THE ROLE OF ACCOUNTANTS IN MAINSTREAMING SUSTAINABILITY IN BUSINESS

INSIGHTS FROM IFAC'S PROFESSIONAL ACCOUNTANTS IN BUSINESS ADVISORY GROUP

International
Federation
of Accountants

IFAC, with its member organizations, serves the public interest by enhancing the relevance, reputation, and value of the global accountancy profession. IFAC's three strategic objectives are:

Contributing to and promoting the development, adoption, and implementation of high-quality international standards;

Leading and developing a future-ready profession; and

Speaking out and engaging as the voice for the global profession.

The aim of this report is to share insights from IFAC's Professional Accountants in Business Advisory Group across the global accountancy profession.

For further information, please email **stathisgould@ifac.org**

MESSAGE FROM THE CHAIR, IFAC PROFESSIONAL ACCOUNTANTS IN BUSINESS ADVISORY GROUP

"When you create value for society, you become valuable."

Sanjay Rughani
Chair
IFAC PAIB Advisory Group

This underlying sentiment set the tone for the recent **IFAC Professional Accountants in Business (PAIB) Advisory Group** virtual meeting, which convened a diverse group of international business and finance leaders to explore how PAIBs are contributing to value creation and sustainability in their organizations in both the private and public sectors. The aim of this report is to share the insights from the meeting across the global accountancy profession.

Advancing and mainstreaming sustainability is a priority for IFAC and the global accountancy profession. Much effort has been focused on advocating for a global approach to **sustainability standards** and advancing assurance services to meet investor and others' demands for consistent, comparable and assurable sustainability information. PAIBs can play a key role in reporting and there is benefit in incorporating reporting of sustainability information under the remit of the CFO to enhance the quality of sustainability information, and its reliability and relevance to investors as well as to the organization and its strategy, business model and enterprise value.

For accountants working as business or finance leaders, their primary focus is on transformation and seizing opportunities for growth and value creation. It is important that compliance does not overtake the real substance on sustainability. Ultimately, professional accountants need to champion an integrated mindset in their roles on boards and audit committees, as CFOs and in finance functions to inform decision makers within organizations and investors about the sustainability opportunities and risks to value creation and plans for dealing with these.

Achieving sustainability and decarbonization requires transition (and often significant disruption), technology and innovation, and enabling finance, talent, and partnerships. To demonstrate how such transitions and transformations are being approached in practice, we were joined by Rakesh Agarwal, Vice President of the largest private sector corporation in India, Reliance Industries Limited, who shared insights on how Reliance is striving to be net carbon zero by 2035 through a transformative 15-year vision to transition its oil and gas business.

We were also joined by senior executives at Standard Chartered Bank, Subhradeep Mohanty, Regional CFO, Africa & Middle East, and Simon Connell, Global Head of Sustainability Strategy. They shared with us how Standard Chartered has integrated sustainability as a core priority in its corporate strategy across the bank, influencing how it makes decisions, identifies opportunities, and manages risks across its business, operations, and communities. They also highlighted the importance of collaboration and integration among teams, and the crucial role of the CFO and finance function in supporting the achievement of its sustainability objectives.

Both the Reliance and Standard Chartered case study examples reiterated that when boards are engaged, a strong focus on sustainability can be driven through the organization. Integrating sustainability into the foundational golden thread of mission, vision, values and strategy, takes serious commitment and investment from the board to staff and to partners. This is also reflected in the high-level integrated thinking principles being developed by the Value Reporting Foundation (VRF), which aim to drive an improved understanding of how value is created to enhance decision-making and actions by boards and management, centered on the business model and covering purpose, culture, strategy, governance, risks, and performance. The PAIB Advisory Group had the opportunity to provide feedback on these draft principles, which will be published on the **VRF website** later this year.

In addition to sustainability and value creation, the PAIB Advisory Group also considered other priority areas on its future CFO and finance function agenda, including an exploratory session on digital assets and crypto, and a discussion on the value proposition of accountants in CFO and finance function roles in the context of the many key trends changing the way in which PAIBs work. A consistent theme throughout the discussions was that the contribution of CFOs and finance functions as value partners is becoming more strategic than ever before.

