


The ACCA logo is a red square with the letters 'ACCA' in white, bold, sans-serif font.The background of the entire page is an aerial photograph of an offshore oil rig. The rig's steel structure extends vertically from the bottom center towards the middle of the frame. At the top of this structure is a circular platform where several workers in safety gear are visible. The rig is surrounded by a large, circular area of white, foamy water, likely from a drilling or production process. The surrounding ocean is a deep, vibrant blue with visible wave patterns and some white foam from the rig's activity.

# CLIMATE ACTION AND THE ACCOUNTANCY PROFESSION: BUILDING A SUSTAINABLE FUTURE

Think Ahead

# About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global professional body for professional accountants.

We're a thriving global community of **233,000** members and **536,000** future members based in **178** countries and regions, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values.

We offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in **our purpose**. In December 2020, we made commitments to the **UN Sustainable Development Goals** which we are measuring and will report on in our annual integrated report.

We believe that accountancy is a cornerstone profession of society and is vital helping economies, organisations and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

And through our cutting-edge research, we lead the profession by answering today's questions and preparing for the future. We're a not-for-profit organisation.

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# **CLIMATE ACTION AND THE ACCOUNTANCY PROFESSION: BUILDING A SUSTAINABLE FUTURE**

This report addresses how accountancy and finance professionals can provide leadership and expertise in the drive to decarbonise organisations.

# Foreword



**Helen Brand OBE**  
Chief executive, ACCA

**Professional accountants have a critical role in putting sustainability at the heart of decision-making, and in championing responsible practices that will drive the critical changes the planet needs.**

Managing the impact of people on the planet we call home has become the rallying call of our times. There is an urgent need for all stakeholders, whether in governments, private sector, or public sector organisations, to grasp the scale of this challenge and to respond to it. The accountancy profession has a critical role to play in this, both to lead long-term value creation within sustainable economies, and to champion responsible practices in the public interest.

The COP26 UN Climate Change Conference offers an important opportunity to focus minds and to commit to actions that address the challenge. Governments around the world are seeking to define a vision for decarbonising their economies and achieving net zero emissions. As our report highlights, accountancy and finance professionals can bring an integrated approach that places sustainability at the heart of organisational decision making, rather than it being an additional consideration. This approach links the strategy and governance, to rigorous measurement of performance using science based targets, coherent reporting and trustworthy assurance of information used by stakeholders.

Our report calls on governments to recognise the need for intermittent targets, in addition to those set for 2030 or 2050, to maintain focus and urgency. And to assist small and medium sized organisations to upskill to transform their business and operating models.

Climate change is a global challenge that needs a global approach to tackle it. ACCA, as the leading global accountancy body, is passionate about sharing best practices across the different regions it operates in, and to drive and uphold global standards and best practice. We will continue to play our part in increasing awareness, building skills and driving positive change, to ensure we leave behind a sustainable planet for future generations.

# Contents

<b>Executive summary</b>	<b>6</b>
<b>Introduction</b>	<b>10</b>
<b>Why organisations need to take climate action right now</b>	<b>13</b>
Government commitments	13
Policy, legislation and regulation	14
Pan-global initiatives	15
Investor pressure	16
The power of the people	16
The Covid-19 pandemic	17
A new sense of business purpose	17
<b>How should organisations build their net zero transition plans?</b>	<b>19</b>
Business strategy	19
Governance	20
The roadmap to decarbonisation	22
Science based targets (SBTs) to guide decision making	24
Accounting standards and frameworks	25
A new approach to integrity and assurance on sustainability information	26
Education and skills	27
The steps organisations can take right now	28
<b>Conclusion</b>	<b>30</b>

# Executive summary

Belatedly, but with increasing urgency, organisations are finally starting to grasp the scale of the climate emergency that our world is facing. And the challenges we must confront if we are to have any hope of restricting global greenhouse gas (GHG) emissions to 1.5°C – as the latest IPCC report released ahead of the United Nations Climate Change Conference (COP26) makes clear in the starkest terms.

This change is being driven by several factors including government policy, regulation, investor pressure, consumer action and the growing presence within organisations of Gen Z employees – who are particularly aware and vocal about how their futures will be shaped by climate action or inaction. Most recently, the Covid-19 pandemic has further underlined to all generations of employees just how vulnerable their organisations can be to existential risks.

As they do so, these organisations are focusing on the value of their environmental and social impacts – both negative and positive – to their own business and greater society. This is prompting a shift within organisations whereby climate risk is no longer seen as the responsibility of a few specialists. Instead, organisations are looking to accountancy and finance professionals to show leadership; and develop and implement strategy around climate and nature-related impacts on business models.

