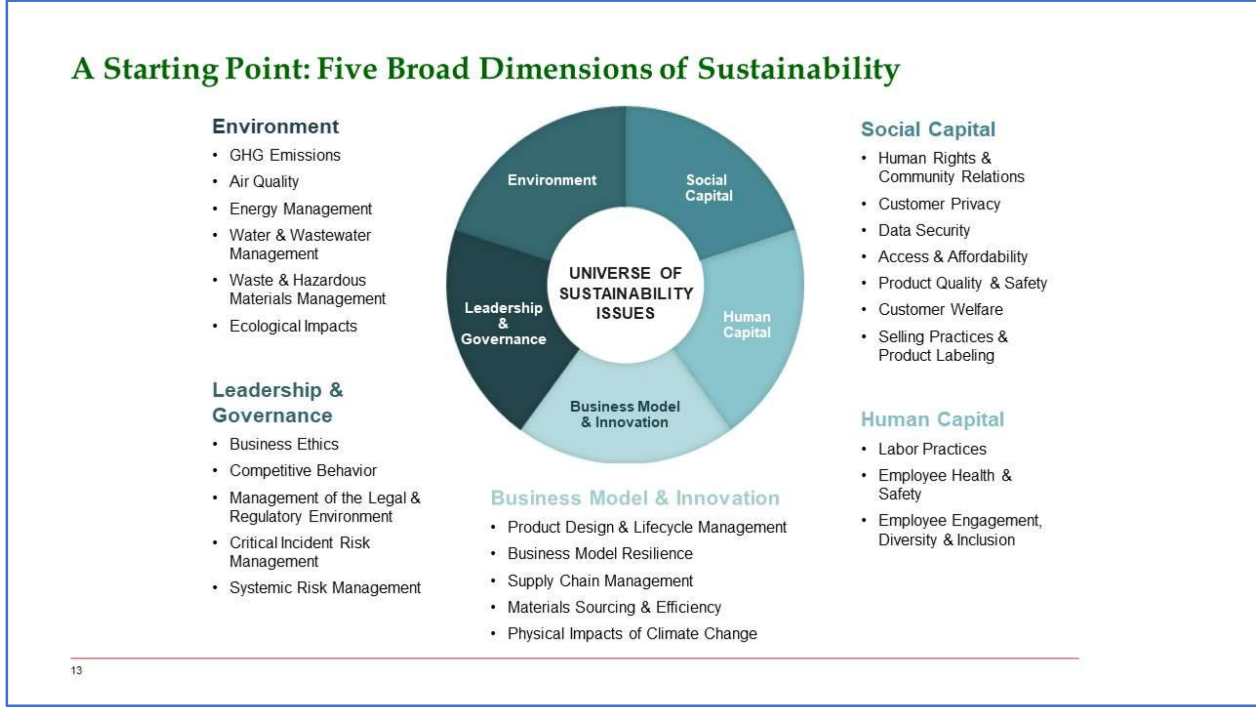
SASB also recognized the difficulty for companies of reporting on so many issues. After extensive research and consultation, SASB determined which **industry-specific** issues were likely to have a **material impact** on a company's financial performance. In 2018, it published **voluntary standards** for 77 Industries/11 industry sectors. As a result, companies in each industry report on an average of just six topics using the SASB format, which specifically outlines the allowable metrics and scaling factors to prevent selective reporting and greenwashing.

ISSB's adoption of SASB standards

By adopting the existing SASB Standards, the ISSB's starting point is not the whole set of sustainability issues in Figure 7, but SASB's industry-based approach. Because SASB Standards were initially developed for the United States, ISSB will work to increase their international applicability.

[8] Taef, N. (2022, November). ESG Metrics and the Future of Corporate Reporting – Building Trust and Enhancing Value [PowerPoint slides viewable through video], 2022 MMPA Conference. Available at: https://www.youtube.com/watch?v=TmukMnmMS9o&list=PLowrvuHNSUAH-yEkgJloTJQYwSVns2-Dg&index=5.

FIGURE 7: FIVE BROAD DIMENSIONS OF SUSTAINABILITY AND 26 ESG TOPICS, THE STARTING POINT OF SASB STANDARDS (SOURCE: SPEAKER KHRYSTYNA BOCHKAY, UNIVERSITY OF MIAMI)



Investor focus

Instead of focusing on a broad audience, SASB standards – like the ISSB -- have only one audience in mind and that audience is **investors**. In answer to student concerns about how focusing on investors, rather than the planet, is in the public interest, Bochkay explained the compromise and said, "Being investor-focused and making a change with how we run business will eventually -- in an indirect way -- make a difference for the planet. But it's not a short-term outcome. We cannot expect a short-term solution to such huge problems. Perhaps it's not the best solution but it's the best that we can currently undertake."

What CPAs should know

Speaker Nura Taef says that because many organizations see that the ISSB standards are not finalized, and none of the regulators have finalized their proposed rules, they are asking, "Why should we go down this path of preparing ourselves when everything may change?"

Taef said, "The reality is there's not going to be enough time if organizations wait. We have a pretty good sense of where the standards are going to end up, especially now that we have the ISSB and we have that consolidation. There are complexities and the risk that some [requirements] may change, but those reasons don't outweigh the timing and the effort that are going to be required to prepare."

Part 5: Toward Uniform, Universal Standards shows how ISSB standards fit with the broader reporting landscape that acknowledges both investors (under the IFRS) and a broader audience (through the GRI).

The focus on investors, the primacy of emissions in representing "E," and the lack of representation of all audiences have raised concerns about omissions and trade-offs in the ESG landscape, the subject of ***Part 2***.

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Part 2: Omissions in the ESG landscape

"The current Colonial economic model is built on the myth of perpetual material growth, which creates waste, degrades nature, disregards justice and fails to ensure equity. It is structured around dependency rather than well-being and the impacts are plainly visible and felt across different scales. For our economy to shift, we need to rethink what we value, how we relate to one another, and how we make decisions."

Sxwpilemaát Siyám (Chief Leanne Joe), Squamish Nation, BC (Step into the River, 2022)

Where is "I"?

"This momentum toward a single ESG standard could certainly be positive for driving improved corporate environment, social and governance standards and performance. However, the challenge for Indigenous peoples is that existing ESG standards have not included their rights and interests and have been developed without their input."

First Nations Major Project Coalition (2021, p. 19)

The **Intergovernmental Panel on Climate Change (IPCC)** recognizes that climate-resilient development with locally appropriate and socially acceptable solutions will not result without meaningful participation and inclusive engagement processes with Indigenous Peoples – and inclusion of Indigenous knowledge, local knowledge, and scientific knowledge (IPCC, 2023, p. 34).

In ***Part 2***, **Kelsey Leonard**, University of Waterloo, provides a compelling argument for the type of community-supportive development that is reflected by the IPCC. She introduces the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP), associated rules for free, prior, informed consent (FPIC), and Indigenous Data Sovereignty.

In Canada, Indigenomics is a growing movement for economic reconciliation. [9] The term, conceptualized by Carol Anne Hilton, founder and CEO of the Indigenomics Institute, is the practice of bringing the Indigenous perspective, culture, traditions, and ways of being to economic and social development. Why? Because that perspective supports personal and environmental well-being, community, sustainability, independence, and future generations.

Yet, this perspective -- and consultation with or inclusion of Indigenous Peoples -- has been omitted in any meaningful way from the standards and frameworks now associated with the ISSB (FNMPC, 2021). (See ***Part 1***, Figure 5)

Particularly in Canada, where:

"…nearly every major development project of consequence will involve Indigenous rights in some manner, particularly if it involves land or natural resources" and "[g]iven the high stakes of ESG – not only its monetary enormity, but also its impact on

[9] The Truth and Reconciliation Commission's Call to Action 92 on business and reconciliation.

Canadian environment and society – it is important to consider and more rigorously discuss the role of Indigenous Peoples and Nations in how ESG frameworks' data are collected, reported and considered by institutional investors.

"Put simply, ESG frameworks need to discuss how to put the "I" (Indigenous) into ESG."

First Nation Major Project Coalition (FNMPC, 2021, p. 20).

Leonard commended the CPA profession for requiring the understanding of Indigenous views and Indigeneity in the new Competency Map 2.0 for the CPA profession in Canada (Figure 8).

FIGURE 8: CPA PROFESSIONS'S COMPETENCY MAP 2.0 REQUIRES UNDERSTANDING INDIGENOUS VIEWS AND INDIGENEITY (SOURCE: SPEAKER KELSEY LEONARD, UNIVERSITY OF WATERLOO)

CPA Canada addressed the ISSB, in response to its initial sustainability disclosure standards ("exposure drafts"), saying that the "…disproportionate impact of climate change on some Indigenous Peoples should be acknowledged and considered when developing disclosure requirements," and "[f]urther engagement needs to be conducted with Indigenous Peoples" (CPA Canada, 2022).

The organizations in Table 1 are working to make ESG **inclusive** in Canada: inclusive of Indigenous Peoples (ESG + I), inclusive of the planet (e.g., environmental health and biodiversity), and inclusive of future generations.

TABLE 1: ORGANIZATIONS WORKING TO MAKE ESG INCLUSIVE IN CANADA (SOURCE: SPEAKER KELSEY LEONARD, UNIVERSITY OF WATERLOO)

Organizations working to make ESG inclusive in Canada	
First Nation Major Project Coalition (FNMPC) - Supports First Nations decision making on economic and environmental considerations associated with major project developments.	Canadian Council for Aboriginal Business (CCAB) - Supports the Indigenous economy through data-driven research, business-development training, and bridge building between Indigenous and non-Indigenous peoples, businesses, and communities.
First Nations Finance Authority (FNFA) - Provides financing, investment, and advisory services for First Nation governments across Canada.	National Aboriginal Capital Corporation Association (NACCB) - champions the growth of Indigenous businesses and entrepreneurs across Canada.
Reconciliation & Responsible Investment Initiative (RRII) - Supports Indigenous trustees and decision-makers in aligning governance of financial assets with community values. Mobilizes Canadian institutional investors to promote positive economic outcomes for Indigenous Peoples.	SHARE Canada - Shareholder Association for Research and Education - helps investors steward assets in ways that contribute to positive social and environmental outcomes. Raven Indigenous Capital Partners - Impact investors in Indigenous social enterprise.
National Aboriginal Trust Officers Association (NATOA) - Provides Indigenous Peoples of Canada with the resources and information to efficiently create, manage, and operate trusts.	Indigenomics Institute - Advises public governments, Indigenous communities and the private sector on overcoming Indigenous economic barriers through dialogue, research, training, and partnership.

United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP)

In Canada, the Truth and Reconciliation Commission's Call to Action 92 on business and reconciliation *"call[s] upon the corporate sector in Canada to adopt the United Nations Declaration on the Rights of Indigenous Peoples [UNDRIP] as a reconciliation framework and to apply its principles, norms, and standards to corporate policy and core operational activities involving Indigenous peoples and their lands and resources."* (See Table 2.)

"Under 2021's ***United Nations Declaration on the Rights of Indigenous Peoples Act*** (formerly Bill C-15 before assented, or UNDA), the Canadian federal government must align Canadian laws with the international declaration, a legally non-binding document[10] outlining minimum standards for the recognition and protection of Indigenous rights. Under that law, Ottawa has until June 2023 to table the [final] action plan…" (Forester, 2023), whose timeline can be found at ***Action Plan Timeline***.

The *Draft Action Plan,* released by the Federal government in March 2023, may be falling short of expectations.

"Hugh Braker, a member of the political executive of the First Nations Summit, one of the largest First Nations organizations in British Columbia," said on April 3, 2023, at a discussion of the *Draft Action Plan* at the Assembly of First Nations (AFN), "'We're not talking about consultation…We're talking about co-management, and we're talking about **free, prior and informed consent**'" (Forester, 2023).

AFN National Chief RoseAnne Archibald reiterated this message, saying, "Consent is key. Consultation is not enough" (Forester, 2023).

What is **free, prior and informed consent**? It is a right under the UNDRIP, Article #32.

Free, prior and informed consent (FPIC)

For Indigenous Peoples, the need to have their right to **Free, Prior and Informed Consent (FPIC)** respected (Figure 9) has gained greater urgency because of intense development pressure for natural resources on Indigenous lands. For mining companies and governments, this right is the most controversial and threatening; the right that all too frequently sees lack of compliance.

UNDRIP Article #32 says (UN General Assembly, 2007):

1. Indigenous peoples have the right to determine and develop priorities and strategies for the development or use of their lands or territories and

TABLE 2: ECONOMIC AND BUSINESS RECONCILIATION

Truth and Reconciliation Commission's Call to Action 92 would include, but not be limited to, the following:

i. Commit to meaningful consultation, building respectful relationships, and obtaining the free, prior, and informed consent of Indigenous peoples before proceeding with economic development projects.

ii. Ensure that Aboriginal peoples have equitable access to jobs, training, and education opportunities in the corporate sector, and that Aboriginal communities gain long-term sustainable benefits from economic development projects.

iii. Provide education for management and staff on the history of Aboriginal peoples, including the history and legacy of residential schools, the United Nations Declaration on the Rights of Indigenous Peoples, Treaties and Aboriginal rights, Indigenous law, and Aboriginal-Crown relations. This will require skills-based training in intercultural competency, conflict resolution, human rights, and anti-racism.

[10] "Because UNDRIP is neither a convention nor a treaty, it is not legally binding unless it is adopted in legislation" (Flanagan, 2020). Canada is in the process of doing so.

other resources.