This all means that as a profession, we must continue to elevate our focus and actions on higher value activities to support and empower PAIBs to take on these more strategic roles. During our meeting we heard about great initiatives from the Institute of Chartered Accountants of India (ICAI), CPA Canada and the Institute of Management Accountants (IMA), and I encourage others to also share theirs with the global accountancy profession through IFAC's **Knowledge Gateway**.

Stay well and blessed.

Sanjay Rughani

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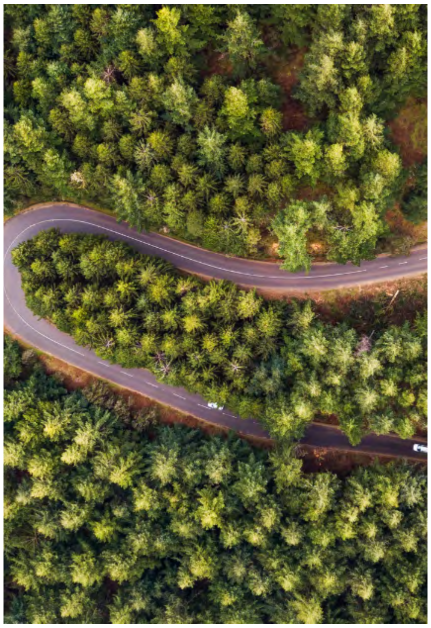
MAINSTREAMING SUSTAINABILITY AND CHAMPIONING AN INTEGRATED MINDSET



IFAC's go-forward **corporate reporting agenda** positions the global accountancy profession to deliver high quality information for decision making and reporting. One area of this agenda of particular importance to the PAIB Advisory Group is championing an integrated mindset. This means having an integrated approach to financial and sustainability-related information under the remit of the CFO, leading to better decisions that deliver long-term value creation—ensuring financial returns to investors while taking account of value to customers, employees, suppliers, and societal interests.

The transition to net carbon zero business models is a new growth opportunity for business and for accountants. Transitioning to a world of net-zero emissions is challenging and poses risks, but accountants need to steer their organizations towards the opportunities decarbonization brings as well as communicate to investors and others how climate change is affecting their organization and the financial implications. The PAIB Advisory Group heard two excellent examples from Reliance Industries Limited and Standard Chartered Bank on how they are approaching the transition and embedding sustainability into their strategies and operations.

CASE STUDY

ACHIEVING NET-ZERO CO_2 EMISSIONS AT RELIANCE INDUSTRIES

Reliance Industries Limited is a Fortune 500 company and the largest private sector corporation in India. Its mission is to "be the most admired, innovative and value generating organization for all our stakeholders". RIL is a significant player in the integrated energy value chain, which was the focus of Rakesh Agarwal's presentation.

RIL established a target to become net carbon zero by 2035, which is part of a **value creation model** to enable sustainable development through three strategic focus areas: digital technology platforms, new commerce, and decarbonization which will lead to greater financial inclusion and economic participation of India's citizens. To achieve its climate commitment, RIL plans to leverage its sustainability growth enablers of its (a) balance-sheet, (b) talent, (c) technology and (d) proven project execution capabilities.

Presentation by CA Rakesh Agarwal, Vice President, Reliance Industries Limited (RIL)

READ MORE

CASE STUDY

SUSTAINABILITY AND THE CFO: STANDARD CHARTERED BANK PERSPECTIVES

For Standard Chartered, sustainability goes beyond reporting frameworks. It is a core priority within the bank's corporate strategy, influencing how it makes decisions, identifies opportunities, and manages risks across its business, operations, and communities. By integrating sustainability across the organization, the bank aims to ensure a common understanding of its objectives and how they are trying to measure outcomes, so that collectively, the bank can deliver sustainable prosperity and uphold its brand promise to be 'here for good.'

Standard Chartered has a bank-wide scorecard, that spans their three sustainability pillars and sets out their **sustainability aspirations** with targets and timelines aligned to their business strategy and the UN Sustainable Development Goals (SDGs). These aspirations include a commitment to net zero from its financed emissions by 2050 and in its own operations by 2030. For the CFO, strategy is key, and it is important to drive a common understanding and clear message that purpose and profit go hand-in-hand.