In this new report, we consider just how accountancy and finance professionals can provide leadership – and what needs to change within organisations for them to achieve carbon emission reductions at the pace and scale that is required.

To inform our thinking we commissioned a survey of more than 3,000 accountancy and finance professionals from the global ACCA community spread across the corporate, public, financial, and non-profit sectors. We asked small, medium, and large-sized businesses how climate risk is being addressed in their own organisations. We also conducted a series of regional roundtables around the world to provide context on the major climate risk themes being considered globally.

These findings and discussions emphasise an appetite for fully embracing climate considerations at the very core of business strategy. They also show an understanding and desire among accountancy and finance professionals to play a central role in shaping this strategy and leading organisations into the future. However, the findings and opinions also reveal just how disconnected the good intentions are from the urgency of climate action that is needed.

## Some headline findings:

- **75%** say it's important that accountancy and finance teams are involved in supporting their organisations to tackle climate change.
- **29%** say that climate change considerations play a significant or central role in financial decision making.
- Just **15%** say their organisations have set targets to be net zero compliant by 2050 (the internationally agreed goal for mitigating global warming – whereby greenhouse gases entering the atmosphere are balanced by their removal from the atmosphere).
- Only **23%** integrate climate key performance indicators (KPIs) into their business strategy and/or risk frameworks.
- **52%** believe climate change regulation will impact their organisation over the next five years.
- Only **38%** feel that their organisation will be willing to invest *much more than today* in addressing climate change over the next three to five years.
- **73%** say it's important that their future career involves taking action on climate change.

## The time to act is now

Very few organisations are progressing at the pace and scale needed to counter the devastating and world-altering threats that climate change is bringing. To meet this challenge, organisations need to put accountancy and finance professionals at the heart of climate action strategy and implementation. They should start by focusing on integrating finance and sustainability expertise in the following areas:

### Business strategy

The belief that environmental impacts should be considered separately to business performance is over. The future success for all organisations will be shaped by how they adapt their business to meet the challenge of climate change. This means climate and nature-related considerations must be central to organisations' overall business strategy.

### Governance

For climate action strategy to be effective it needs to be embraced at executive board level before being embedded throughout the organisation. Executive buy-in sets the tone for other parts of the organisation to drive climate action.

### The road to decarbonisation

Organisations cannot reduce what cannot be measured. Organisations of all sizes will have to reduce their GHG emissions over the next few decades to meet climate change targets set by governments. This will involve measuring, accounting for and reducing emissions generated by the organisation, its suppliers – and, ultimately, the consumers who use its products.

### Science based targets to guide decision making

Evaluating the financial value of decarbonisation will play a critical role in overall business strategy in the coming years. The problem at present is that many organisations lack the KPIs needed to reinforce climate strategy and actions. Only 23% integrate climate KPIs into their business strategy and/or risk frameworks, according to our survey. Adhering to established science based targets will help develop KPIs that can guide organisations towards decarbonisation successfully.

### Accounting frameworks and standards

Given the growing influence that climate-related risks are having on business performance, prospects, and viability, it is crucial that organisations manage and report on the value they create, preserve and erode. This now needs to be seen through a different lens – one that reflects and integrates both financial and non-financial considerations. Accountancy and finance professionals

within organisations will play a central role in helping to integrate climate and other environmental and social value into traditional reporting – as well as identifying and providing analysis on the interdependencies of these risks.

## Next steps for accountancy and finance professionals

The climate agenda will redefine the world of business over the coming decades and meeting this challenge is a long-term process. However, there are certain steps that need to be taken right now to accelerate the transition. These include:

- **Get executive level buy-in for climate action:** the tone set by organisation leaders plays an important role in influencing climate action. **The impact of climate risks should be on the agenda of board meetings** – both in terms of how climate and natural capital risks impact the organisation and, conversely, how its operations affect climate and natural capital.
- Play a **lead role in supporting boards and executive leadership in net zero transition plans** which cover strategies the organisation will undertake to achieve net zero status by 2050 – or preferably earlier. These plans should include key targets that need to be achieved by 2030.
- **Place climate risk, environmental, social and governance (ESG) and net zero at the heart of organisational strategy:** the days of treating sustainability and strategy as two separate priorities are over. **Expand strategic considerations beyond financial returns and competitive advantage.** The long-term impact of climate change means that these risks need to be fully integrated, and 'priced into' the strategy.
- **Take a holistic approach to decision making:** focus on integrating ESG, climate KPIs and risk considerations into decision making, from strategic to operational levels. Adopt a holistic view of the entire value chain that should play a lead role in **identifying and sourcing what constitutes 'decision relevant' data.** This needs to involve leveraging science-based targets across the organisation's entire value chain and the use of its products to inform decision making. Where possible, the financial impact of climate issues should be quantified to support such decision making.
- **Report meaningfully on non-financial information:** while norms for financial reporting are well established, those belonging to wider non-financial considerations need strengthening. This includes global initiatives to enhance climate and broader sustainability-related reporting through standards set by a new International Sustainability Standards Board (ISSB) that will address

material impacts on an organisation's enterprise value. And guiding this still evolving approach to **ensure that financial and non-financial reporting are connected and integrated within a clear narrative** – so that organisations can account for their real value to society.