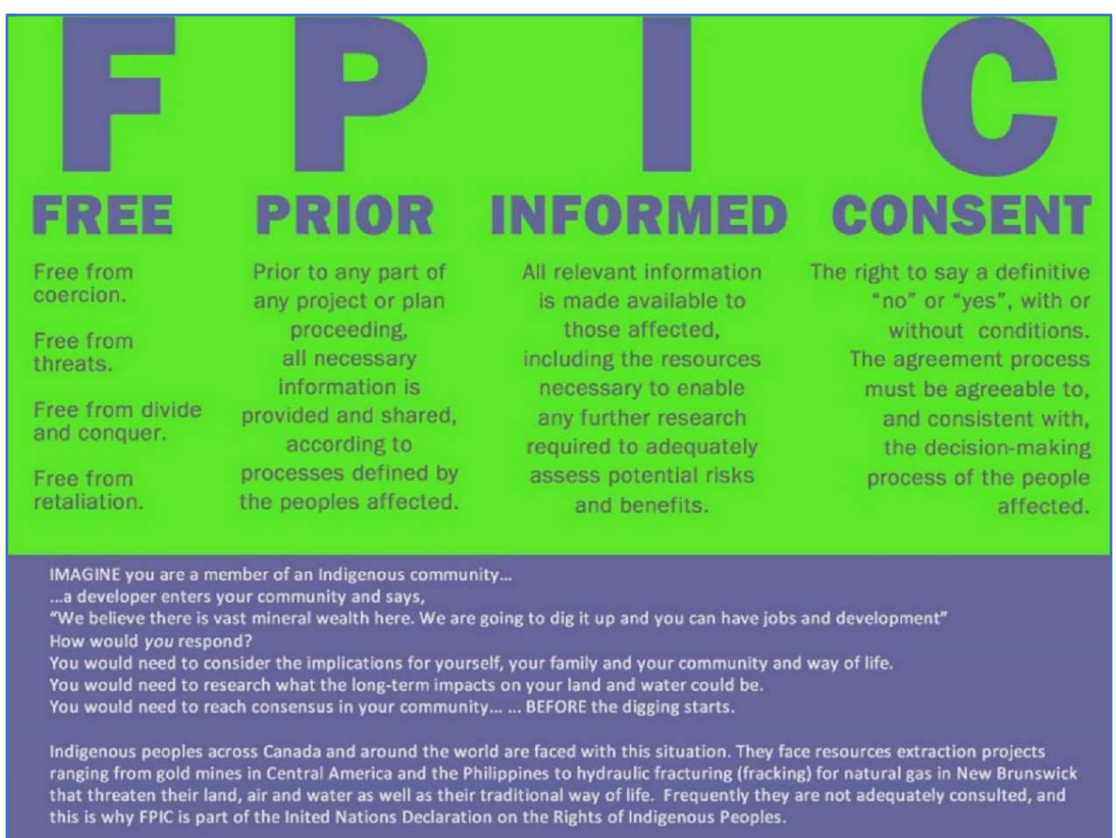
*2. States shall **consult and cooperate in good faith** with the Indigenous peoples concerned through their own representative institutions in order to obtain their **free and informed consent prior to the approval of any project** affecting their lands or territories and other resources, **particularly in connection with the development, utilization or exploitation of mineral, water or other resources**.* [Emphasis added.]

3. States shall provide effective mechanisms for just and fair redress for any such activities, and appropriate measures shall be taken to mitigate adverse environmental, economic, social, cultural or spiritual impact.

The FPIC Manual of the UN's Food and Agriculture Organization (FAO) (2016) is more explicit, saying, that FPIC allows Indigenous Peoples *"…to **give or withhold consent** to a project that may affect them or their territories. Once they have given their consent, **they can withdraw it at any stage**. Furthermore, FPIC enables them to negotiate the conditions under which the project will be designed, implemented, monitored and evaluated"* (FAO, 2016, p. 13).

In Canada, many provincial and federal announcements in the spring of 2023 appeared to ignore or contest the UNDRIP, especially the need to obtain free, prior, and informed consent. Indigenous rights are not being recognized and respected. This section looks at that combative approach, not beneficial to investors, companies or communities, and an alternative approach, proposed by the First Nations Major Project Coalition (FNMPC), that could honour rights and a commitment to reconciliation.

FIGURE 9: FREE, PRIOR, INFORMED CONSENT (FPIC) (SOURCE: SPEAKER KELSEY LEONARD, UNIVERSITY OF WATERLOO)



Announcements on resource development in Canada: A combative approach

"The pursuit of profit has led rapacious companies to seek energy sources and resources impinging on Indigenous lands. The focus on profits has seen companies convince municipal and national authorities to accelerate extractive and economic projects, without the consent of Indigenous peoples who have lived there for hundreds of years."

Free Prior Informed Consent (FPIC) Manual (FAO, 2016, p. 6)

Ontario provides two examples of the acceleration of extractive and economic projects, without the free, prior and informed consent of all affected Indigenous communities.

1. Changes to Ontario's Mining Act introduced in March 2023 through Bill 71, the *Proposed Building More Mines Act*, is intended to reduce the permitting time for all mines, but particularly "…to secure the supply chain associated with critical minerals …and provide jobs not only in southern Ontario, but across northern Ontario, including…Indigenous communities," said Minister of Mines, George Pirie (Insidexploration, 2023).

   Yet, five First Nations' representatives travelled to the provincial legislature in March 2023 to oppose the act and development that has not attained free, prior and informed consent from their communities. The premier ignored their demands for inclusion (McIntosh, 2023; Law, 2023).

2. The Federal and Ontario governments jointly announced investment in Volkswagen to build the largest electric-vehicle battery plant and largest manufacturing facility in Canada (ISEDC, 2023). The plant will use critical minerals such as lithium, nickel and cobalt found in the "Ring of Fire" area of Northern Ontario, in Treaty 9 territory, under peatlands that act as a significant planetary carbon sink. The area and the required new permanent access roads are on and affect many Indigenous peoples' communities and territories. (Heffernan, V., 2023; Wilt, J. 2020).

   By the end of April, ten Treaty 9 First Nations had launched a lawsuit for "…injunctions to prevent the [provincial and federal governments] from regulating or enforcing regulations in the treaty land without [their] consent." Nations not necessarily against development want consultation and partnership before permission is given (Brockman, 2023).

The province of Saskatchewan provides an example of legislation in opposition to the UNDRIP.

3. Saskatchewan, on March 16, 2023, passed Bill 88, the *Saskatchewan First Act*, "…in front of a gallery full of First Nations and Métis community members who travelled to the legislature in opposition of the bill." The act says Saskatchewan has jurisdiction over exploration, development, conservation and management of non-renewable and forestry resources, as well as operation of sites and facilities for electricity production, and more. "[T]he Federation of Sovereign Indigenous Nations (FSIN), which represents Saskatchewan's First Nations…said the bill infringes on treaty rights…and said it wants to be included in revenue sharing from natural resources" (Hunter, 2023a).

   The act resulted from opposition to the federal government's implementation of the ***United Nations Declaration on the Rights of Indigenous Peoples Act*** (called Bill C-15 before assented;

see above). In a news release, the Saskatchewan government said, "This historic legislation [the Saskatchewan First Act] will help protect our economic growth and prosperity from intrusive federal policies that encroach upon our legislative sovereignty" (Saskatchewan, 2022, November 1).

Saskatchewan stated in a letter to the Chair of the Standing Committee on Aboriginal Peoples (McMorris, D., 2021) that "Bill C-15 should be amended to clarify that UNDRIP does *not* form part of the substantive laws of Canada," that "…its obligations [should] apply *only* to the federal government" and that "Bill C-15 should be amended to make it clear that FPIC does not amount to a veto."

On March 18, 2023, the FSIN said it "…will take legal action to oppose the [Saskatchewan First] Act, as it infringes on First Nations' inherent and treaty rights to land, water, and resources" (Hunter, 2023b).

Alternative, collaborative approach

By contrast, the First Nations Major Project Coalition (FNMPC) says,

"As Indigenous people we are the multi-generational stewards of the lands, waters, and resources that are now known as Canada. We are a vital part of, and have a vested interest in, building an environmentally and socially responsible future that will benefit all Canadians, Indigenous and non-Indigenous alike. The inclusion of Indigenous standards, knowledge, values and aspirations at all levels in both corporate decision-making, and in ESG frameworks, data collection and evaluation, will improve company performance, investment stability and social outcomes.

"Done correctly, this inclusion will provide companies and investors with a strategic advantage by demonstrating that Canadians are serious about pursuing better environmental, social and governance outcomes – benefitting Indigenous people and investors alike."

First Nations Major Project Coalition (FNMPC) (2021, p. 30)

Further, the FNMPC suggests, "The shared goal of Canadian investors, governments, Indigenous peoples, and others with a vested interest in ESG should be to determine how we co-create a Canadian interpretation of ESG. This standard will be, no doubt, one that honours not only the traditions, knowledge and values of the people who will be hosting many of the proposed major infrastructure and capital projects, but in a way that also factors in the needs of the investment community for capital certainty and their required compliance with ESG criteria" (FNMPC, 2021, p. 19).

Indigenous data sovereignty

Indigenous Data Sovereignty (ID-SOV) "…is a global movement concerned with the rights of Indigenous Peoples to govern the creation, collection, ownership and application of their data. ID-SOV derives from the inherent right of Indigenous Peoples to govern our peoples, country (including lands, waters and sky) and resources as

outlined in the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP).[11]

Te Mana Raraunga, USDISN, Maiam nayri Wingara (2019)

Indigenous data are "data, information and knowledge in any format that impacts Indigenous Peoples, nations, and communities at the collective and individual levels" (Figure 10).

"Indigenous data sovereignty," explained Leonard, "…is the authority of Indigenous Nations under international law, UNDRIP, to manage the data on Indigenous peoples, our territories, cultural heritage traditional knowledge and ways of life. So, many of the data that you might intersect with in your professional careers are likely going to be covered under Indigenous data sovereignty." If, for example, "…you are working for a mining company that has data, we have the privilege to own and control the data if [the data are about] our lands or territories."

In Canada, the data principles to learn are the "…First Nations' principles of **o**wnership, **c**ontrol, **a**ccess, and **p**ossession – more commonly known as OCAP® – [that] assert that First Nations have control over data collection processes, and that they own and control how this information can be used" (FNIGC, 2023).

Along with OCAP®, important to know are the CARE principles (Figure 11). "Concerns about secondary use of data and limited opportunities for benefit-sharing have focused attention on the tension that Indigenous communities feel between (1) protecting Indigenous rights and interests in Indigenous data (including traditional knowledge) and (2) supporting open data, machine learning, broad data sharing, and big data initiatives…The CARE Principles for Indigenous Data Governance (**C**ollective **B**enefit, **A**uthority to **C**ontrol, **R**esponsibility, and **E**thics)… are people and purpose-oriented, reflecting the crucial role of data in advancing innovation, governance, and self-determination among Indigenous Peoples. The Principles complement the existing data-centric approach represented in the 'FAIR Guiding Principles for scientific data management and stewardship' (**F**indable, **A**ccessible, **I**nteroperable, **R**eusable)…The goal is that stewards and other users of Indigenous data will 'Be FAIR and CARE.'" (Carroll, et al., 2020).

[11] UNDRIP articles 3, 4, 5, 15(1), 18, 19, 20(1), 23,31, 32, 33, 38 and 42.

Figure 10: What Are Indigenous Data? (Source (Modified): Speaker Kelsey Leonard, University of Waterloo, Carroll & Anderson (2020), and USINDIGENOUSDATA.ORG[12])

WHAT ARE INDIGENOUS DATA?

Data, information and knowledge, in any format, that impacts Indigenous Peoples, nations, and communities at the collective and individual levels:

Data about our Resources and Environments

Land, water, geology, titles, air, soil, sacred sites, territories, plants, animals, etc.

Data about Us as Individuals

Administrative, legal, health, social, commercial, corporate, services, etc.

Data about Us as Collectives – Nations and Peoples

Traditional and cultural information, archives, oral histories, literature, ancestral and clan knowledge, stories, belongings, etc.

Informed by British Columbia First Nations Data Governance Institute - BCFNDGI.COM

USINDIGENOUSDATA.ORG | @USIDSN

NATIVE NATIONS INSTITUTE

Strengthening Indigenous Governance

[12] Website no longer active. See Carroll & Anderson (2020).

FIGURE 11: FAIR AND CARE PRINCIPLES OF INDIGENOUS DATA GOVERNANCE (SOURCE: SPEAKER KELSEY LEONARD, UNIVERSITY OF WATERLOO, AND THE GLOBAL INDIGENOUS DATA ALLIANCE)

Trade-offs between sustainability issues

The United Nations worries that the “building blocks approach” that the IFRS [via the ISSB] is taking to sustainability issues “…suggests that sustainability issues can be neatly dissociated from each other, so that what is material and immaterial to investors can be easily identified. However, in reality, sustainability issues are deeply interlinked and need to be considered holistically…[M]ultiple recent events have shown how quickly and unpredictably things can shift and how interlinked our societies and economies are (e.g., COVID-19, ‘Me Too’ movement, war in Ukraine, climate-related disasters)” (UN Environment Program, 2022).

ISSB’s addressing of omissions

For information on how the ISSB is addressing omissions, see ***Part 5: Toward Uniform, Universal Standards***.

What CPAs can do to address omissions

Speaker **Kelsey Leonard**, University of Waterloo, advises prospective CPAs and current CPAs to:

- Learn about whose traditional land you work on or in which your company operates by visiting native-land.ca. Here, learn about territories, languages, and treaties. Canada and 630 First Nations have a nation-to-nation relationship.
- Understand Indigenous views and Indigeneity. As a start, follow CPA Canada’s online course, Introduction to Indigenous Peoples’ cultures.

- Defend the UNDRIP and the Truth and Reconciliation Commission's Call to Action 92 on business and reconciliation. Ensure their respect in your company.
- Learn more about Indigenous Data Sovereignty and the OCAP® (**o**wnership, **c**ontrol, **a**ccess, and **p**ossession) principles at the First Nations Information Governance Centre (FNIGC). If you are a steward or user of Indigenous data, "Be FAIR and CARE" and follow Indigenous peoples' rights in data.
- Use your power and role in finance with great responsibility. "Take the lessons of this conference and the lessons that you'll continue to hear from marginalized voices and amplify them in your work," said Leonard.

In ***Part 3: Financial Implications and Integrated Reporting***, we look at the financial impacts of climate-related risks and opportunities and how their disclosure in financial statements can help both investors and companies. Investors can make better-informed decisions and companies can move toward integrated thinking -- building the principles of people, planet, and prosperity into the core of the business.