Presentation by Simon Connell, Global Head of Sustainability Strategy & Subhradeep Mohanty, Regional CFO, Africa & Middle East

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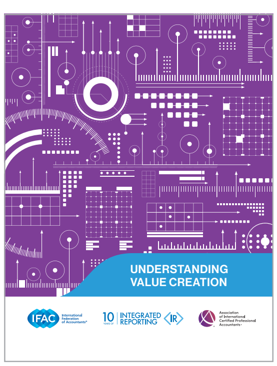
Key Learning Points for the Profession and Accountants

- Achieving sustainability and decarbonization requires transition and for some industries this means significant disruption. Navigating these transitions requires financing and involves investment in technology and innovation, and talent and partnerships.
- Accountants must be able to answer the questions:

  What value is being created by your organization?

  What is the organization's contribution to sustainability and to society?
- Doing so involves **understanding and optimizing the value delivered and captured by the organization** for different stakeholders e.g., for customers, suppliers, investors, and society.



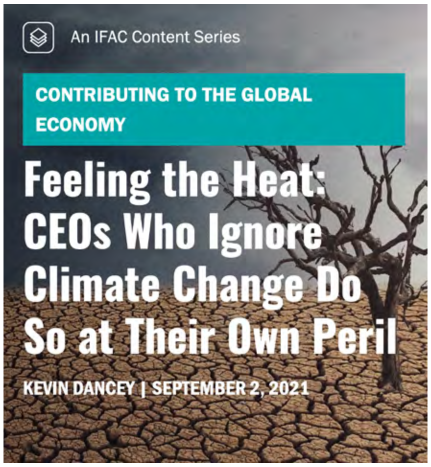
- A key part of an accountant's stewardship role is focusing the organization on its most significant sustainability impacts related to its business model and investing in solutions to mitigate and abate these impacts, and to turn them into growth opportunities. Acting as a steward requires being familiar with the megatrends disrupting societies and companies and understanding which solutions and technologies are best suited to their organization's strategy and operating model. For example, key trends to be familiar with include:

  The physical world - new materials, e.g., steel to graphene, advanced robotics, autonomous vehicles

  The digital world - blockchain applications, internet of things and shared economy platforms and applications

  Biological - Synthetic biology developments (biofuels, agriculture), genetic engineering and editing, neurotechnology, implants and embedded devices

  Societal – environmental, social and governance (ESG) trends.



- Sustainability information is increasingly being coordinated under the stewardship of CFOs and accountants to ensure that sustainability information is connected to financial information, and that sustainability strategies and actions are aligned across the organization from the governance (board) level to the operating level.
- Sustainable business strategies and operating models need to be the basis of external reporting if these reports and disclosures are to be seen as credible.
- Identifying and enabling a company's contribution to sustainability involves identifying the most significant areas or the "sweet spots" and evaluating the most cost-effective options and the best choices to achieve sustainability. This involves providing decision insights and context through measurement and numbers which is the accountant's sweet spot.

Accountants are central to enabling finance, assessing business cases, and managing the balance sheet to deliver adequate investment toward the best initiatives at the same time as ensuring financial resilience during a transition to a sustainable business.

PAO RESOURCES ICAI

The ICAI's Sustainability Reporting Standards Board was formed in February 2020 to support technical publications, capacity building, advocacy, and regulatory interaction on behalf of its membership:

TECHNICAL - guidance material on the mandated Business Responsibility and Sustainability Reporting requirements for the top 1000 listed companies in India, and a Sustainability Reporting Maturity (Benchmarking) Model.

CAPACITY BUILDING - certificate education courses on Business Responsibility and Sustainability Reporting, and a sustainability literacy drive to enhance the levels of sustainability literacy among members and wider stakeholders.

ADVOCACY – ICAI's Sustainability Reporting Awards to recognize organizations for outstanding contributions to sustainability and promoting and supporting the adoption of international frameworks and standards including the International Integrated Reporting Framework, Global Reporting Initiative standards, Sustainability Accounting Standards Board Standards, and the UN Global Compact.