- **Foster integrity and trust:** there is a need for transparency and reliability in the sustainability-related information that is presented and used. Leverage the robust, transparent and trustworthy methods of assurance that exist for financial information. And apply this rigour to non-financial impacts such as climate action, nature and biodiversity as they become central to strategy, performance and reporting. Assurance will increasingly cover not just reporting but processes, risk management and controls. Achieving

this will play a key role in **minimising greenwashing, which misrepresents the true performance of sustainability indicators.**

- **Increase awareness and education:** there is a pressing need to raise the level of knowledge and understanding, both to recognise climate change as an urgent 'burning platform' – and to respond accordingly. **Expand understanding of 'in-scope' issues to get involved with.** In too many organisations, expertise in climate risk and ESG still resides in a small group of sustainability experts; this must change rapidly and become embedded in organisations' culture. Gen Z professionals will help lead this development. Also, small businesses need particular attention and support here, having been heavily impacted by the pandemic.

### Call to action to governments

- Governments must raise their efforts in not just setting net zero targets by a specified year, but also **intermittent targets for the end of each decade leading up to 2050.** More importantly, they need to outline strategies and plans to realise the achievement of those targets. This should cover key industries, energy sources, mandates for business and society – as well as including policy interventions that both incentivise and disincentivise required outcomes for the wellbeing of future generations.
- Most organisations are being reactive by awaiting government direction. As a result many, especially those without the necessary human or financial resource, are woefully unprepared to meet net zero targets. Governments must help business through practical guidance and support if net zero goals are to be achieved, including through the **involvement of local and regional authorities.** This includes supporting them to:
  - transform to more environmentally friendly ways of operating.
  - deliver business changes that reduce carbon emissions.
  - design ways of tracking progress on carbon reduction and net zero targets.
- Governments must help organisations gain access to the expertise required to meet net zero, whether that is through up/re-skilling employees, or providing free or cost-effective external support. Governments must step in to provide organisations of all sizes access to this guidance, support, and the tools they will need to meet carbon reduction and net zero. Here, there is a role for **knowledge hubs** where governments and those organisations leading the way in carbon reduction and net zero can provide expertise and support tools, which can be adopted by the wider business community.
- **Governments need to work together.** The climate crisis does not recognise borders and many businesses and organisations operate internationally, if not directly then often indirectly via supply chains. It is therefore vital that governments work together to create a collaborative and symbiotic approach to supporting businesses and organisations, particularly SMEs, in preparing for and delivering carbon reduction and net zero targets.



An aerial photograph of a palm oil plantation. The image shows a dense grid of palm trees. A dirt road, colored reddish-brown, winds through the plantation, forming a Y-shape. A small blue car is driving on the road. The background is a vast expanse of green palm trees under a clear sky.

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# Introduction

In 2013, *Harvard Business Review* published an essay with the unlikely title, ‘Accountants Will Save the World’. At the time, the statement was attention-grabbing but very few people in business took its central concept seriously – namely that: ‘To get all businesses involved in solving the world’s toughest problems, we must change the accounting rules.’<sup>1</sup>

Today, that concept no longer seems so idealistic. Historically, business performance was measured almost solely in financial terms. That is changing.

Belatedly, but with increasing urgency, organisations are starting to grasp the scale of the climate emergency that the world is facing, and to appreciate the value of environmental and social impacts – both negative and positive – to their own business and greater society. This is prompting a shift within business whereby sustainability is no longer seen as the responsibility of a few specialists. Instead, organisations are looking to accountancy and finance professionals to show leadership while developing and implementing strategy around climate and nature-related business models.

This will require accountancy and finance professionals to properly understand the business processes for delivering goods and services across the value chain – and develop the data systems to gather the information they need. Measuring, reporting on, and providing assurance around this strategy and data will be vital for organisations wishing to survive and thrive in the coming years.

In this report, we consider how business thinking and priorities around climate risk have changed in just a few years, and why there is now a business imperative for accountancy and finance professionals to support leaders and decision makers throughout the world. Organisations must develop new and more robust sustainable approaches to business and government – where they can confidently create strategy, set meaningful targets, measure, report, and communicate climate goals.