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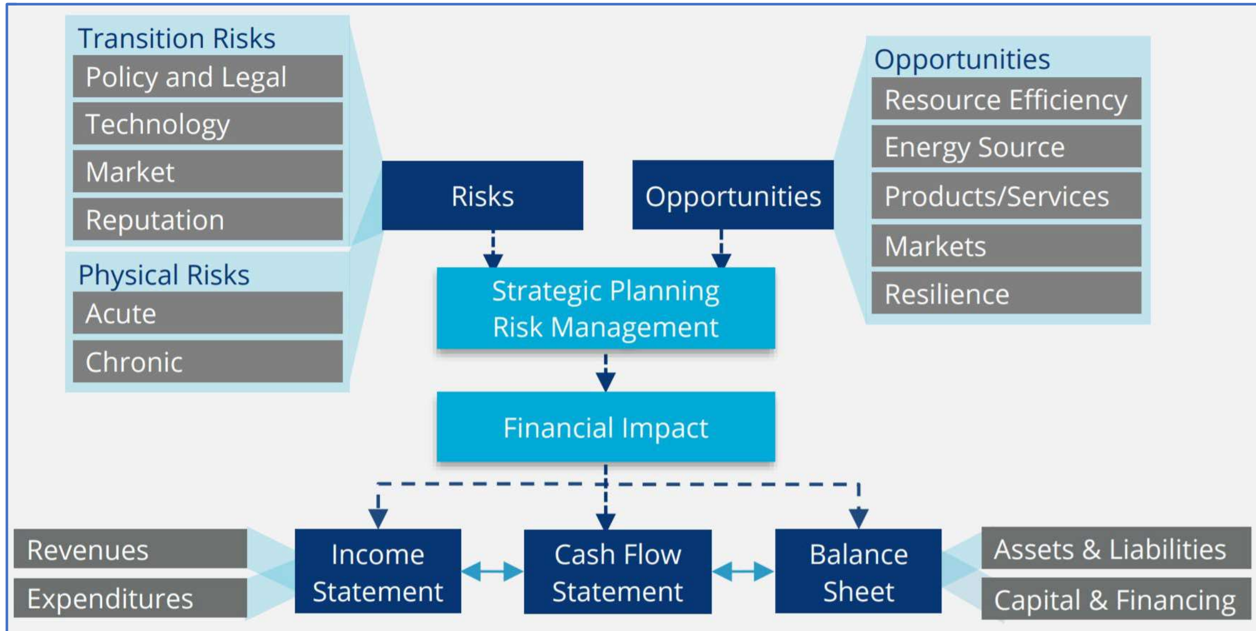
Part 3: Financial Implications and Integrated Reporting

"It's easy to get lost in the world of reporting and think that…these are disclosures that are going to sit again in the management discussion and analysis (MD&A) in the front half of a financial filing or a separate report but, really, what's driving the need for these incremental disclosures is the fact that there are also going to be financial implications."

Speaker Nura Taef, Deloitte Canada

A key goal of the Task Force for Climate-related Disclosures (TCFD), whose recommendations form the basis of the ISSB proposed ***Climate-related Disclosures*** requirements (see ***Part 1*** and ***Part 5***), was for companies to disclose the financial impacts of **climate-related risks and opportunities**. By understanding how these will affect "…an organization's future financial position, as reflected in its income statement, cash flow statement, and balance sheet," (Figure 12) "…investors, lenders, and insurance underwriters [can make] more informed financial decisions" (TCFD, 2017, p. 8).

FIGURE 12: BETTER DISCLOSURE OF THE FINANCIAL IMPACTS OF CLIMATE-RELATED RISKS AND OPPORTUNITIES (SOURCE: TCFD, 2017, P. 8)



Both risks and opportunities have quantitative and qualitative impacts, explained **Nura Taef**, ESG Reporting Advisor at Deloitte Canada. These impacts will differ from company to company, depending on exposure to climate risk and the strategic-planning and risk-management decisions made.

Risks, opportunities, and financial and operational impacts

Risks presented on the left-hand side of Figure 13 have financial and operational impacts that include those on the right-hand side. For example,

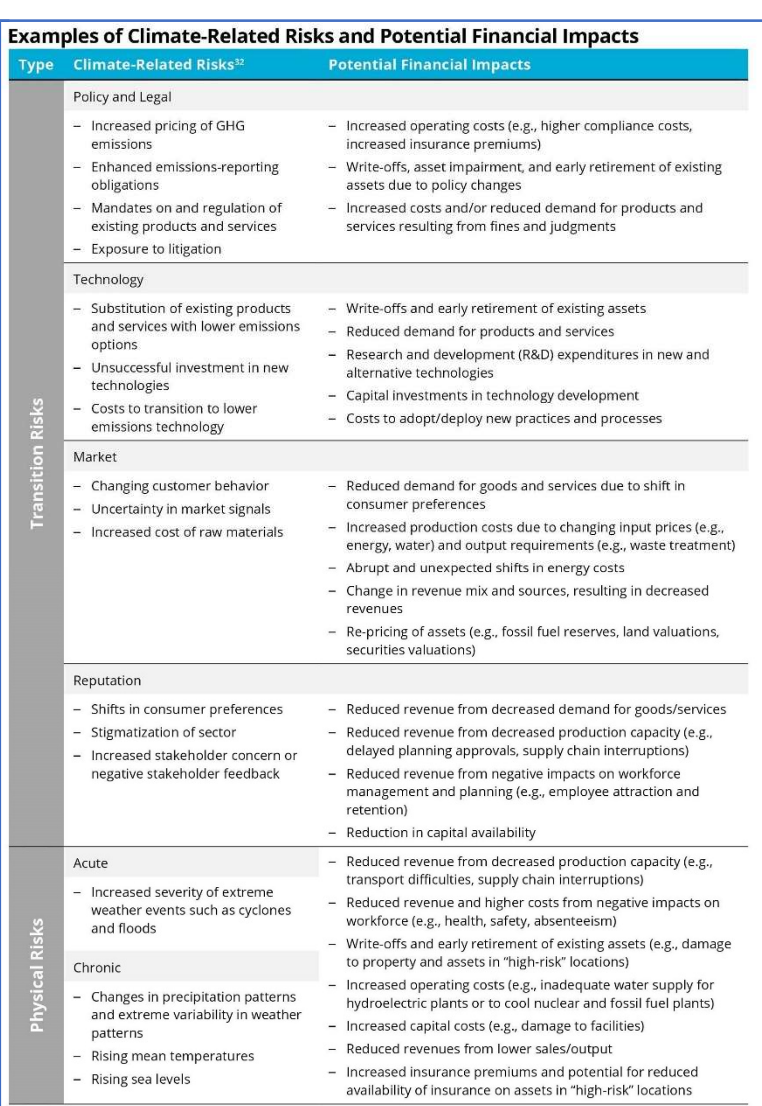
- Increased severity of weather events can lead to increased operating costs and increased insurance premiums.

- Increased pricing of GHG emissions and regulation of products and services can increase operating costs and can lead to write-offs, impairments and early retirement of existing assets.
  - Think, for example, of a diesel-based delivery company. Greening of the fleet -- converting to electric vehicles (EVs) -- would result in write-offs or impairment of the existing vehicle assets. (See Figure 14.)
  - A diesel-vehicle manufacturer faces a shift in consumer preference to EVs and stigmatization of the sector. Both risks would lead to decreased demand and decreased revenues.

Similarly, emerging climate-related opportunities (Figure 15, left-hand side) also have financial implications that will translate into financial and operational impacts (Figure 15, right-hand side).

- For example, use of more efficient modes of transport, production and distribution could lead to increased reliability of a supply chain, reduced exposure/sensitivity to changes in the cost of carbon.

FIGURE 13: CLIMATE-RELATED OPERATIONAL & FINANCIAL RISKS (SOURCE: TCFD (2017, P. 10))



Examples of Climate-Related Risks and Potential Financial Impacts

Type	Climate-Related Risks[32]	Potential Financial Impacts
Transition Risks	**Policy and Legal**	
	– Increased pricing of GHG emissions – Enhanced emissions-reporting obligations – Mandates on and regulation of existing products and services – Exposure to litigation	– Increased operating costs (e.g., higher compliance costs, increased insurance premiums) – Write-offs, asset impairment, and early retirement of existing assets due to policy changes – Increased costs and/or reduced demand for products and services resulting from fines and judgments
	Technology	
	– Substitution of existing products and services with lower emissions options – Unsuccessful investment in new technologies – Costs to transition to lower emissions technology	– Write-offs and early retirement of existing assets – Reduced demand for products and services – Research and development (R&D) expenditures in new and alternative technologies – Capital investments in technology development – Costs to adopt/deploy new practices and processes
	Market	
	– Changing customer behavior – Uncertainty in market signals – Increased cost of raw materials	– Reduced demand for goods and services due to shift in consumer preferences – Increased production costs due to changing input prices (e.g., energy, water) and output requirements (e.g., waste treatment) – Abrupt and unexpected shifts in energy costs – Change in revenue mix and sources, resulting in decreased revenues – Re-pricing of assets (e.g., fossil fuel reserves, land valuations, securities valuations)
	Reputation	
	– Shifts in consumer preferences – Stigmatization of sector – Increased stakeholder concern or negative stakeholder feedback	– Reduced revenue from decreased demand for goods/services – Reduced revenue from decreased production capacity (e.g., delayed planning approvals, supply chain interruptions) – Reduced revenue from negative impacts on workforce management and planning (e.g., employee attraction and retention) – Reduction in capital availability
Physical Risks	**Acute** – Increased severity of extreme weather events such as cyclones and floods **Chronic** – Changes in precipitation patterns and extreme variability in weather patterns – Rising mean temperatures – Rising sea levels	– Reduced revenue from decreased production capacity (e.g., transport difficulties, supply chain interruptions) – Reduced revenue and higher costs from negative impacts on workforce (e.g., health, safety, absenteeism) – Write-offs and early retirement of existing assets (e.g., damage to property and assets in "high-risk" locations) – Increased operating costs (e.g., inadequate water supply for hydroelectric plants or to cool nuclear and fossil fuel plants) – Increased capital costs (e.g., damage to facilities) – Reduced revenues from lower sales/output – Increased insurance premiums and potential for reduced availability of insurance on assets in "high-risk" locations

FIGURE 14: GREENING OF THE FLEET: A CLOSER LOOK AT IMPAIRMENTS ASSOCIATED WITH DISCLOSURES OF ESG TARGETS (SOURCE: SPEAKER NURA TAEF, DELOITTE CANADA)

Reporting on account balances typically considers a point in time. But some balances require forward-looking information. Any time asset values are assessed, impairment calculations[13] should be considered.

Example: Suppose an organization has a fleet of diesel vehicles. In its sustainability report, the organization commits to "green the fleet" by moving to EVs by 2030. What happens to the existing diesel fleet?

That decision, combined with stigmatization of and changing demand for diesel means that the diesel vehicles have a reduced useful life and reduced residual value. When an asset's market value is less than its value on the company's balance sheet, the asset value is impaired. Impairment has clear financial implications, so should be reflected in financial statements or, at a minimum, in their associated assumptions[14].

FIGURE 15: CLIMATE-RELATED OPERATIONAL & FINANCIAL OPPORTUNITIES & IMPACTS (SOURCE: TCFD (2017, P. 11))

Examples of Climate-Related Opportunities and Potential Financial Impacts

Type	Climate-Related Opportunities[33]	Potential Financial Impacts
Resource Efficiency	– Use of more efficient modes of transport – Use of more efficient production and distribution processes – Use of recycling – Move to more efficient buildings – Reduced water usage and consumption	– Reduced operating costs (e.g., through efficiency gains and cost reductions) – Increased production capacity, resulting in increased revenues – Increased value of fixed assets (e.g., highly rated energy-efficient buildings) – Benefits to workforce management and planning (e.g., improved health and safety, employee satisfaction) resulting in lower costs
Energy Source	– Use of lower-emission sources of energy – Use of supportive policy incentives – Use of new technologies – Participation in carbon market – Shift toward decentralized energy generation	– Reduced operational costs (e.g., through use of lowest cost abatement) – Reduced exposure to future fossil fuel price increases – Reduced exposure to GHG emissions and therefore less sensitivity to changes in cost of carbon – Returns on investment in low-emission technology – Increased capital availability (e.g., as more investors favor lower-emissions producers) – Reputational benefits resulting in increased demand for goods/services
Products and Services	– Development and/or expansion of low emission goods and services – Development of climate adaptation and insurance risk solutions – Development of new products or services through R&D and innovation – Ability to diversify business activities – Shift in consumer preferences	– Increased revenue through demand for lower emissions products and services – Increased revenue through new solutions to adaptation needs (e.g., insurance risk transfer products and services) – Better competitive position to reflect shifting consumer preferences, resulting in increased revenues
Markets	– Access to new markets – Use of public-sector incentives – Access to new assets and locations needing insurance coverage	– Increased revenues through access to new and emerging markets (e.g., partnerships with governments, development banks) – Increased diversification of financial assets (e.g., green bonds and infrastructure)
Resilience	– Participation in renewable energy programs and adoption of energy-efficiency measures – Resource substitutes/diversification	– Increased market valuation through resilience planning (e.g., infrastructure, land, buildings) – Increased reliability of supply chain and ability to operate under various conditions – Increased revenue through new products and services related to ensuring resiliency

[13] Impairment is calculated as the carrying value of an asset (its historical cost less accumulated depreciation) minus its fair market value. If its fair market value is less than the carrying value, the **impairment loss** is the difference (Tuovila, 2022). In short, an impaired asset's market value is less than the value listed on the company's balance sheet.

[14] For more information, see CPA Canada. (2019). Disclosing the Impacts of Climate Change: A process for assessing materiality.