REGULATORY ENGAGEMENT – advocating for measurement / monitoring framework for Sustainable Development Goals for government projects.

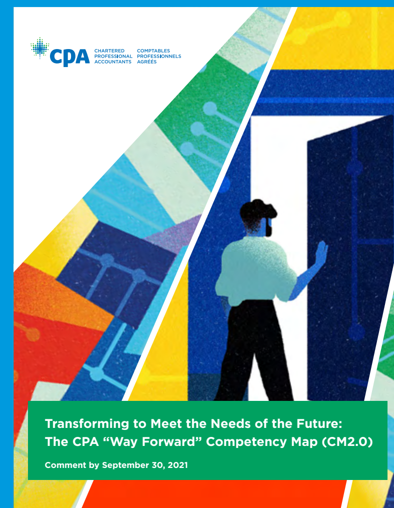
See here for **ICAI Publications - Sustainability Reporting Standards Board**

PAO RESOURCES CPA CANADA

In 2018, the Canadian accounting profession launched ***Foresight: Reimagining the Profession*** - an ambitious multi-stakeholder consultation that challenged the status quo and looked at what the future could hold in a rapidly changing business environment.

The Foresight initiative inspired a renewed energy and eagerness to help the profession move away from dealing in hindsight to a "permanently proactive" mode, requiring new ways of doing things, including:

- Measuring value beyond financial to capture societal expectations.
- Harnessing the power of vast quantities of data to make decisions.
- Establishing new models of governance and decision-making.
- Continuously equipping accountants with new technical and enabling skills.



Value creation is about looking forward, embracing innovation, and addressing expectations related to sustainability and social impact. This requires a rethink of the information used in organizational decision-making and different approaches to managing, measuring, and communicating value creation performance considering a longer-term, multi-stakeholder perspective.

To help CPAs strengthen their ability to play a leadership role in making strategic decisions about the value creation challenges of the future, CPA Canada has invested in a number of research and education initiatives including:

- Defining value creation and the CPA Value Creation Mindset – see **Value Creation and Decisions Measurement Primer**.
- Value creation competencies – incorporated into **The CPA "Way Forward" Competency Map** (CM2.0) consultation. Work is planned to develop a value creation competencies strategy and programming for existing CPAs.
- Online Directory for CPAs: Launched a **Global Value Creation Solutions Directory**, which provides a searchable online database to help CPAs better understand the value creation frameworks, standards, guidance, methodologies, and tools available in the marketplace and identify the ones that best suit their organizational needs.

PAO RESOURCES

IMA - THE ASSOCIATION OF ACCOUNTANTS AND FINANCIAL PROFESSIONALS WORKING IN BUSINESS

IMA is undertaking research with the involvement of the World Business Council for Sustainable Development and IFAC on the tools and frameworks that support the management of both tangible and intangible components of interconnected enterprise value contributed by multiple stakeholders. The consensus arising from several roundtables is that given financial reporting standards are inadequate at explaining enterprise (market) value, and the accounting and finance function mindset has been traditionally driven by external reporting compliance, accountants turn to a range of management accounting (e.g., the Balanced Scorecard) and reporting (e.g., integrated and sustainability reporting) approaches to understand how value is created and preserved. However, there is a lack of consensus on how value and value creation is accounted for from a capital markets perspective (value as realized through cash flows) and impact accounting (linked to double materiality) that captures impacts on stakeholders and on sustainability objectives. IMA is bringing together different expert views on this issue and considering a hidden balance sheet approach to capturing value in different dimensions.

IMA also established an expert **Sustainable Business Management Global Task Force** to ensure holistic emphasis on ESG and sustainability, beyond external disclosures, to enable value creation in an uncertain, disruptive, and multi-stakeholder global business environment. It is important that the voice of management accountants (PAIBs) be heard in leading the development of a connected and integrated approach to sustainable business management across the accounting value chain. The Task Force endorsed the release of a **Statement of Position on Sustainable Business Information Management** which expresses nine principles that are fundamental to building a successful and sustainable accounting ecosystem within an ever-changing landscape.

Other recent IMA initiatives and resources on the **CFO as value creator** and a Statement of Management Accounting on **Unrecognized Intangible Assets: Identification, Management, and Reporting** are available on the IMA website.