To inform our thinking we commissioned a survey of more than 3,000 professionals from the global ACCA community spread across the corporate, public, financial and non-

profit sectors – asking them how climate risk is being addressed in their own organisations. We also conducted a series of regional roundtables in Africa, Asia Pacific Europe, North America, the Middle East, and the UK to provide context on the major climate risk themes our members are considering around the world.

These findings and discussions emphasise the need to fully embrace climate considerations at the very core of business strategy. They also show an understanding and desire among accountancy and finance professionals that they must play a central role in shaping this strategy and leading business into the future. However, the findings and opinions also show just how disconnected the good intentions of organisations are from the pace of climate action that is urgently needed.

One roundtable participant from India put it this way:

‘This isn’t about organisations giving back to the community. It’s about business risk. We live in society; we work for society – and we can’t afford to delay.’

Another from the Asia Pacific roundtable was more pressing:

**‘THE WRITING IS ON THE WALL. WE CANNOT WAIT UNTIL 2050.’**

Yet very few organisations are progressing at the pace and scale needed to counter the devastating and world-altering threats climate change is bringing. There really is no time to waste. To address this disconnect, the final part of the report outlines the immediate steps that organisations and

1 <<https://hbr.org/2013/03/accountants-will-save-the-worl>>

individuals need to take. They must leverage the expertise of financial and accounting professionals to increase the pace of climate action and, by doing so, future proof their organisations so they can continue to provide value while coexisting with natural ecosystems.

'We know that the consequences of climate change are concentrated in regions with relatively hot climates, where a disproportionately large number of low income countries are located. I believe the accountancy profession in Africa has a public interest responsibility to contribute to efforts to mitigate climate change. We have to make a prosperous Africa based on inclusive growth and sustainable development a priority, as is the case for Agenda 2063. PAFA stands ready to collaborate on developing a roadmap for mobilising the more than 150,000 champions of change in Africa.' **Alta Prinsloo, CEO of Pan African Federation of Accountants (PAFA)**

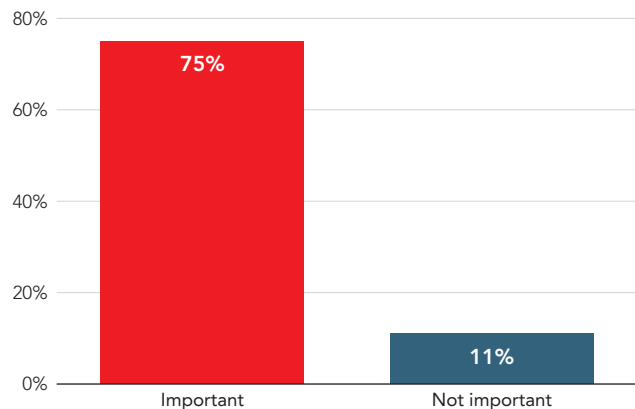
## Headline findings

In October 2020, ACCA published its *Mainstreaming Impact* report<sup>2</sup> – a study that identified opportunities and barriers for improving organisations' management of social and environmental impacts through engaging accountancy and finance professionals. This new report updates, validates and reinforces many of the findings and opinions that were starting to take shape in the first year of the Covid-19 pandemic.

Here is what our survey respondents tell us now.

- 75% say it's important that finance teams are involved in supporting their organisations to tackle climate change.
- 42% say that climate change considerations will play a significant or central role in future financial decision making.
- At present, only 15% say their organisations have set targets to be net zero by 2050 (even less in the SME sector).
- And just 23% have integrated climate KPIs into their business strategy and/or risk frameworks.
- Only 31% consider climate risks in the due diligence on third-parties, suppliers, clients and other stakeholders.
- Furthermore, just 13% of accountants or their teams are currently significantly involved in helping their organisations act on climate change (10% for those in public practice).
- Over the next five years, only 23% expect to do so (this is the same with public practice).

**FIGURE 1: How important is it to you that finance teams are involved in supporting your organisation to tackle climate change?**



As our research shows, ACCA survey respondents have a clear view of how climate change will impact their organisations over the next five years. Fifty-two percent believe the most significant impact will come through regulation – in the form of carbon pricing or new reporting requirements. Physical climate impacts impacting operations (eg changing weather patterns, extreme heat, flooding and drought) was mentioned by 48% while 40% pointed to the financial impact (the cost of capital that is linked to climate action for example).

The respondents identified a series of barriers that currently prevent finance teams from supporting organisations to tackle climate change. The most cited obstacle (54%) was the belief that climate action is not viewed as the responsibility of the finance team. Lack of commercial incentive around climate action (36%), a lack of support from leadership (32%), poor data to work with (28%), and their own lack of professional skills in the area of expertise (23%) were also seen as barriers.