Connecting sustainability reporting and financial reporting

*"There's a need for integrated reporting, and a big part of that is not just location of information, it's **timing** of information."*

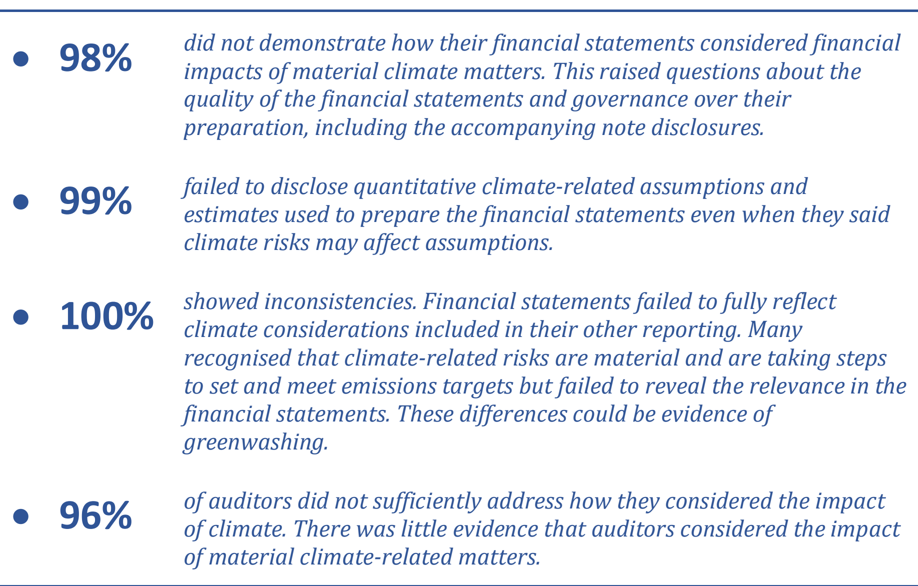
Speaker Nura Taef, Deloitte Canada

To achieve commitments made in sustainability reports, for example, net zero emission-reduction targets, an organization must change the way it does business. The example of greening the fleet (Figure 14), shows that sustainability targets, whether set by or imposed on an organization, have financial implications. Whether a company is retrofitting its assets, investing in new technology, or changing locations, actions have financial impacts.

Yet, noted Taef, organizations typically silo sustainability and financial reporting. "What is getting lost today in reporting is that [sustainability] commitments are not making their way into the financial statements." She illustrated this with results of a report by Carbon Tracker, whose website describes it as an independent financial think tank that looks at the impact of energy transition on capital markets.

Continued absence of climate risk in financial reporting

Carbon Tracker (2022) examined the filings of 134 companies including "…those that contribute to up to 80% of global industrial greenhouse gas (GHG) emissions" (p. 9). It reported (pp. 6-7) that "despite the fact that the IASB, FASB and IAASB, the standard-setters for global company reporting and auditing, have made clear that material climate change issues should be considered in the preparation and audit of financial statements,"



- **98%** *did not demonstrate how their financial statements considered financial impacts of material climate matters. This raised questions about the quality of the financial statements and governance over their preparation, including the accompanying note disclosures.*
- **99%** *failed to disclose quantitative climate-related assumptions and estimates used to prepare the financial statements even when they said climate risks may affect assumptions.*
- **100%** *showed inconsistencies. Financial statements failed to fully reflect climate considerations included in their other reporting. Many recognised that climate-related risks are material and are taking steps to set and meet emissions targets but failed to reveal the relevance in the financial statements. These differences could be evidence of greenwashing.*
- **96%** *of auditors did not sufficiently address how they considered the impact of climate. There was little evidence that auditors considered the impact of material climate-related matters.*

These results show that reporting must improve.

Reporting must improve and evolve

Currently, organizations are in a **responsive** state (Figure 16, left), said Taef. Reporting is compliance driven. In the context of sustainability reporting or financial reporting, organizations are only including

what is absolutely necessary and are not looking beyond that. “We don’t often see ESG considerations built into the core of the business, its strategies, its business model, and its operations. There’s really no assurance over this information [if it is supplied],” said Taef.

Some Canadian companies, she said, are in an **enhanced** state (Figure 16, middle). They are preparing for the future world of reporting.

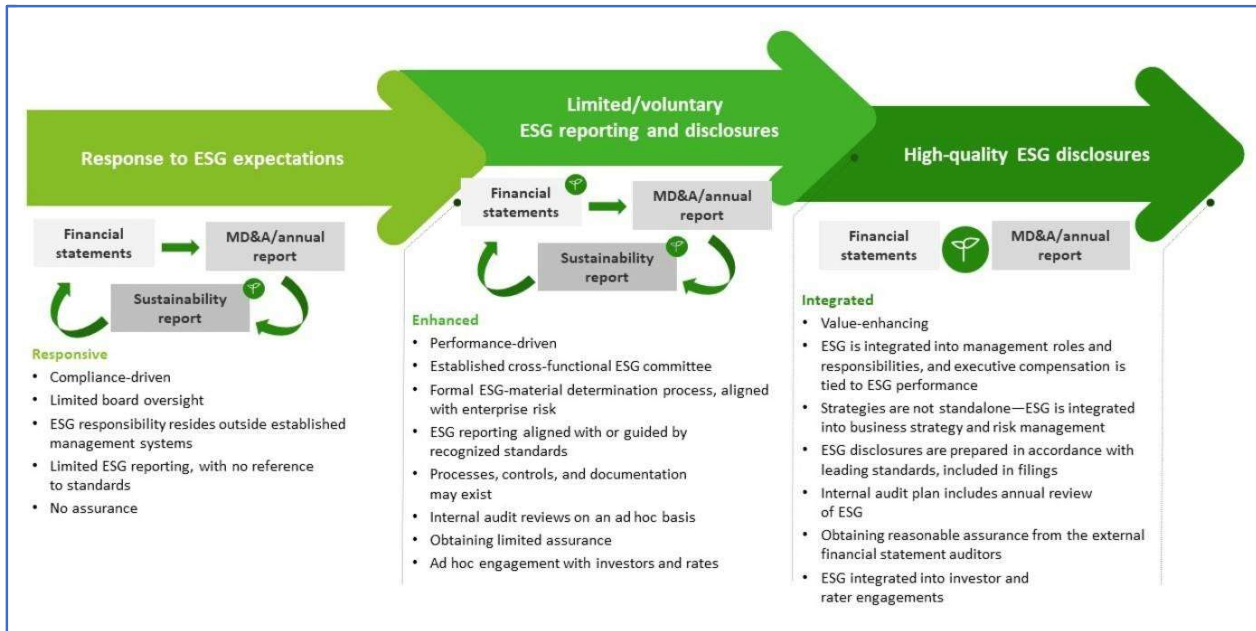
Integrated thinking: the future of reporting

Taef explained that new standards, new regulations, and the emphasis on financial connectivity are moving organizations toward **integrated** corporate reporting (Figure 16, right), where reporting is not just about compliance. Instead, it is viewed as a value-enhancing exercise: how the organization will create value and resiliency for its stakeholders in the long term. In this state, ESG is integrated into the core of the business, into its strategy, its business operations, and its enterprise risk management. ESG is not distinct from these; it is considered one and the same.

This integrated reporting model is integrated thinking. Integrated thinking means building the principles of people, planet, and prosperity into the core of the business.

Speaker Nura Taef, Deloitte Canada

FIGURE 16: MOVING REPORTING TOWARD INTEGRATING ESG (SOURCE: DELOITTE, [2021])



IFRS Integrated Reporting Framework

“An integrated report explains to providers of financial capital how an organization creates, preserves, or erodes value over time, which is the foundation upon which investors and broader stakeholder groups make informed capital allocation decisions. It offers a powerful tool that can move the organization away from siloed thinking and reporting and toward integrated thinking, planning, performance, and value management.”

Hoffman (2022, p. 2)

“An integrated report is a concise communication about an organisation’s strategy, governance, performance and prospects. Presenting each topic in the context of the organisation’s external environment, the report summarises how the organisation creates value in the short, medium and long term…The IASB and the ISSB will work together to agree on how to build on and integrate the Integrated Reporting Framework [see ***Part 1***, section *How will reporting change?*] into their standard-setting projects and requirements. During this transition, the Chairs of the IASB and ISSB actively encourage companies to continue adopting the Integrated Reporting Framework” (IFRS, 2022), formerly the <IR> framework published by the International Integrated Reporting Council (IIRC).

For more detailed information, see Integrated Reporting Framework and Integrated thinking, both under auspices of IFRS Foundation.

What CPAs need to know

Risks and opportunities have quantitative, qualitative, operational, and financial impacts.

Integrated reporting means that these impacts – and assumptions concerning these impacts -- should be reflected in a company’s financial statements.

Integrated reporting requires moving away from siloed thinking to integrated thinking, where ESG+I are integrated into the company’s strategy, operations, and risk management, and internal audits will include review of ESG+I.

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Part 4: Politics, Disparity, and Deception

In Part 4, speaker **Hans Christensen**, University of Chicago, explains the politics of corporate social responsibility (CSR) and why mandating disclosure, though second-best to regulation, can still result in real effects and change for the better in corporate behaviour. He also warns that disclosure can have unintended consequences.

Khrystyna Bochkay, University of Miami, describes research that shows that voluntary disclosure through the SASB standards produced positive real effects.

Aneesh Raghunandan, London School of Economics, explains the disparity in ESG scores and ratings and reminds us that disclosure, even mandated disclosure, can be meaningless without assurance.

Raghunandan and **Scott Morrison**, PwC Canada, show us deception in the ESG landscape and how greenwashing is on the rise.

Politics of CSR and ESG

Standard setters like the **International Accounting Standards Board** (IASB) and **International Sustainability Standards Board** (ISSB), and the **European Financial Reporting Advisory Group** (EFRAG)-member national standard setters, write or authorize standards and provide guidance for implementing them. In Canada, the new **Canadian Sustainability Standards Board** (CSSB) will work with the ISSB to promote uptake of its standards. Yet these bodies cannot mandate or police the use of standards. That is the job of jurisdictional governments or regulators.

Speaker **Hans Christensen** focused on the United States and the politics of corporate social responsibility (CSR) reporting. He explained that traditional policy instruments for changing corporate behaviour include taxes, subsidies, or penalties for non-compliance. When lobbying/politics make traditional policy instruments difficult to implement, proponents and opponents may reach agreement on **mandated disclosure**; that is, a requirement by companies to report/disclose certain activities or information.

Settling on a mandate for corporate disclosure may be second best, but “reporting regulations are the policy instrument with the least political resistance,” explained Christensen, even if they may not always be cost effective.

“Before we regulate disclosure,” Christensen cautioned, “we need to think about [whether] it is actually cost effective, or if traditional policy instruments could be more effective. For example,

TABLE 3: REPLACE FAA WITH A PLANE-SAFETY DISCLOSURE MANDATE? (HYPOTHETICAL EXAMPLE FROM SPEAKER HANS B. CHRISTENSEN)

FAA mission: *“…to provide the safest, most efficient aerospace system in the world.”*

“The FAA conducts research on and develops systems and procedures needed for a safe and efficient system of air navigation and air traffic control. The FAA helps develop better aircraft, engines, and equipment…”

Regulations: The FAA issues and enforces regulations covering manufacturing, operating, and maintaining aircraft.”

(U.S. DOT, 2018) [Emphasis added.]

What If the FAA were replaced by disclosures on safety by airlines and airports, instead? No regulations except for mandatory disclosure; no enforcement.

It would be up to passengers to learn enough about flight safety, air-traffic control, airplanes, etc. to feel safe with the disclosures and to fly with an airline or not! If passengers think the airline isn’t safe and will not buy tickets, would that give the airline enough incentive to improve safety?

he posited, should we replace the U.S. Federal Aviation Administration (FAA) with a plane-safety disclosure mandate?" (Table 3).

Christensen identified problems with this idea, including the following:

- Most people are not experts in flight safety. Becoming informed is extremely costly.
- All passengers would all have to replicate that effort.
- Passengers' decision to fly with an airline might become based on other characteristics, like size (the biggest) or reputation (fewest crashes) if they can't become experts on safety.

Many CSR issues are equally complex, he said, for example, trade-offs between pollutants. Mandating disclosure may not be the best way to deal with them.

Examples of mandated disclosure

The U.S., Christensen said, not unlike any other country, does not have a general CSR reporting mandate. However, the U.S. Securities and Exchange Commission (SEC) has been used in the past to mandate targeted CSR disclosure. It has been used recently again to propose climate-related disclosures (Table 4).

He provided two examples where U.S. Securities law requires targeted disclosure for topics otherwise completely unrelated to the Congressional *Dodd-Frank Wall Street Reform and Consumer Protection Act* in which they are housed.[15] At the time they were included, the use of securities regulation to address non-financial, broad societal problems, rather than to protect investors, was unprecedented, he said. (See also Lynn, 2011).

- Section 1502 of the Act requires disclosure of any use of conflict minerals (tantalum, tin, gold, or tungsten) from the Democratic Republic of the Congo (DRC) or adjoining countries and a description of measures taken to exercise due diligence in their source and supply. This section implicitly targeted companies such as electronics-, smartphone- and other producers whose purchase of conflict minerals was unintentionally funding an ongoing war, child labour, and contributing to an emergency humanitarian crisis (SEC, 2017).
- Section 1503 of the Act requires mine operators to disclose health and safety violations. The requirement for this disclosure came from reaction to a West Virginia coal mine disaster in which 39 miners were killed.

The mandated disclosures had real effects, Christensen said, but they also had some unintended consequences.

Real effects (and possible unintended consequences) of disclosure

*What I mean by **real effects** is changes in corporate behaviour in reaction to disclosures; in particular, changes in the investment policies of corporations. Changes [for the better] could include increasing investment in labour safety, reducing CO_2 production, improving ESG metrics or altering supply chains.*

[15] The *Dodd-Frank Wall Street Reform and Consumer Protection Act* was intended to protect consumers and taxpayers from a repeat of the bailouts and behaviours of banks and the financial services sector that caused the financial crisis of 2007-2008.

Speaker Hans B. Christensen, University of Chicago

The use of the Dodd-Frank securities law to address social responsibility/public policy issues through disclosure requirements showed these real effects and unintended consequences.