DIGITAL ASSETS AND CRYPTOCURRENCIES – A PAIB PERSPECTIVE

To start exploring the extent to which digital assets and cryptocurrencies are affecting industries and business models, and how this nascent but expanding area might evolve in the future, the PAIB Advisory Group discussed the risks and opportunities of digital assets from a PAIB perspective.

The use of cryptocurrencies and other digital assets by organizations is not mainstream. For example, **a Gartner survey of CFOs** earlier this year found that 84% of respondents thought that Bitcoin's volatility posed a financial risk and only 5% said they planned to hold Bitcoin as a corporate asset in 2021. Other findings from this survey are summarized in the article: **Will CFOs embrace cryptocurrencies?**

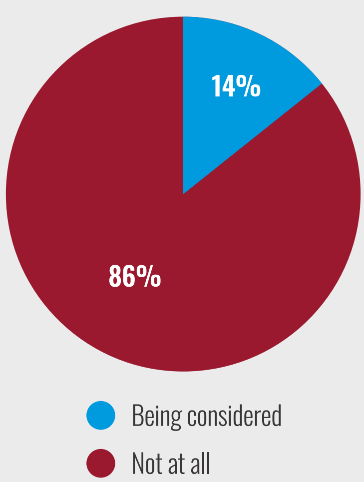
A poll of the PAIB Advisory Group on whether digital assets or cryptocurrencies are currently used or being considered in their organizations also revealed similar findings with no one indicating that they are currently used, and only 14% whose organizations are considering their use.

Barriers to the use of cryptocurrencies include concerns over their extreme volatility, the fact that they are largely unregulated at present, governance and investor protection issues, and concerns over their use for financial crime, money laundering and fraud.

WHAT IS A DIGITAL ASSET?

There are a variety of definitions that relate to digital assets, but for the purposes of the PAIB Advisory Group discussion, a digital asset refers to a type of private asset that depends primarily on cryptography and distributed ledger technology (or similar technology) as part of its perceived or inherent value, and can represent an asset such as a currency, commodity, or security, or be a derivative on a commodity or securities.

Are digital assets/cryptocurrencies currently being used or considered in your organization?



What do you see as the main business risks of digital assets and crypto?

But cryptocurrencies and other digital assets could also offer opportunities for improved efficiencies, greater transparency, increased innovation, and could potentially contribute to public policy and societal goals (e.g., a fairer financial system and financial inclusion). They have the potential to disrupt industries, particularly **financial services**, and they could gain more legitimacy, particularly as:

- Central banks introduce central bank digital currencies (CBDCs). Around 90% of the world's central banks are currently looking at creating digital versions of their currencies (source: **Reuters**), with China's **e-CNY** in advanced stage of testing and possible launch in 2022.
- Regulators start regulating elements including exchanges and other aspects.
- Client demand for digital assets increases.
- More countries recognize cryptocurrencies as legal tender, which is starting to happen in emerging/developing economies. **El Salvador** recently became the first country to adopt Bitcoin as legal tender.
- The underlying technology matures and issues such as security and scalability are addressed.
- More mainstream market infrastructure emerges, making the asset class **more accessible for institutional investors**.

What do you see as the main business opportunities of digital assets and crypto?

Given the rapid developments in DeFi and digital assets, it will be important for the profession and accountants to stay up to date on the opportunity and risks they provide for business model disruption and the accounting implications.

Regardless of one's opinion on whether digital assets have the potential to disrupt industries or not, their prevalence is growing and innovations in the space are changing rapidly. A key takeaway from the PAIB Advisory Group discussion was that although organizations may be steering clear of cryptocurrencies at this time, there are opportunities in the application of the underlying technologies that comprise decentralized finance or DeFi, and include blockchain and smart contracts and platforms and applications (see **The beguiling promise of decentralised finance | The Economist**).