Indeed, just 39% say they have the knowledge required to support organisations in taking action on climate change. And only 38% feel that their organisation will be willing to invest much more today in addressing climate change than over the next three to five years.

Despite these challenges, the desire to take a leadership role on climate change is powerful. Nearly three-quarters (73%) say it is important that their future career involves taking action on climate change. Almost half of the respondents (44%) would like to support their organisation in climate risk management; 42% in climate-related innovation, and 39% in climate finance and adaptation to climate-related risks.

2 <[https://www.accaglobal.com/us/en/professional-insights/pro-accountants-the-future/mainstreaming\\_impact.html](https://www.accaglobal.com/us/en/professional-insights/pro-accountants-the-future/mainstreaming_impact.html)>



# Why organisations need to take climate action right now

In August 2021, the Intergovernmental Panel on Climate Change (IPCC) issued its latest report on the state of climate change ahead of the upcoming COP26 meeting of global leaders in Glasgow, Scotland.

If there was ever any doubt about the science surrounding climate change, there isn't anymore. As the report makes clear: 'Global warming of 1.5°C and 2°C will be exceeded during the 21st century unless deep reductions in CO<sub>2</sub> and other GHG emissions occur in the coming decades.'

The consequences of not achieving dramatic reductions in GHG emissions are bleak. The report – the work of 234 authors with references to more than 14,000 scientific papers – concludes that CO<sub>2</sub> emissions are higher than at any point in the last two million years, and that each of the last four decades has been warmer than any other decade dating back to 1850. 'It is unequivocal that human influence has warmed the atmosphere, ocean, and land,' the report says.

Scientists have been sounding the alarm about how climate change will reshape our planet for more than 25 years – without much success in terms of influencing governments, business and global society to act. However, the experience of the last few years suggests that the world is finally waking up to the need to act on the scientific research. There are a number of factors driving this change:

## Government commitments

There is a great deal of pressure on the COP26 meeting to build on the groundwork of the 2015 Paris Agreement when global governments signed a legally binding treaty to limit global warming to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels. Significantly, countries are expected to set individual 2030 emissions reduction targets that will allow their economies to achieve net zero by the middle of the century. In June 2021, the Group of Seven (G7) leading nations agreed to institute mandatory climate-related financial risk reporting.<sup>3</sup>

Until recently there's been a great deal of discrepancy between different governments' net zero targets. The UK has set a target to reduce emissions by 68% by 2030 – and set out a '10-point plan' for a green industrial revolution. In the US, the Biden administration has said it will make tackling climate change a top priority. It is considering creating a 'climate czar' to assess potential risks to the financial system. And US Treasury Secretary, Janet Yellen, is exploring tax policy changes that would urge companies to cut carbon emissions. China, meanwhile, has pledged that its economy will become carbon neutral before 2060.

The growing threats to nature and biodiversity are of increasing concern to governments – as science continues to demonstrate how climate change and industrial activities are severely impacting global ecosystems. At the most recent G7 meeting, leaders agreed commitments designed to halt and reverse biodiversity loss by 2030, as well as tackle deforestation, marine litter and illegal wildlife trade.<sup>4</sup>

COP26 will hope to establish a consistent set of targets. Whatever the details, the organisers have stressed a broad set of goals that include phasing out all coal production, curtailing deforestation around the world, accelerating the transition to electric vehicles, and encouraging far more investment in renewable energy.<sup>5</sup>

**AT THE MOST RECENT G7 MEETING, LEADERS AGREED COMMITMENTS DESIGNED TO HALT AND REVERSE BIODIVERSITY LOSS BY 2030.**

3 <<https://www.spglobal.com/esg/insights/companies-investors-face-new-pressure-from-compulsory-disclosure-of-climate-risk>>

4 <<https://www.g7uk.org/wp-content/uploads/2021/06/G7-2030-Nature-Compact-PDF-120KB-4-pages-2.pdf>>

5 <<https://ukcop26.org/cop26-goals/>>

'Political, regulatory and legislative measures enabling environmental protection are non-existent. At the same time, January 1 2010, EPA legislation requires large emitters of GHGs to collect and report data with respect to their GHG emissions. Furthermore, civil society organisations and environmental activism are non-existent in our Caribbean environment to help catalyse grass-roots efforts and energy. Opportunity exists with low-hanging fruits environment violations such as earth and sea ruin, including littering of streets, highways, trails ways, public water drains, and the dumping of building materials in crowded forest as well as wholesale sea dumping. Public health, climate change, social inequality, diversity and inclusiveness are all challenges that need global attention – and innovative, collaborative solutions using a common language to measure and report on society's progress are required. As an accountant, my energy resides in the activism drive and effort.' **Andrew Morrille, Financial Accountant at Unicomer Group**

'The government needs to offer more incentives and more support, particularly to smaller businesses. And they need to legislate too, otherwise organisations under stress are always going to gravitate towards the cheaper option – being unsustainable.' **North America roundtable participant**

## Policy, legislation and regulation

To deliver on climate change and net zero goals, governments are developing policies, enacting new laws, and enforcing them through more robust regulation.