- Section 1502: Greater public scrutiny because of conflict-mineral disclosures compelled companies to "move toward responsible sourcing," and the incidence of conflicts in the DRC and adjoining countries decreased (Baik, et al., 2021). The consequences -- and unintended consequences -- included "…increased unemployment, loss of revenue for artisanal miners…increased fraud…banditry…and racketeering." In addition, "high-technology industry and policymakers in the United States and Europe expended a disproportionate amount of energy and political capital to solve the mineral trade problem at the expense of the larger governance crisis that fuels insecurity and instability in DRC" (Dizolele, 2017).
- Section 1503: Safety improved in mines owned by SEC registrants compared to those owned by non-registrants, but there were unintended consequences, too. While, mining-related citations and injuries decreased, labour productivity was reduced, meaning that increased safety came with a cost (Christensen, et al., 2017).

Political divide over ESG- and climate-related regulation

In the United States, two recent examples show that climate-related and ESG disclosures are highly politicized (Table 4). In the first, the SEC is being used to mandate climate-related disclosures through its March 2022 rule proposal. Overwhelming response and opposition have delayed the proposed rule's January 2023 implementation.

In the second, controversy has arisen over the U.S. Department of Labor's regulation to **allow, but not mandate**, consideration of ESG factors when choosing retirement investments.

TABLE 4: ESG- AND CLIMATE-RELATED REGULATION IN THE U.S.: THE POLITICAL DIVIDE

Governments in power can direct policy by proposing laws or regulations. Two recent examples from the United States show how support and opposition of a climate-related proposal and ESG regulation are divided along political lines.

Example 1: The **U.S. Securities Exchange Commission (SEC)** issued its proposed Enhancement and Standardization of Climate-Related Disclosures for Investors Rule on Climate Disclosures in March 2022.

The proposal "…is facing broad opposition from companies, as well as House Republicans and industry-funded groups that oppose [President] Biden's climate agenda…and the rules that would force U.S. corporations to disclose more information about their climate risks and greenhouse gas emissions.

"Many companies say the disclosure rules are too expensive, complicated and far-reaching. At the same time, many climate activists fear that federal agencies, swamped by comments, are overreacting to corporate pressure" (Mufson, 2023).

"One quandary is how companies should measure their emissions and climate risk. With no governmental tool available, such analyses are performed by small firms that major companies have disparaged" (Mufson, 2023).

Example 2: The U.S. Department of Labor's (DOL's) ESG regulation that "…permits [but does not mandate] fiduciaries to consider [climate change and ESG] factors when choosing retirement investments...came into effect on January 30, 2023."

An executive order by President Biden in May 2021 "directed federal agencies to consider policies to protect against the threats of climate-related financial risk." (Mayer, 2023). "The ESG rule -- Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights" is strongly opposed by Republicans. In its defence, Democrat Senate Majority Leader Chuck Schumer said, "This isn't

about ideological preference -- it's about looking at the biggest picture possible for investors to minimize risk and maximize returns. Why shouldn't you look at the risks posed by increasingly volatile climate incidents?" (Mayer, 2023).

Bad metrics can lead to bad real effects

Christensen said that a bad metric -- something that isn't correlated with the CSR activity or has a very low correlation -- could have real effects, but the real effects would not lead to desirable social outcomes. For example, a company that reports an uninformative but favourable-looking metric might invest to produce it (a real effect). In other words, he said, a company might invest in something that improves the metric without actually creating any real CSR change.

If the results of mandated disclosure are not always predictable, does voluntary disclosure produce positive real effects?

Speaker **Khrystyna Bochkay** also showed real effects resulting from voluntary use of SASB standards.

SASB voluntary standards and real effects

Bochkay summarized the role of SASB voluntary standards on sustainability (ESG) disclosure by companies and the use of that information by investors (Figure 17). Although some companies' disclosures may be self-promoting, constitute "mere puffery" or greenwashing, the disclosure of information demanded by investors leads to increased scrutiny of the company and real effects (Bochkay, Choi, and Hales, 2022). She summarized two studies as examples.

Example 1: Evidence that SASB voluntary standards improve disclosure

Using release dates of SASB provisional standards, by industry, Bochkay, Hales, and Serafeim (2021) used natural language processing to study the impact of SASB standards on the topics of conversation in earnings conference calls (Figure 18). Analysis of the transcripts of 50,000 earnings conference calls showed evidence that the voluntary standards made a difference in what companies report to their investors. In particular:

- Coverage of ESG topics in earnings calls increased significantly following release of SASB standards. This trend begins around the time of release of the SASB provisional disclosure standard for a given company's industry and continued in the years after.
- Coverage significantly increased for entities that had historically shown little or no coverage of sustainability issues prior to release of SASB standards.
- ESG discussion increased significantly for industries with high uncertainty about which sustainability topics were more likely to be financially material.

FIGURE 17: ROLE OF SASB STANDARDS IN DISCLOSURE AND MANAGEMENT ACTIONS (SOURCE: SPEAKER KHRYSTYNA BOCHKAY)

Example 2: Adoption of voluntary ESG disclosure standards: factors driving adoption, and real effects

Using data on companies' voluntary adoption of SASB standards, Bochkay, Choi, and Hales (2022) studied factors driving the adoption decision and the real consequences of adopting the standards. They found that the companies most likely to adopt SASB standards have:

- high peer pressure, and
- sustainability-conscious institutional ownership.

Compared to non-adopters, companies that adopted SASB standards showed improvements in both broad and more specific sustainability outcomes. Adopters showed:

- fewer negative ESG-related incidents and violations
- higher sustainability ratings in years following adoption
- lower direct greenhouse gas (GHG) emissions (Scope 1 emissions)
- lower pollution levels/toxic releases
- fewer work-related injuries

The researchers interpreted these results as evidence that adoption results in higher scrutiny and perhaps a reliance by investors on the sustainability reporting of adopting companies.

FIGURE 18: IMPACT OF SASB STANDARDS ON TOPICS COVERED IN EARNINGS CONFERENCE CALLS (SOURCE: SPEAKER KHRYSTYNA BOCHKAY, UNIVERSITY OF MIAMI)

Disparity: ESG scores and ratings

"[ESG ratings] are often marketed and presented as if they are investment-ready recommendations, but they really are starting points for fundamental analysis."

Christopher Greenwald, Sustainable investment research at UBS Asset Management (Mooney and Nilsson, 2020)

Aneesh Raghunandan, London School of Economics, reviewed research associated with ESG scores and ratings.

Providing ESG ratings and scores is an industry, with dozens of players. Produced by third-party rating agencies, ratings and scores attempt to measure ESG quality from one of two competing viewpoints. The first is the impact of a company on its stakeholders and environment; the other, the impact of the stakeholders and environment on the company (Tayan, 2022).

For Raghunandan, a serious issue is the proprietary models that ratings providers use. They assign weights to various ESG metrics to arrive at an aggregate score.

Single numerical scores are attractive because they simplify company-to-company comparison by investors who screen on the basis of social responsibility or sustainability. "Thus, [for investors], an important part of the service that ESG rating agencies offer is an interpretation of what ESG performance means" (Berg, Kölbel, and Rigobon, 2022). For companies, ratings give "third-party feedback on the quality of their sustainability initiatives" (Tayan, 2022).

Ratings and scores are problematic because, unlike analogous credit ratings, ESG ratings for the same company by different providers can be widely divergent.

> *"Electric car manufacturer Tesla is a good case in point: MSCI [gave] the equivalent score of around 64 out of 100 (indicating the company is slightly above average); Sustainalytics rated the company an equivalent of 43 (slightly below average); and S&P gave an ESG score of 15 (well below average)"*
>
> Statista Research Department (2022)

A reason for this divergence, say Berg, Kölbel, and Rigobon (2022) is that while "…creditworthiness is relatively clearly defined as the probability of default, the definition of ESG performance is less clear. It is a concept based on values that are diverse and evolving."

> *"ESG scores are correlated with the quantity of voluntary ESG-related disclosures but not with firms' compliance records or actual levels of carbon emissions."*
>
> Aneesh Raghunandan (Raghunandan and Rajgopal, 2022a)

Raghunandan showed that companies with "bad" ESG practices could have good scores, because of the amount and type of disclosure they provide. For example, scandal erupted over Boohoo, a U.K. fast-fashion retailer (Figure 19). Its high ESG scores reflected ratings agencies' favouring of domestic U.K. production, over production in countries known for poor working conditions and poor labour policies (Mooney and Nilsson, 2020). Boohoo was "…held by most U.K.-based ESG funds until July 2020, when it came to light that much of Boohoo's production was done in factories [in Leicester, U.K.] using modern slavery" (Raghunandan and Rajgopal, 2022a).

FIGURE 19: ESG SCORES GONE WONG: THE CASE OF BOOHOO
(SOURCE: WHEELER, ET AL., 2020)

Ironically, research by Raghunandan and Rajgopal (2022a) suggests that "…ESG mutual funds perform *worse* than non-ESG funds offered by the same fund managers."

It appears "…that ESG funds choose portfolio firms with a higher rate of labor violations, i.e., firms that are more likely to engage in wage theft against vulnerable employees or [that] endanger employees' health and safety through violations of OSHA [Occupational Safety and Health Administration] standards."

This seems to be the case with Boohoo, since undiscerning investors/fund managers, caring more about the bottom line than treatment of employees, did not question Boohoo's operations (Mooney and Nilsson, 2020).

Deception: Greenwashing

Greenwashing is a way of creating false impressions with misreported or omitted information. Either way, the greenwashing company conveys a better-than-actual picture of its products or services.

Greenwashing is increasing

Greenwashing claims are on the rise against many products and services (Figure 20).

FIGURE 20: GREENWASHING CLAIMS ARE INCREASING (SOURCE: AS NOTED)

For example, in the first case of its kind, BNY Mellon was fined in 2022 by the SEC for misstating and omitting ESG information for its mutual funds (Figure 21).

Omissions of information on specific ESG criteria are also the reason for the **US SIF Forum for Sustainable and Responsible Investment** to remove any assets under management from its estimates for the value of sustainable investing (US SIF, 2022a, 2022b, p. 1). (See ***Part 1***.)

In 2021-2022, Morningstar "…removed the sustainable investment label from more than 1,200 European-domiciled funds… [many of which] were self-classifying as promoting environmental or social characteristics." But, the firm said, "many [of those] funds…are not funds we would independently classify as sustainable funds" (Dawson, 2022).

Rebranding without changing holdings

"…[F]unds that did not start out as ESG products were re-purposed to include an ESG mandate. Some managers simply made a change to the previously plain vanilla fund's prospectus, adding a gloss of verbiage about using ESG criteria, without changing the fund's holdings."

Diana Britton (2019)

In another form of greenwashing, Aneesh Raghunandan said that because of the explosion of money pouring into ESG investment products, many existing funds have simply "re-branded" as ESG products without changing their holdings.

In Table 5, Raghunandan shows that the objectives and the metrics sustainability funds use to back up their claims of being socially responsible are often difficult to determine from either fund names or prospectuses.

FIGURE 21: GREENWASHING FINE: BNY MELLON

"The U.S. Securities and Exchange Commission has fined BNY Mellon's investment adviser division $1.5mn for allegedly misstating and omitting information about environmental, social and governance (ESG) investment considerations for mutual funds that it managed.

"The case marks the first time the SEC has settled with an investment adviser concerning ESG statements and comes two days before the agency is set to propose rules establishing how financial firms can apply ESG or other green labels to investment funds. The agency has increasingly been on the hunt for potential greenwashing."

The SEC alleged that the company did not always perform the ESG quality reviews that it said it had.

"The case is the latest in a string of SEC enforcement actions concerning ESG after it launched a dedicated greenwashing task force in the agency's enforcement division [in 2021]" (Temple-West and Palma, 2022).

TABLE 5: WHAT'S IN A NAME? (SOURCE: DERIVED FROM SPEAKER RAGHUNANDAN POWERPOINT SLIDE)

From their names, can you tell what the funds below actually do?

Fund*	Ticker	Morningstar Category
BNY Mellon Sustainable Intl Eq ETF	BKIS	US Fund Foreign Large Blend
BNY Mellon Sustainable US Eq Fd Z	DRTHX	US Fund Large Blend
BNY Mellon Sustainable US Equity ETF	BKUS	US Fund Large Blend
Boston Common ESG Impact Em Mkts	BCEMX	US Fund Diversified Emerging Mkts
Boston Common ESG Impact Intl	BCAIX	US Fund Foreign Large Blend
Boston Common ESG Impact US Equity	BCAMX	US Fund Large Blend

Can we figure out what metrics 'sustainable' funds use if we read the prospectus?

Sometimes, yes. Here's the Invesco Global Clean Energy ETF:

> *"The Underlying Index is comprised primarily of companies whose technologies focus on the generation and use of cleaner energy, conservation and efficiency, and the advancement of renewable energy […]* ***companies in wind, solar, biofuels, hydro, wave, tidal, geothermal and other relevant renewable energy businesses*** *and those involved in energy conversion, storage, conservation, efficiency, materials relating to those activities, carbon and greenhouse gas reduction, pollution control, emerging hydrogen and fuel cells."* [Emphasis added.]

But sometimes, not really. Here's the BNY Mellon Sustainable US Equity Fund:

> *"The fund normally invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of U.S. companies that* ***demonstrate attractive investment attributes and sustainable business practices…"*** [Emphasis added.]

Mandatory U.K. gender ratio and pay-gap reporting

"This is probably the single largest "S" disclosure initiative worldwide."

Speaker Aneesh Raghunandan, London School of Economics

Since 2017, U.K. companies with over 250 employees have been required to report on their gender employment ratio and pay gap. Raghunandan with co-researchers found that 13% of employers **misreport** their disclosures with numbers that are mathematically **impossible**. Others intentionally misreport balanced gender statistics. The researchers found that "…firms involved in an ESG controversy are more likely to report perfect gender statistics, and firms reporting no gap in their median pay receive higher social pillar ESG ratings" (Bailey, et al., 2022). [Emphasis added.]

They conclude that even though the reporting is mandatory,

- Disclosures are not reliable because they see no audit verification or regulatory enforcement.
- Self-reported ESG information should be used with caution whether reported directly or through ESG scores.
- Misreporting undermines the ability of these mandates to improve employer performance.