PAO RESOURCES

What is DeFi and why does it matter for accountants? | ICAEW

Decentralized Finance - A Primer for Accounting Professionals (AICPA/Wall Street Blockchain Alliance)

Will CFOs Embrace Cryptocurrencies? - Strategic Finance (sfmagazine.com) (IMA)

Financial reporting of cryptocurrencies: External resources (cpacanada.ca) (CPA Canada)

Auditing crypto-assets: The challenges dealing with third-party providers (cpacanada.ca) (CPA Canada)

ADDITIONAL RESOURCES

Wharton Podcast (13 mins): The Opportunities and Dangers of Decentralizing Finance - Knowledge@Wharton (upenn.edu)

Gartner: Bitcoin goes Mainstream; but 84% of CFOs still say it's a financial risk

Wall Street Blockchain Alliance: Understanding Central Bank Digital Currencies – An Accounting Perspective

PwC: DeFi: Defining the future of finance

World Economic Forum/Wharton: Decentralized Finance (DeFi) Policy-Maker Toolkit

DeFi Beyond the Hype (upenn.edu)

Explaining DeFi And How It Will Revolutionize Financial Services (forbes.com)

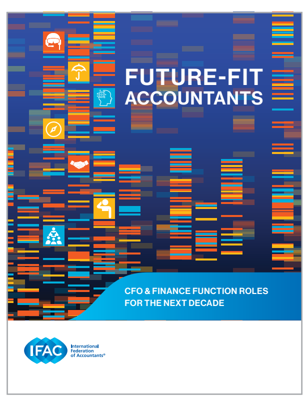
FUTURE OF MONEY: CBDCs, Crypto and 21st Century Cash (citi.com)

Accounting Blockchain Coalition - Forging the Future of the Accounting Industry

THE VALUE PARTNERING ROLE OF CFOS AND THE FINANCE FUNCTIONS

CFOs and finance functions are becoming more strategic and focused on critical decisions around business and operating model transitions and disruption that require the involvement of multiple stakeholders, collecting data from various sources, applying advanced analytics and analysis, and dealing with complex issues and solutions. This requires a significant shift from "business partnering" to "value partnering". The PAIB Advisory Group highlighted the following key features of the modernization of the role of the CFO and finance function in a value partnering role:

- Providing the insights on creating, enabling, and sustaining competitive advantage and long-term value creation. This involves three key areas:
  - Cost leadership through cost visibility, reduction, and productivity insights for both finance and business operations
  - Strategic insights on revenue growth and gross margin optimization
  - Leadership on broader trends and performance areas particularly in relation to sustainability and ESG, and intellectual assets and how they contribute to value creation and reputation.
- Ensuring effective governance and risk management activities that enable a clear focus on value creation and protection incorporating short versus long-term, and higher and lower risk business cases appropriate to different levels of the organization (enterprise, business unit, function etc.)
- Fulfilling core roles of finance and accounting including financial planning and analysis, treasury, tax, and reporting, but the expectation is for finance functions to do more to achieve value partnering and make a more direct contribution to understanding and communicating the nature of value creation and trade-offs.
- **Building trust and integrity** in organizations. This involves ensuring that business actions and decisions contribute to long-term value creation and sustainability as well as traditional areas of fraud prevention and anti-corruption.
- Ensuring that capital allocation clearly supports, and is aligned to, business priorities for value creation. This also involves highlighting conflicts between short- and long-term value creation objectives.



- Identifying and understanding drivers of value creation, with the ability to measure and communicate insights based on information from other functions and systems that highlight business performance and bring this information together with financial information in a meaningful way.

For PAIBs, achieving value partnering involves:

- Close collaboration and partnership with other business functions and external partners being the modus operandi of how finance functions approach their work.
- Agility and agile management techniques that are becoming widely used in transformation of finance and business processes and are the foundation for experimentation and leveraging digital tools and technology, enabling standardization, cost savings and continuous improvement.
- An understanding of how to identify and analyze risks and mitigate them or turn them into opportunities.
- Advanced analytical and assessment approaches to deal with uncertainty in decision making such as scenarios, sensitivity analysis, decision trees and monte carlo simulations, and advanced data analytics and modeling to deliver decision making insights.
- A finance culture and mindset that embraces growth, change and innovation, and higher-order skills and capabilities to support value partnering.

For further detail on these features, see the article: **CFOs and Finance Functions – from business partnering to value partnering**.