The UK has already passed legislation banning the sale of new fossil fuel powered automobiles, starting in 2030. The European Union (EU) has set a target of five years later<sup>6</sup> while the US is looking to tighten exhaust emission regulations to ensure half of all new vehicles sold by 2030 are electric.<sup>7</sup> Even as governments accelerate the transition to electric vehicles (EV), they continue to explore other alternatives to fossil fuels including hydrogen fuel. There are currently more than 50 government targets, mandates and policy incentives globally that support hydrogen as an alternative fuel.<sup>8</sup>

In terms of energy production, global governments are still struggling to shape a consistent approach to reducing GHG emissions. In March 2021, the UN Secretary-General António Guterres called on governments, organisations and local authorities to cancel all future coal projects.<sup>9</sup> Indeed, the UN believes that phasing out coal from electricity generation is the most important step to conform with the Paris Agreement 1.5°C goal.

However, while many governments are already taking action to phase out coal – the leading G7 nations agreed in May 2021 to stop international financing of coal projects that emit carbon by the end of the year. A number of influential nations (including some in the G7) continue to rely on coal to some degree.

Tax systems must also play a key role in achieving net zero goals. Phasing out tax exemptions for certain fossil fuels is a first step, and this is an aim behind the European Commission's revision of the EU Energy Taxation Directive.<sup>10</sup> ACCA's *Tax as a Force for Good* (2018) report called for governments to go further, by expanding green taxation to put a price on pollution and the use of natural resources – and directing the resulting tax revenues to reduce employment taxes.<sup>11</sup>

Some nations are going even further. In August 2021, both Costa Rica and Greenland passed legislation banning any new oil and gas exploration – following the lead of New Zealand who enacted similar legislation back in 2018.<sup>12</sup>

Governments also are setting new rules on other areas of the economy that have a direct impact on climate risks. Starting in 2021, the UK regulator for workplace pension schemes will require trustees to disclose climate-related risks. And, from 2023 in the EU, all public companies with more than 250 employees and/or €40m turnover and/or €20m total assets must legally disclose information on the way they operate and manage social and environmental challenges.<sup>13</sup>

'If you want people to take [climate change] seriously, you have to hit them in the face with what they owe to the environment and make them pay it. They can choose to remodel or to shut down.' **Asia Pacific roundtable participant**

6 <<https://www.reuters.com/business/retail-consumer/eu-proposes-effective-ban-new-fossil-fuel-car-sales-2035-2021-07-14/>>

7 <<https://www.nytimes.com/2021/08/05/climate/biden-tailpipe-emissions-electric-vehicles.html>>

8 <<https://www.iea.org/reports/the-future-of-hydrogen>>

9 <<https://unfccc.int/news/un-chief-calls-for-immediate-global-action-to-phase-out-coal>>

10 <[https://ec.europa.eu/taxation\\_customs/green-taxation-0/revision-energy-taxation-directive\\_en](https://ec.europa.eu/taxation_customs/green-taxation-0/revision-energy-taxation-directive_en)>

11 <<https://www.accaglobal.com/gb/en/professional-insights/global-profession/environmental-tax.html>>

12 <<https://www.theguardian.com/world/2018/apr/12/new-zealand-bans-all-new-offshore-oil-exploration-as-part-of-carbon-neutral-future>>

13 <<https://home.kpmg/ie/en/home/insights/2021/04/corporate-sustainability-reporting-directive-csr.html>>

## Pan-global initiatives

Aside from individual government action, several pan-global frameworks and initiatives are starting to reshape thinking and priorities when it comes to the climate emergency and wider ESG concerns.