What CPAs need to know

As the world moves toward mandating corporate disclosures, Christensen and Raghunandan warn that simply mandating disclosure will not resolve sustainability issues and reporting problems. Mandatory disclosure without regulation or enforcement or assurance may not give the intended or desired results and may not lead to positive change. Understanding the issues raised in their examples and applying professional skepticism to disclosures make continuous improvement possible.

Uniform and universal standards (***Part 5***) and third-party assurance (***Part 6***) should reduce the prevalence of greenwashing.

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Part 5: Toward Uniform, Universal Standards

"[I]t makes sense that a business operating in a way that has a negative impact on the planet and its people will — in the short, medium or long term -- have a negative impact on the business itself, and a corresponding effect on its enterprise value. In the long run -- which is where sustainability standards focus -- enterprise value and impact align. This brings together the work of the IFRS Foundation and GRI [Global Reporting Initiative] creating a truly global baseline that regulators overseeing corporate reporting can build upon."

Nadja Picard, PwC Germany and Gilly Lord, PwC U.K. (2022)

Spotlight: International Sustainability Standards Board (ISSB)

Jingdong Hua, ISSB Vice-Chair and former Vice President and Treasurer of the World Bank, introduced the purpose, role and progress of the **International Sustainability Standards Board** (ISSB), formed in 2021.

The ISSB is the second technical board under the parentage of the **IFRS Foundation**, a not-for-profit, public interest organization with a three-layer governance process (Figure 22).

FIGURE 22: IFRS FOUNDATION AND ITS BOARDS

The ambition of the ISSB is to develop global baseline standards for sustainability matters using the same rigorous process of its sister board, the **International Accounting Standards Board** (IASB). (See Figure 22.)

The IASB developed globally enforceable accounting standards (officially called IFRS Accounting Standards) now used in 167 countries.

The accounting standards improve financial markets' efficiency by increasing transparency and trust in financial markets, because they set out how a company prepares its financial statements.

Simplifying the sustainability disclosure/reporting landscape

Following up on Nura Taef's discussion on the evolution to integrated reporting (***Part 3***), Hua said that the ISSB, under the IFRS Foundation, will simplify the sustainability reporting landscape and drive integrated reporting through connectivity between IFRS accounting and sustainability standards.

The ISSB-developed IFRS Sustainability Disclosure Standards set out how a company discloses information about sustainability-related factors that may help or hinder a company in creating value.

Hua reiterated that the sustainability disclosure landscape was not meeting investor needs because of its multiple voluntary standards and different jurisdictional mandatory initiatives.

IFRS standards within the broader reporting landscape

The final [ISSB] standards, which "concentrate on the ***investor-focused capital markets****…will form the comprehensive global baseline of sustainability disclosures designed to meet the* ***information needs of investors in assessing enterprise value****."*

The GRI [Global Reporting Initiative] standards, compatible with the ISSB standards and "[w]idely adopted by companies worldwide…are the globally consistent basis for sustainability reporting that highlights an organisation's impact on the ***economy, environment and people*** *for a multi-stakeholder audience."* [Emphasis added.]

Picard and Lord (2022)

Figure 23 shows how IFRS standards fit within the broader reporting landscape. General-purpose financial reporting is **investor**-focused and is made up of sustainability-related financial disclosures [ISSB-set standards] and financial statements [IASB-set standards or other GAAP, e.g., U.S. GAAP]. Corporate reports for a broader audience, **beyond just investors** (e.g., suppliers, customers, employees, governments, regulators), would use the widely-adopted Global Reporting Initiative (GRI) standards. IFRS standards will be interoperable with the ISSB standards, because of a memorandum of understanding (MoU) between the organizations (IFRS, 2022, March 24).

FIGURE 23: IFRS STANDARDS IN THE BROADER REPORTING LANDSCAPE

Global Reporting Initiative (GRI) omissions

Speaker Kelsey Leonard, University of Waterloo, warned that the GRI standards still fall short for Indigenous people.

"In the case of GRI, Indigenous issues are only considered of importance when Indigenous people have initiated court action against a company. Ironically, the GRI framework actually works against the achievement of better ESG outcomes by forcing Indigenous people to take legal action against a company in order to be addressed by the ESG framework" (FNMPC, 2021, p. 20).

How do investors and the broader audience differ?[16]

Example 1: Information about a localized pollution incident matters to a **community** affected. [See Figure 24]. But the incident may not be material to **investors** if it is a small, one-time event, compared to the company's financial information taken as a whole. However, if the event is indicative of an underlying issue with the company's business model, the information would likely be material to investors. This could be the case even though the size of any associated regulatory fine is not expected to be significant. [Emphasis added.]

[16] Hua, J. (2022, November). Keynote Speech: Sustainability Metrics and ISSB's Mission [PowerPoint slides], 2022 MMPA Conference. Available at: https://mmpa.utoronto.ca/media/1221/download?inline.

FIGURE 24: DOES "***NOT MATERIAL***" TO INVESTORS MEAN AFFECTED COMMUNITIES WILL BE IGNORED?

In February 2023, ***Imperial Oil*** *was told by the* ***Alberta Energy Regulator*** *to clean up seepage from the* ***Kearl Oil Sands Processing Plant and Mine****'s tailing pond north of Fort McMurray. In two incidents nine months apart, industrial wastewater overflowed a drainage pond (CBC News, 2023) and affected forest, muskeg, and groundwater (Alberta Energy Regulator, 2023).*

Over that period, Imperial Oil had many meetings with ***Athabasca Chipewyan First Nation****, but said nothing of the toxic seepage near land where the First Nation harvests food. Chief Allan Adam accused Imperial Oil of a coverup; "Imperial expressed regret over the communication and said it won't happen again" (Weber, 2023).*

Is that adequate health and environmental protection? This is not the only incident that ignores First Nations.

What may not be material to investors can be **very real and hazardous** to communities.

As a CPA, if Imperial Oil were your company, what would you do?

You are going to have so many opportunities to initiate change in this world…" Speaker Kelsey Leonard

"We have to ***learn how to be good stewards again****…I believe that one of the many solutions to solving the many water injustices we see in our world today is recognizing that water is a living relation and granting it the legal personhood it deserves…That type of orientation fundamentally* ***transforms the way in which we think about water****, transforms the way in which we make decisions about how we might protect water, protect it in the way that you would protect your grandmother, your mother…* ***That is the type of transformation that we need*** *if we are going to address the many water crises we see in our world today" (Leonard, 2019).* [Emphasis added.]

Example 2: Investors may be interested in a company's investment strategy to keep up with efficiency innovations that will reduce future costs and enhance the company's future value. By contrast, **broader stakeholders** may be interested in promoting a particular behaviour and, therefore, may be interested in the extent to which a company's investment strategy "gives back" to the community in which it is located. **Investors** may also be interested in a company's strategy to give back if all of the company's customers and employees -- or perhaps all of its raw materials -- come from a community. [Emphasis added.]

Example 3: Government authorities may be interested in information about a company's tax payments by jurisdiction regardless of the magnitude of those tax payments. By contrast, **investors** would be interested in information about tax that can affect their assessments of the company's prospects or of the management's stewardship of the company's resources and hence affect investors decisions about providing resources to the company. [Emphasis added.]

How ISSB is using SASB standards

By adopting existing SASB Standards (see ***Part 1***), the ISSB's starting point is not a broad set of sustainability issues or ESG topics, but SASB's industry-based approach and standards, which look at the industry-specific issues most likely to have a material impact on a company's performance. Because SASB Standards were initially developed for the United States, ISSB is committed to increasing their international applicability.

The SASB Standards play an important role in the ISSB's two preliminary standards.

Two preliminary standards to start

The ISSB is finalizing two standards, now in the redeliberation stage, in which feedback received on exposure drafts will be taken into consideration. Both standards are expected to be effective for annual reporting periods beginning on or after January 1, 2024 (IFRS, 2022c).

1/ General Requirements Standard: IFRS S1

The proposed ***General Requirements Standard, IFRS S1***[17], sets out the overarching requirement that an entity provide information on all **material** sustainability-related risks and opportunities. This information can be wide-ranging and can include the company's impact on environment, people and the planet, when those impacts are material. The ISSB proposes that sustainability information should be provided at the same time as financial statements in order to bring sustainability reporting into mainstream corporate reporting.

2/ Climate-related Disclosures Standard: IFRS S2

The proposed ***Climate-related Disclosures Standard, IFRS S2***[18], is built upon TCFD recommendations and the SASB climate-related, industry-based requirements for reporting climate-related risks and opportunities. In short, a company reports to its investors about the climate resiliency of its business strategy under multiple scenarios. The proposed standard will require disclosure of information about

- physical risks (e.g., flood risk)
- transition risks (e.g., regulatory change) and reporting of GHG emissions inventories in accordance to the ***GHG Protocol Corporate Standard***[19], as well as emissions targets and carbon offsets on the transition to net zero.
- climate-related opportunities (e.g., new technology).

Until ISSB standards are in effect

Until S1 and S2 are in effect, companies "should continue using and adopting the SASB Standards, TCFD Recommendations, Climate Disclosure Standards Board (CDSB) Framework and Integrated Reporting Framework. Because the ISSB has built on these materials, efforts to apply them now are expected to help companies implement IFRS Sustainability Disclosure Standards in the future" (IFRS, 2022f).

Use of ISSB-associated standards

Scott Morrison, PwC Canada, showed the growing use, between 2019 and 2020, of the now ISSB-associated SASB and GRI standards and TFCD framework in anticipation of the ISSB standards (Figure 25).

[17] Update: In June 2023 the ISSB issued *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information*.
[18] Update: In June 2023 the ISSB issued *IFRS S2 Climate-related Disclosures*.
[19] The ***GHG Protocol Corporate Standard*** provides standards and guidance for organizations preparing an emissions inventory of the six greenhouse gases covered by the **Kyoto Protocol**, which operationalizes the **United Nations Framework Convention on Climate Change** (UN Climate Change, n.d.)).

FIGURE 25: GLOBAL REPORTING CHANGES IN 2020 (SOURCE: IFAC, 2022, P. 4)

SUMMARY CHANGES: REPORTING

METHOD OF REPORTING. While the use of stand-alone Sustainability Reports declined globally, some jurisdiction-specific reporting preferences remained the same in 2020. For example, reporting on ESG in the U.S. and Canada relied heavily on Sustainability Reports, while Annual Reports dominate in the European Union and companies in South Africa report in Integrated Reports. (see page 5 for more information.)

1,283 of **1,400** companies reported ESG information (compared to **1,269** in 2019)

SASB increase of **153%** over 2019 & TCFD increase of **100%** over 2019

STANDARDS & FRAMEWORKS. The use of / reference to SASB Standards and the TCFD framework increased significantly.

STANDARDS & FRAMEWORKS. The use of / reference to GRI Standards and the Sustainable Development Goals (SDGs) remained high among the companies who reported on ESG.

Increasing from **69%** to **72%** (GRI)

Increasing from **62%** to **76%** (SDGs)

Primary clients: investors/providers of finance

"Accelerated climate action will only come about if there is a many-fold increase in finance. Insufficient and misaligned finance is holding back progress."

IPCC, March 20, 2023

There has to be a division of labor by different entities. If we can make global capital markets efficient and transparent enough that companies in the Global South are on the radar screen of global investors, I've done my part. Right now, not enough is flowing to the Global South to help the companies and the governments cope with natural disaster, climate change, and so forth. More flow from the Global North to the Global South will contribute to a better world.

Speaker JingDong Hua, ISSB

Hua explained that the ISSB's focus is on meeting the information needs of investors and other capital market participants. Its objectives are to develop a global baseline of sustainability disclosure standards and a taxonomy to facilitate digital reporting.[20] The ISSB standards:

- will enable companies to provide comprehensive information about sustainability-related matters to the financial markets
- will be developed to facilitate compatibility with requirements that are jurisdiction-specific or aimed at a wider group of stakeholders.
  - For example, the ISSB, European Union, and the European Financial Reporting Advisory Group (EFRAG) share the objective of maximizing the interoperability of their standards and aligning on key climate disclosures. A Partnership Framework developed at COP27 in

[20] For more information on the digital taxonomy, see IFRS (2022, September 19). *IFRS Sustainability Disclosure Taxonomy* [PDF].

November 2022 will help developing economies and smaller companies implement the standards in consideration of their specific circumstances (IFRS, 2023a).

- use the same definition of "material" that is used in IFRS Accounting Standards – that is, information is material if omitting, obscuring or misstating it could be reasonably expected to influence investor decisions" (IFRS, 2022f).
- are designed to be cost-effective, to help companies report what is needed by investors across markets globally (IFRS, 2022f), and
- are intended to support investor decision-making and facilitate international comparability to attract capital (IFRS, 2022f).

Standard writing, not implementation

The IFRS mission through its standards is to bring transparency, accountability, and efficiency to capital markets around the world; to serve the public interest, to foster trust, growth, and long-term stability to the global economy. The standards provide the information needed to hold management to account. (IFRS, 2022d). That said, IFRS standards are developed with the input of jurisdictional regulators who are responsible for their adoption and enforcement and who work with issues in their jurisdictions (IFRS, 2022e). (For more detailed information, see IFRS, 2023b).

Addressing omissions

Recognizing that "E" is more than emissions

"Nature and biodiversity [are] dying the death of a billion cuts. And humanity is paying the price for betraying its closest friend."

Inger Andersen - UN Under-Secretary-General and UNEP Executive Director (United Nations Environment Programme, 2022)

Because of strong feedback on the connection between climate and nature, including cultivated and natural biodiversity, deforestation and water, the ISSB decided in October 2022 to "research incremental enhancements that complement the **Climate-related Disclosures Standard (S2)**, including relating to natural ecosystems and the human capital aspects of the climate resilience transition ('just transition')" (IFRS, 2022b).

In the same way that it was formed, the ISSB will draw on existing "market-led initiatives grounded in current-best practice and thinking, [and] the ISSB will consider the work of the **Taskforce for Nature-related Financial Disclosure** (TNFD) and other existing nature-related standards and disclosures where they relate to the information needs of investors" (IFRS, 2022b).