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IFAC Staff Contacts

Stathis Gould, Director, Advocacy

Laura Leka, Principal, PAIB and Public Sector

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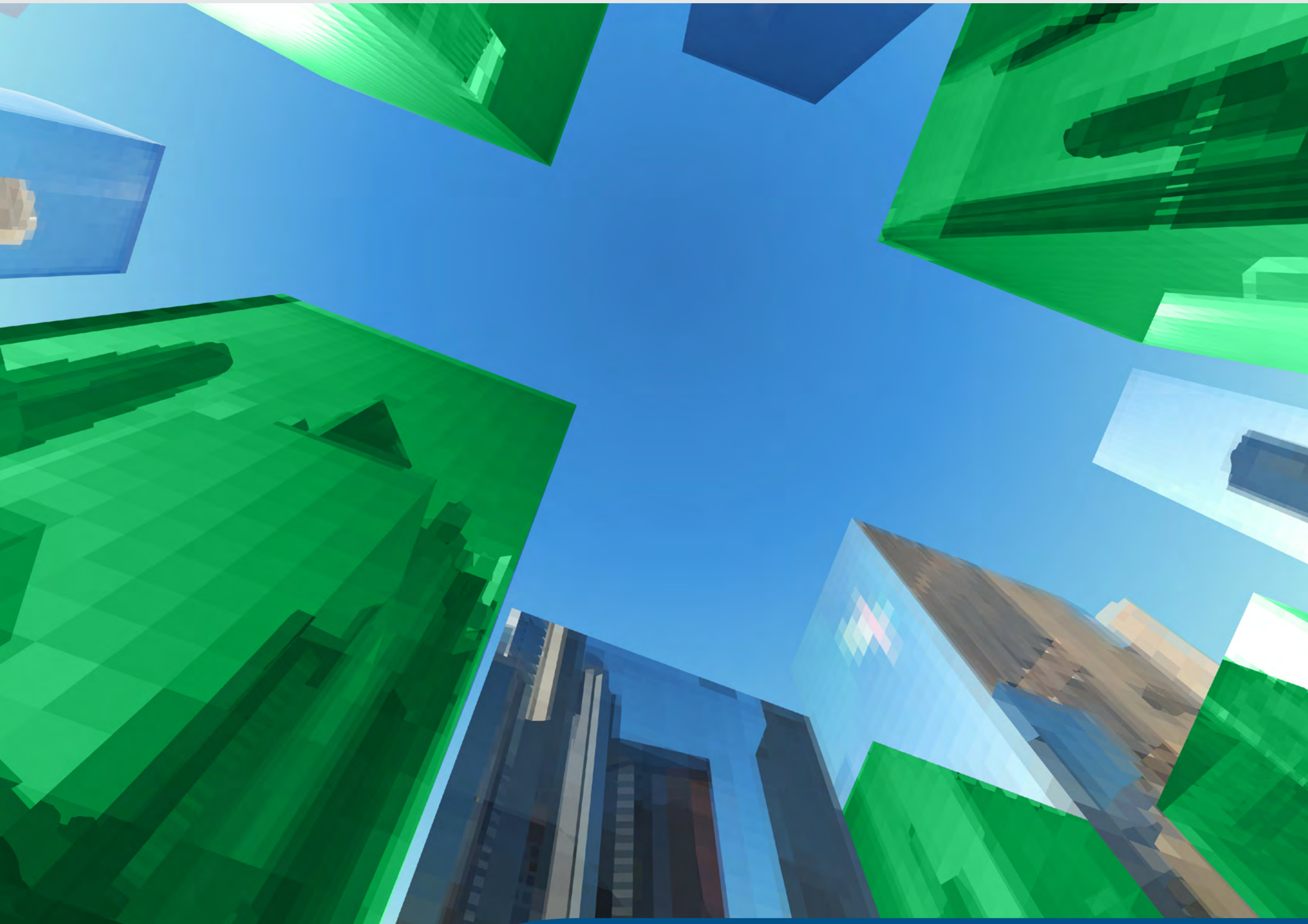

International Federation of Accountants
529 Fifth Avenue
New York, NY 10017
USA
T +1 212 286 9344
www.ifac.org