The Taskforce for Climate-Related Financial Disclosures (TCFD) was created in 2015 by the Financial Stability Board (FSB). Its role is to develop consistent climate-related financial risk disclosures for use by organisations, banks and investors in providing information to stakeholders. Earlier in 2021, New Zealand introduced a bill that makes it mandatory for all organisations to report climate-related financial disclosures using TCFD.<sup>14</sup> Recently, the UK government launched a consultation on proposals to make climate-related financial disclosures mandatory from publicly listed organisations, large private organisations and limited liability partnerships.<sup>15</sup>

Such has been the success of the TCFD that a new complementary initiative, the Taskforce for Nature-Related Financial Disclosures (TNFD), will address the global biodiversity crisis. The TNFD will focus the minds of global organisations on the fact that more than half of the world's economic output – US\$44tn of economic value generation – is moderately or highly dependent on nature.<sup>16</sup>

In June 2021, the finance ministers of G7 signalled their intention to make corporate reporting compulsory on climate-related financial risks following the recommendations made by the TCFD, and also endorsed the launch of the TNFD.

Then there are the UN Sustainable Development Goals (SDGs) – now formally adopted by 197 countries to shape and drive sustainable development at governmental and business level up until 2030. ACCA has recognised the importance of all 17 interconnected SDGs and, collectively, we and our community can make a significant contribution towards the achievement of nine of them. They are Quality Education, Gender Equality, Decent Work and Economic Growth, Industry, Innovation and Infrastructure, Reduced Inequalities, Responsible Consumption and Production, Climate Action, Peace, Justice and Strong Institutions, and Partnerships for the Goals.<sup>17</sup>

SMEs also are being urged to take a leadership role. The SME Climate Hub – co-hosted by the International Chamber of Commerce (ICC), the Exponential Roadmap Initiative, the We Mean Business coalition, and the UN Race to Zero – was launched in 2020. Its remit is to encourage SMEs to commit to halving their GHG emissions before 2030, achieving net zero emissions before 2050, and disclosing their progress in these areas on a yearly basis.<sup>18</sup>

'One of the major issues is pushing companies to allocate resource to making sustainable decisions. This means improving reporting frameworks so that they produce information that adds value to the business – really showing them the costs involved in becoming net zero, and the costs involved in not doing it.' **Africa roundtable participant**

'Africa is a continent of developing countries, while Europe is a developed continent. A finance partnership between the two is important for the future of planet earth. To be effective that partnership should target the implementation of value creation, and not just thinking and talking about it. While the endgame might be to have a globally accepted, comprehensive corporate reporting system, we might have to be satisfied, at least in the medium term, through the ISSB to be established in November under the auspices of the IFRS to develop in discussions with IOSCO, the EC and the SEC about global baselines of sustainability related disclosures standards to meet investors' needs – and used for sustainability issues by different jurisdictions and particular to that jurisdiction. The true changemaker of looking at value creation from inputs to outcomes is the accountant with his or her public interest training, and therefore should rather be called a value officer than a financial officer. The accountant, also through his or her training as the steward of business information, can more easily grasp the principles of integrated thinking and complete an integrated report containing the significant material, financial and sustainability issues pertinent to the business of the company.' **Professor Mervyn King SC**

14 <<https://www.pwc.co.nz/crfd-status-review>>

15 <<https://environment-analyst.com/global/106800/mandatory-tcfd-disclosure-moves-closer-in-uk>>

16 <<https://tnfd.info/why-a-task-force-is-needed/>>

17 <<https://www.accaglobal.com/pk/en/about-us/sustainable.html>>

18 <<https://smeclimatehub.org/>>

## Investor pressure

The investor community is also proving to be highly influential in moving the world towards a post-carbon future (often because it is anticipating or reacting to government policy and regulation). Over the past five years, increasing numbers of institutional investors have voiced their desire to divest from carbon-intensive (and hence high risk) holdings – and, increasingly, they are supporting those words with action. What once was seen as a new trend is now part of the investment mainstream.

Some 4,000 asset managers, representing over US\$121tn assets under management (AUM), have signed up to the UN Principles for Responsible Investment (PRI).<sup>19</sup> Large fund managers and private equity investors are ramping up their climate commitments and sustainable finance portfolios. BlackRock's Climate Finance Partnership (CFP) will invest US\$250m in emerging market climate infrastructure, and Goldman Sachs has committed US\$156bn to sustainable finance commitments. Overall investments in the ESG sector doubled in 2020 – with ESG funds attracting \$51.1bn of net new money from investors.<sup>20</sup>

Most recently, in July 2021, 14 pension funds with a total US\$367.2bn AUM, agreed to sign up to the Accounting for Sustainability (A4S) Pension Fund Net Zero Statement – committing their funds to set net zero goals within 12 months.<sup>21</sup>

Also in 2021, 53 banks from 27 countries representing almost a quarter of global banking assets (over US\$37tn) formed the UN-convened Net Zero Banking Alliance and pledged to align their lending and investment portfolios with net zero emissions by 2050.