The ISSB makes clear that its focus is on information for investors but sees that "financial value creation is affected by the proper preservation, development and regeneration of all the resources and relationships (including natural and human) needed for a company to achieve its goals" (IFRS, 2022b).

Articulating the relationship between sustainability and financial value creation

"A company's ability to deliver value for its investors is inextricably linked to the stakeholders[21] it works with and serves, the society it operates in, and the natural resources it draws on."

ISSB, December 13, 2022 (IFRS, 2022b)

In December 2022, the ISSB articulated the relationship between sustainability and value creation. It said,

"Sustainability will be described in the ISSB's General Sustainability-related Disclosures Standard (S1) as the ability for a company to sustainably maintain resources and relationships with and manage its dependencies and impacts within its whole business ecosystem over the short, medium and long term. Sustainability is a condition for a company to access over time the resources and relationships needed (such as financial, human, and natural), ensuring their proper preservation, development and regeneration, to achieve its goals" (IFRS, 2022b).

At the December 2022 **UN Biodiversity Conference (COP15)**, Emmanuel Faber, Chair of the ISSB, announced the appointment of **Karin Kemper** and **Geordie Hungerford** as Special Advisors "on issues relating to natural ecosystems and just transition." Karin Kemper, formerly at the World Bank, will provide strategic counsel on a range of natural ecosystem topics; Geordie Hungerford, CEO of the **First Nations Financial Management Board in Canada** will provide strategic counsel on issues important to Indigenous Peoples, which include biodiversity (IFRS, 2022b).

Indigenous Peoples and biodiversity

"Indigenous leadership is key to taking care of our living planet. The importance of Indigenous leadership in conservation is being increasingly recognised. By learning from Indigenous experts, we (re)open a door to an approach to conservation that respects the inherent interconnections between people and place."

WWF [World Wildlife Fund]. (2022) *Living Planet Report 2022 – Building a nature-positive society*, p. 49.

In 2019, the International Labour Organisation reported a population of about 476 million Indigenous people worldwide (6% of the earth's population) and about 7.6 million in North America (ILO, 2019, pp. 59, 55). When at just 5% of the earth's population, they accounted for 15% of the world's poor (Figure 26).

"Indigenous lands make up around 20 per cent of the earth's territory [and contain] 80 per cent of the world's remaining biodiversity" (UNPII, [2018]).

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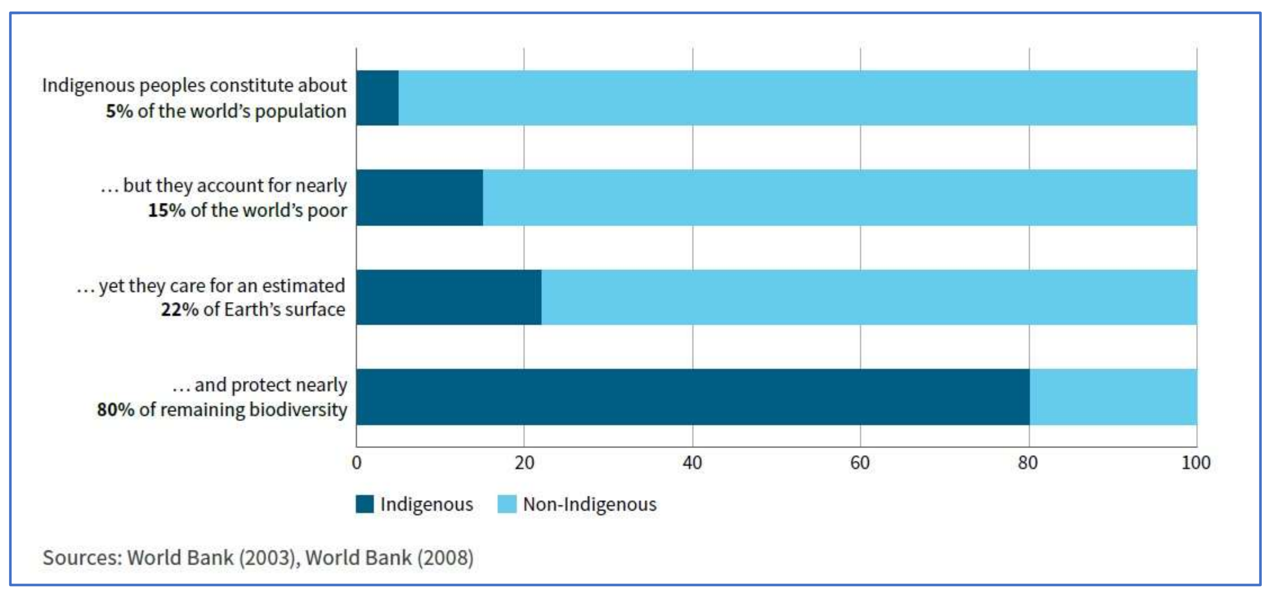
[21] Kelsey Leonard, University of Waterloo, reminded the audience that in Canada, 630 First Nations and Inuit and Métis have nation-to-nation or similar relationship with the Crown or federal government of Canada. They should be treated as nations, not stakeholders, she emphasized. For more information, see Government of Canada (2022) in references.

FIGURE 26: INDIGENOUS PEOPLES AND THE ENVIRONMENT (SOURCE: TREWIN, MORGAN-BULLED, AND COOPER, 2021)[22]



There is increasing evidence of adaptation that has caused unintended consequences, for example destroying nature, putting peoples' lives at risk or increasing greenhouse gas emissions. This can be avoided by ***involving everyone in planning, attention to equity and justice, and drawing on Indigenous and local knowledge****. (Emphasis added.)*

IPCC, February 28, 2022

What CPAs need to know

The IFRS Foundation will simplify the sustainability reporting landscape and drive integrated reporting through connectivity between IFRS accounting (IASB) and sustainability (ISSB) standards.

ISSB standards will meet the needs of investors (the **enterprise view**), while GRI standards will identify an organization's impact on broader audience communities, economies, and the environment (the **impact view**).

Improvement of the standards must and will continue. Currently, the standards do not adequately consider Indigenous Peoples' rights and welfare. This inclusion is of tantamount importance in Canada. Consider that what is "not material" to investors may be very real and hazardous to real communities.

Until ISSB standards are in effect, companies should continue to prepare for their implementation and to continue to use the standards and framework upon which they are based.

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[22] In 2019, 11 years later than the World Bank data used in the Trewin, Morgan-Bulled, and Cooper report, the International Labour Organisation (ILO) (2019, p. 59) said, "Indigenous peoples comprise over 6 per cent of the global population, representing a population of over 476 million."

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Part 6: Assurance and Sustainability Reporting

"Prioritize using [data] that you can verify, i.e., hard data that you trust over soft data like a score. Put more weight on metrics you can verify versus metrics that are estimates or whose derivation is unknown…When we start to measure multi-dimensional things that we don't really understand that's when we get into trouble and potentially wind up with just noise."

Speaker Aneesh Raghunandan, London School of Economics

In this final section, **Scott Morrison**, PwC Canada, shows that a majority of PwC-surveyed investors want to see assurance of sustainability reporting. Investors use many sources of information to understand companies' risks and opportunities, not just sustainability reporting. Now, they're not sure that ESG information is accurate, reliable, or complete. They're also suspicious of greenwashing: i.e., companies presenting information that is inaccurate, incomplete, purposely obscure or vague or that intentionally conveys misleading information to make the company message sound better than it really is.

Aneesh Raghunandan, London School of Economics, looks at emissions, mandatory gender pay equity and ESG ratings and rankings in terms of unreliable data quality and lack of assurance.

Scott Morrison, PwC Canada, outlines the current state of reporting and the improvements required to achieve assured and reliable ESG reporting: the goal of the future. He closes with opportunities for CPAs in reporting and assurance, with additions from **Nura Taef** and **Kelsey Leonard**.

Why assurance for ESG/sustainability reporting?

Increasing demand from investors

"Organizations have been good with catching up in the last couple years [by] putting out targets, putting out ambitious goals, but now the challenge is, really, how are you going to meet these targets? How are you going to meet these goals? There is so much acknowledgment of the role assurance is going to take to give that credibility, that comfort, to stakeholders that this information is accurate and complete and, therefore, we can move [forward] on that trajectory to meeting these goals, these targets."

Speaker Nura Taef, Deloitte Canada, on how third-party assurance addresses greenwashing concerns

Along with sustainability reporting, assurance requirements are also being driven by demand by investors, governments, and others, said Scott Morrison.

A few years ago, lenders might have been satisfied that a company saying that is committed to becoming net zero by 2050. Now, he said, the investment community questions companies with more specificity, e.g., What kind of decarbonization strategy does it have? What kind of risk does this pose to the business? What does this mean for the bottom line? and What are some of its quantifiable interim targets and key performance indicators (KPIs)? Has historical data been disclosed to show progress toward those targets?

Now, not only are investors seeking comparable, reliable, decision-useful ESG reporting, PwC's 2021 survey of 325 worldwide investors showed that they want **independent assurance** over this reporting (Figure 27).

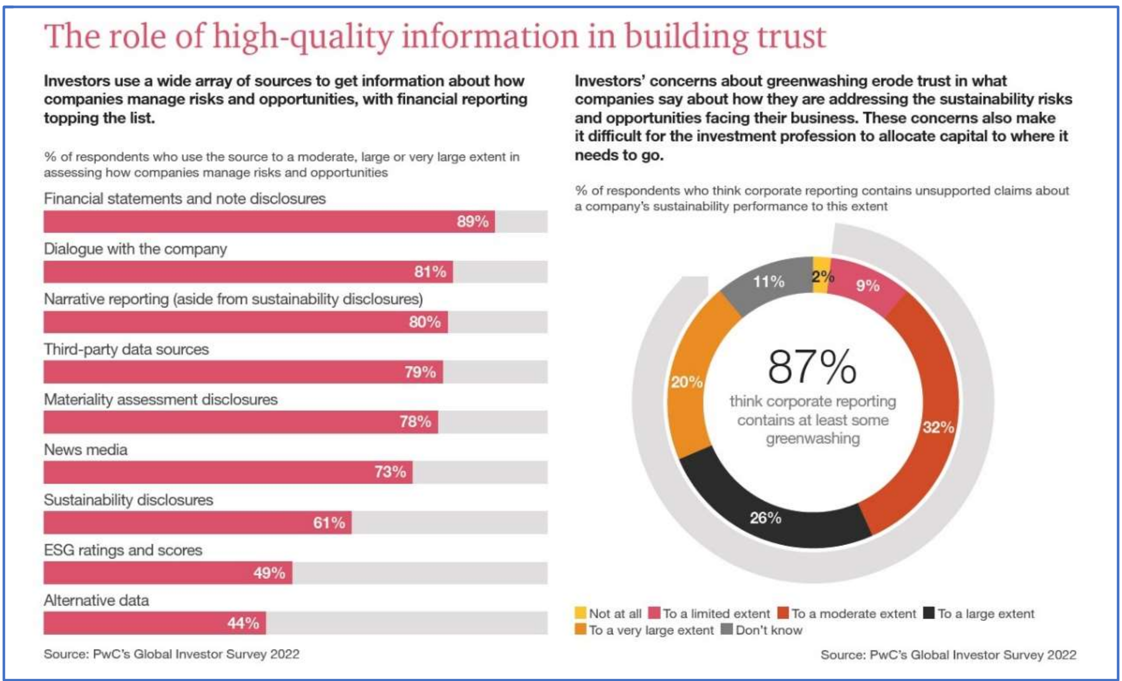
FIGURE 27: INVESTORS WANT MORE ASSURANCE OVER ESG INFORMATION (SOURCE: SPEAKER SCOTT MORRISON, AND PWC, 2021A)

Why? Investors need trustworthy information.

They are concerned about greenwashing. *PwC's Global Investor Survey 2022* confirms this: 87% of surveyed investors and analysts (N = 227) think that corporate reporting on sustainability performance contains at least some greenwashing (PwC, 2022a, p. 1; Figure 28, right).

Perhaps because of this perceived lack of reliable information, the survey also showed that financial statements and other sources, including news media, are consulted about company risks and opportunities to a larger extent than sustainability disclosures and ESG scores (Figure 28, left).

FIGURE 28: NEED FOR HIGH-QUALITY INFORMATION: INVESTORS THINK CORPORATE REPORTING CONTAINS SOME GREENWASHING (RIGHT) AND USE MANY SOURCES OF INFORMATION TO FIND OUT HOW COMPANIES MANAGE RISKS & OPPORTUNITIES (LEFT) (SOURCE: *PWC'S GLOBAL INVESTOR SURVEY 2022: THE ESG EXPECTATION GAP* (PWC, 2022A))



Increasing demand from regulators

Demand is also coming from regulators. Morrison showed that various regulators will require assurance over proposed reporting disclosures (Figure 29). He added that the EU's Corporate Sustainability Reporting Directive (CSRD) "…brings sustainability reporting closer to financial reporting by requiring assurance of [**European Financial Reporting Advisory Group (EFRAG)**] sustainability information" and the SEC's proposed rules include "assurance requirements, including a timeline to move to reasonable assurance."

Speaker **Nura Taef**, Deloitte Canada, added that the SEC proposal requires assurance over Scope 1 and Scope 2 GHG emissions, even though they are not a part of the financial statements that sit up front in the filing.

FIGURE 29: REGULATORS HAVE EXPECTATIONS FOR ASSURANCE REQUIREMENTS (SOURCE: SPEAKER SCOTT MORRISON, PWC CANADA)

Problems with data quality

Aneesh Raghunandan, London School of Economics, pointed out problems with ESG data quality using examples of emissions data, mandatory U.K. gender-pay gap disclosures, and undiscerning investors more interested in profits than accurate ESG reporting. All of the problems could be reduced with data verification through assurance and enforcement by regulators.

Emissions data

"Even though there are good data for a number of firms, in most of North America emissions disclosure is still voluntary, so some firms do reveal their emissions, but many do not."

Speaker Aneesh Raghunandan, London School of Economics

Demand is high for GHG emissions data, said Raghunandan, often measured in **carbon dioxide (CO_2) equivalents**. That is why CO_2 is given primacy as a measure of "E." However, most GHG emissions -- especially in North America -- are **estimated** by vendors, not disclosed by companies.

Raghunandan explained that most data vendors estimate emissions as a linear function of financial fundamentals such as net sales, various financial ratios, and property, plant, and equipment, which implicitly means that companies in the same industry are treated in the same way. So, he asks:

- How can investors compare company sustainability based on emissions?
- Is the relationship between emissions and stock market performance actually reflective of investors caring about emissions? Or,

- Is it reflective of the well-known link between financial fundamentals and stock market performance?

If the market is erroneously considered effective at punishing or even rewarding sustainability based on these estimates, it can impede the push for potential regulation, said Raghunandan.

Impossible gender ratio and pay-gap reporting

In ***Part 4: Politics, Disparity, and Deception***, Raghunandan and co-authors showed that 13% of employers **misreport** their disclosures on gender ratios and pay gaps. They concluded that even though the reporting is mandatory, disclosures are not reliable because, unlike financial statements, they see no audit verification or regulatory enforcement.

Risks associated with more mandatory reporting ahead

Raghunandan warned that a risk with mandatory reporting is giving companies discretion on what metrics to disclose, as with EFRAG's (EU) Sustainability Reporting Standards. This discretion works against standardization and makes data verification more difficult (Lashitev, 2021).

Current state of reporting and assurance practices

"Several firms claim to be socially responsible. We confront these claims with the data using the most notable such proclamation in recent years, the August 2019 Statement on the Purpose of a Corporation by the Business Roundtable (BRT). The BRT is a large, deeply influential business group containing many of America's largest firms; the 2019 Statement proclaimed that a corporation's purpose is to deliver value to all stakeholders, rather than to solely maximize shareholder value…[R]esults suggest that firms' proclamations of stakeholder-centric behavior are not backed up by any hard data on these firms' operations."

Aneesh Raghunandan, and Shivaram Rajgopal (December 10, 2022)

Speaker **Scott Morrison**, PwC Canada, introduced the *State of Play in Reporting and Assurance of Sustainability Information* report by the International Federation of Accountants (IFAC). In 2021 and 2022, IFAC reviewed the reporting and assurance of ESG information by 1400 companies in 22 jurisdictions around the world. It found that while the prevalence of ESG reporting was high, the incidence of assurance was not. Just over 60% of assurance engagements were conducted by audit firms or their affiliates (Figure 30).

FIGURE 30: GLOBAL ESG-REPORTING AND ASSURANCE PRACTICES (SOURCE: IFAC, 2022, P. 3)

Morrison also explained three types of assurance.

Types (levels) of assurance

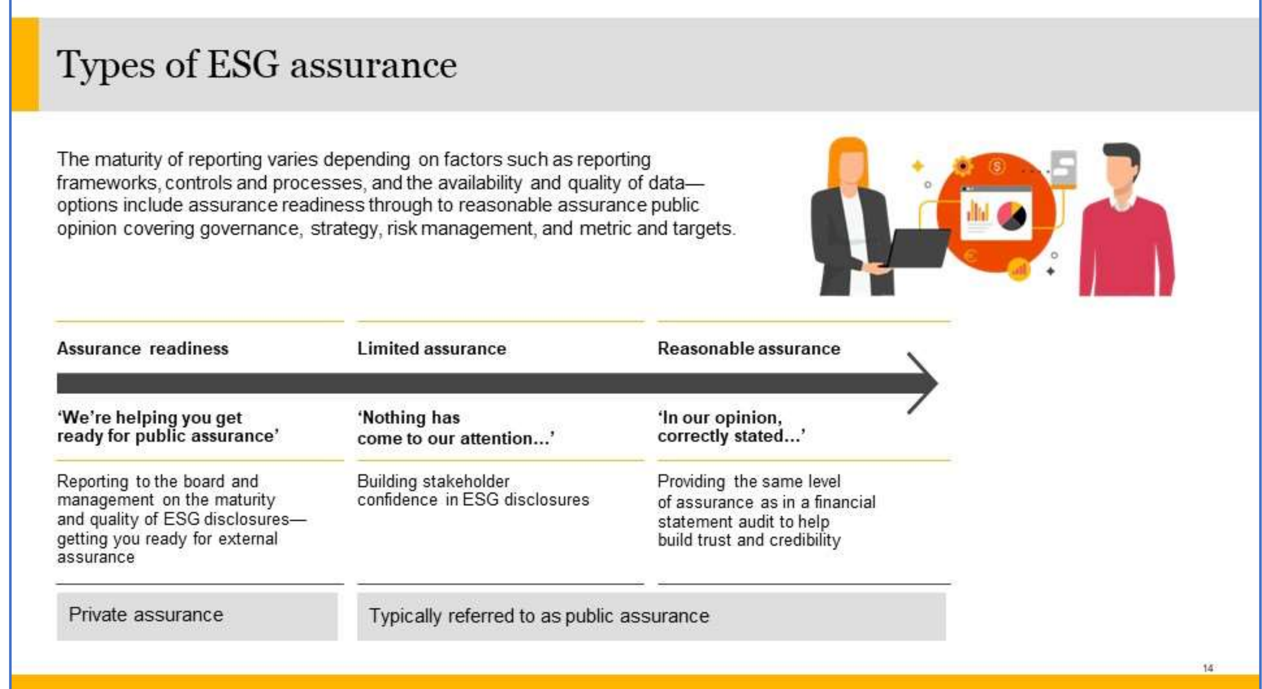
Three types of assurance, representing three levels of rigour, are available to companies (Figure 31):

Assurance readiness (PwC, 2023) identifies gaps in ESG reporting before a company seeks higher levels of assurance. For example, what is the source and quality of the company's data? What estimates are made? Are estimates reasonable? What is their sensitivity? What processes and controls are in place for metrics and quality control? Are they manual or automated?

Limited assurance is comparable to a **review** of financial statements, underpinned by analytics, inquiry, and some inspection of information. The result is an assurance opinion such as, "Nothing has come to our attention…"

Reasonable assurance is comparable to an **audit** of financial statements, underpinned by an even more robust set of procedures, said Morrison. The hoped-for result is an assurance opinion such as, "In our opinion, [disclosures are] correctly stated," which implies absolute accuracy.

FIGURE 31: THREE LEVELS OF ASSURANCE (SOURCE: SPEAKER SCOTT MORRISON, PWC CANADA)



What is being assured?

What we're assuring is really dependent on the industry, as well as the company. Each industry has its own strategic goals. Each company does a materiality assessment to determine the non-financial metrics that are important to them.

Speaker Scott Morrison, PwC Canada

In IFAC's *State of Play in Reporting and Assurance of Sustainability Information* report, introduced above, assurance focused primarily on GHG data. Only 43% of companies obtained assurance on all four ESG categories examined in the study: GHG, other environmental, social, and governance. "Companies who provided ESG information in Integrated Reports obtained more assurance than companies who reported in Annual Reports or stand-alone Sustainability Reports" (IFAC, 2022, p. 8).

Morrison provided examples of disclosures (Figure 32) that PwC Canada is assuring. Most frequent are GHG emissions and sustainable finance (e.g., green or social bond allocations, investment in green assets, and sustainability-linked KPIs).

FIGURE 32: EXAMPLES OF INFORMATION BEING ASSURED (SOURCE (MODIFIED): SPEAKER SCOTT MORRISON, PWC CANADA)

What is being assured? Examples:

Environmental examples:

- GHG Emissions (Scope 1, 2, and 3)
- Energy Management
- Water & Wastewater Management
- Waste & Hazardous Materials Management
- Ecological Impacts

Social examples:

- Labor Practices
- Employee Health & Safety
- Employee Diversity, Equity & Inclusion
- Human Rights & Indigenous Relations
- Community Investments
- Customer Privacy
- Data Security
- Customer Satisfactory results

Governance examples:

- Business Ethics
- Tax Transparency
- Board Composition, Ownership and Control
- Board / Executive Remuneration

Sustainable Finance examples:

- Green or Social Bond Allocations
- Investment in Green Assets
- Sustainability-Linked KPIs

Business Model & Stewardship examples:

- Product Design & Lifecycle Management
- Product Quality & Safety
- Selling Practices & Product Labeling
- Supply Chain Management
- Materials Sourcing & Efficiency
- Physical Impacts of Climate Change

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Example: GHG emissions

How are GHG emissions verified? Morrison provided examples of procedures PwC Canada uses to understand companies' reported GHG emissions (Figure 33).

FIGURE 33: PWC CANADA: EXAMPLE PROCEDURES FOR ASSURING GHG EMISSIONS (SOURCE: SPEAKER SCOTT MORRISON, PWC CANADA)

Example of procedures we do to get comfortable with companies' GHG Emissions

- Review company's GHG methodology document to ensure alignment with criteria (i.e. GHG Protocol)
- Understand and evaluate processes and controls to support GHG emissions calculations
- Evaluate the completeness of companies' emission sources outlined in their GHG inventory
- Review underlying sources that support consumption and emissions data
- Assess emission factors used
- Evaluate appropriateness of key estimation assumptions and methodologies
- Perform recalculations
- Review disclosures

Future of ESG reporting and assurance

Improvement is needed!

"Canadian organizations are talking about ESG more seriously. But actual progress is failing to keep pace with rising stakeholder expectations in many cases."

PwC Canada, *2023 Canadian ESG Reporting Insights* (2022b, p. 3).

Morrison talked about the state of ESG reporting in Canada's top 250 companies (based on revenue and market capitalization) captured by PwC Canada's *2023 Canadian ESG Reporting Insights*.

The report showed that improvement is needed (Figure 34). While most combine financial reporting with ESG disclosures and risk management, most of Canada's top companies are:

- unprepared for mandatory reporting because they do not use the TFCD framework
- only talk about ESG, without backing up talk with verifiable performance, and
- do not obtain limited or reasonable assurance.

FIGURE 34: CANADIAN ESG REPORTING INSIGHTS (SOURCE: PWC CANADA, *2023 CANADIAN ESG REPORTING INSIGHTS* [WEBSITE], 2022)

Direction of future reporting and assurance

"The future of ESG reporting and assurance is pretty clear. What is acceptable today is not going to be acceptable tomorrow, so companies are on a journey."

Speaker Scott Morrison, PwC Canada

In ***Part 3***, Nura Taef, Deloitte Canada, talked about the evolution of integrated reporting that would allow ESG to be integrated into the core of the business, into its strategy, its business operations, and its

enterprise risk management. Here, Scott Morrison, PwC Canada, illustrates how data collection, analysis and sharing will evolve from today's manual, ad hoc systems to robust controls, strong governance, and technology systems to support integrated ESG reporting.

As data collection and governance improve, and clear guidance is provided on disclosure formats and metrics so that disclosures become more standardized and reliable, investors' interest in ESG metrics as decision-useful will increase. Investors will understand how the organization will create value and resiliency for its stakeholders over the long term.

FIGURE 35: MOVING FROM LIMITED TO INTEGRATED ESG REPORTING (SOURCE: SPEAKER SCOTT MORRISON, PWC CANADA)

Opportunities for CPAs

"Accountants have many opportunities to initiate change in this world, particularly because of their roles at the base of finance and access to power. With that power is great responsibility," said speaker Kelsey Leonard. "Take the lessons of this conference and the lessons that you'll continue to hear from marginalized voices and amplify them in your work."

Speaker Kelsey Leonard, University of Waterloo

Scott Morrison sees many opportunities for CPAs to build trust in ESG reporting and assurance (details in Figure 36), including:

- designing reporting policies and procedures
- ensuring complete and accurate data
- assessing performance against standards and principles
- instilling discipline into non-financial reporting
- providing third-party assurance over ESG reporting

To fulfill those roles and to support decision making and reporting, CPAs will need to understand standards, regulations, and laws in the context of capital markets, government and society (including when they may be lacking) (CPA Canada, 2022, p. 17).

"We can't perform the audit without having some sort of specialist in sustainability on our team to help us to really challenge those assumptions that management is making."

Speaker Nura Taef, Deloitte Canada

FIGURE 36: OPPORTUNITIES FOR CPAS IN ESG REPORTING & INSURANCE (SOURCE: SPEAKER SCOTT MORRISON, PWC CANADA)

FIGURE 37: TRUTH AND RECONCILIATION COMMISSION OF CANADA'S BUSINESS AND RECONCILIATION: CALL TO ACTION 92

Truth and Reconciliation Commission of Canada
Business and Reconciliation:
Call to Action 92

92. We call upon the corporate sector in Canada to adopt the United Nations Declaration on the Rights of Indigenous Peoples as a reconciliation framework and to ***apply its principles, norms, and standards to corporate policy and core operational activities involving Indigenous peoples and their lands and resources.*** *This would include, but not be limited to, the following:*

i. Commit to meaningful consultation, building respectful relationships, and obtaining the **free, prior, and informed consent** of Indigenous Peoples before proceeding with economic development projects.

ii. Ensure that Aboriginal peoples have equitable access to jobs, training, and education opportunities in the corporate sector, and that Aboriginal communities gain long-term sustainable benefits from economic development projects.

iii. Provide education for management and staff on the history of Aboriginal peoples, including the history and legacy of residential schools, the United Nations Declaration on the Rights of Indigenous Peoples, Treaties and Aboriginal rights, Indigenous law, and Aboriginal-Crown relations. This will require skills-based training in intercultural competency, conflict resolution, human rights, and anti-racism.

Through insights from a roundtable held by the CPA Canada's CM2.0 Task Force with Indigenous business leaders and others, CPA Canada requires CPAs to understand Indigenous views and Indigeneity. This means understanding (CPA Canada, 2022):

- the effect of Canadian history on Indigenous Peoples, Indigenous culture, rights, finances, and perspectives
- the importance of stewardship of the land for future generations.

It also means implementing and raising attention to:

- Truth and Reconciliation Commission of Canada, Calls to Action, and especially Call to Action 92, whose response is the responsibility of corporate Canada, where many CPAs will work (Figure 37).
- United Nations Declaration on the Rights of Indigenous Peoples, and the Implementing the UNDRIP in Canada. (see ***Part 2: Omissions in the ESG Landscape***).

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