It's not just the large organisations that are embracing sustainable finance. A growing number of smaller sustainable challenger banks, such as Ando, Aspiration and Doconomy to name a few, now offer SMEs and consumers investment options that align with the UN SDGs, the TCFD or specific sustainable development and climate action targets. At the same time nearly all the big retailers

now have specific sustainability arms to their business for SMEs – which make up 90% of all organisations around the world. (Explore this in more detail in ACCA's *Rethinking Risk* report.<sup>22</sup>)

'Investor activism, and action from civil society can help plug gaps where regulators won't step in. Businesses can make any kind of commitment, but it is up to these groups to hold them to account.' **North America roundtable participant**

## The power of the people

Consumer pressure, opinion and purchasing decisions are increasingly potent forces influencing how organisations approach climate and nature-related risk. One 2019 academic report found that, from 2013 to 2018, products in the US marketed as sustainable grew more than five times faster than products not marketed as sustainable. In 2018, those products delivered US\$113.9bn in sales – a nearly 30% increase from just five years before.<sup>23</sup>

This shift in consumer decision making has been driven by many factors including increased information (true and false) about ingredients, sourcing and health that is shared through social media. Then there is the global stature of Swedish teenager, Greta Thunberg, who mobilised millions of young people to protest against government and corporate inaction over climate change. At the same time, the respected nature TV presenter, Sir David Attenborough, has raised awareness about the growing climate emergency, and highlighted the existential threat to the earth's wildlife and biodiversity to an older generation. Increasingly though, nature is doing the job of sounding the alarm itself. Millions of people all over the world are now experiencing extreme temperatures and catastrophic climate events like wildfires and floods on a regular basis. Faced with very real threats to their lives and their way of life, people no longer see climate change as an abstract phenomenon – and they are demanding action.

**FACED WITH VERY REAL THREATS TO THEIR LIVES AND THEIR WAY OF LIFE, PEOPLE NO LONGER SEE CLIMATE CHANGE AS AN ABSTRACT PHENOMENON – AND THEY ARE DEMANDING ACTION.**

19 <<https://www.unpri.org/pri-blog/ceo-quarterly-update-celebrating-4000-signatories-and-supporting-the-evolution-of-ri/8033.article>>

20 <<https://www.cnbc.com/2021/02/11/sustainable-investment-funds-more-than-doubled-in-2020-.html>>

21 <<https://abmagazine.accaglobal.com/global/articles/2021/jul/business/closing-the-sustainable-finance-gap.html>>

22 <<https://www.accaglobal.com/my/en/professional-insights/risk/rethinking-risk.html>>

23 <<https://www.stern.nyu.edu/sites/default/files/assets/documents/NYU%20Stern%20CSB%20Sustainable%20Share%20Index%E2%84%A2%202019.pdf>>



It should of course be noted that this sustainable consumer drive is not consistent throughout the world. Consumers in many emerging economies are only just starting to experience an increase in their standard of living – and are actively looking to emulate consumption habits they perceive to be a measure of success.

Those consumers are also employees. Indeed, within organisations, a new wave of Gen Z professionals understands the risk posed to their own futures by climate change. They expect action to be taken and they are ready to play a leadership role. (You can learn more about how finance functions will evolve in the coming years in our *Finance functions: seizing the opportunity* report.<sup>24</sup>)

‘Consumers have the power, but ultimately it is up to organisations to influence them. So, the board has to create opportunities for the customer to make sustainable decisions.’ **India roundtable participant**

## The Covid-19 pandemic

The Covid-19 pandemic that began in late 2019, has killed more than four million people so far, and has severely impacted global health and socio-economic systems. Millions of people around the world have also lost their livelihoods and continue to struggle to feed their families. Many scientists believe that pandemics like Covid-19 will only increase as cities expand and intrude on nature while tropical forests continue to be felled to meet the needs of agriculture and industry. The process of deforestation is also fuelling increased climate change by removing the most potent natural forms of carbon capture. Many in government and business also look at the disruption caused by Covid-19 – and worry that what we’ve experienced is just a minor dress rehearsal for the societal devastation climate change will bring.

At the same time, however, many organisations big and small are having to devote all their resources and strategic thinking to simply surviving the pandemic. Over a decade ago the global banking crisis derailed the sustainability commitments of many industry sectors. The challenge now is for organisations to rebuild in a way that learns the lessons of the pandemic and applies them to how they approach climate action.

‘Management teams are struggling between surviving through the pandemic and being pressed by regulators over its environmental impact. Organisations are driven by short-term thinking – quarterly results reporting at one end, and the five-year timescale at the other. This short-term results orientation does not add up to the long-term vision we need to tackle this problem.’

**Asia Pacific roundtable participant**

## A new sense of business purpose

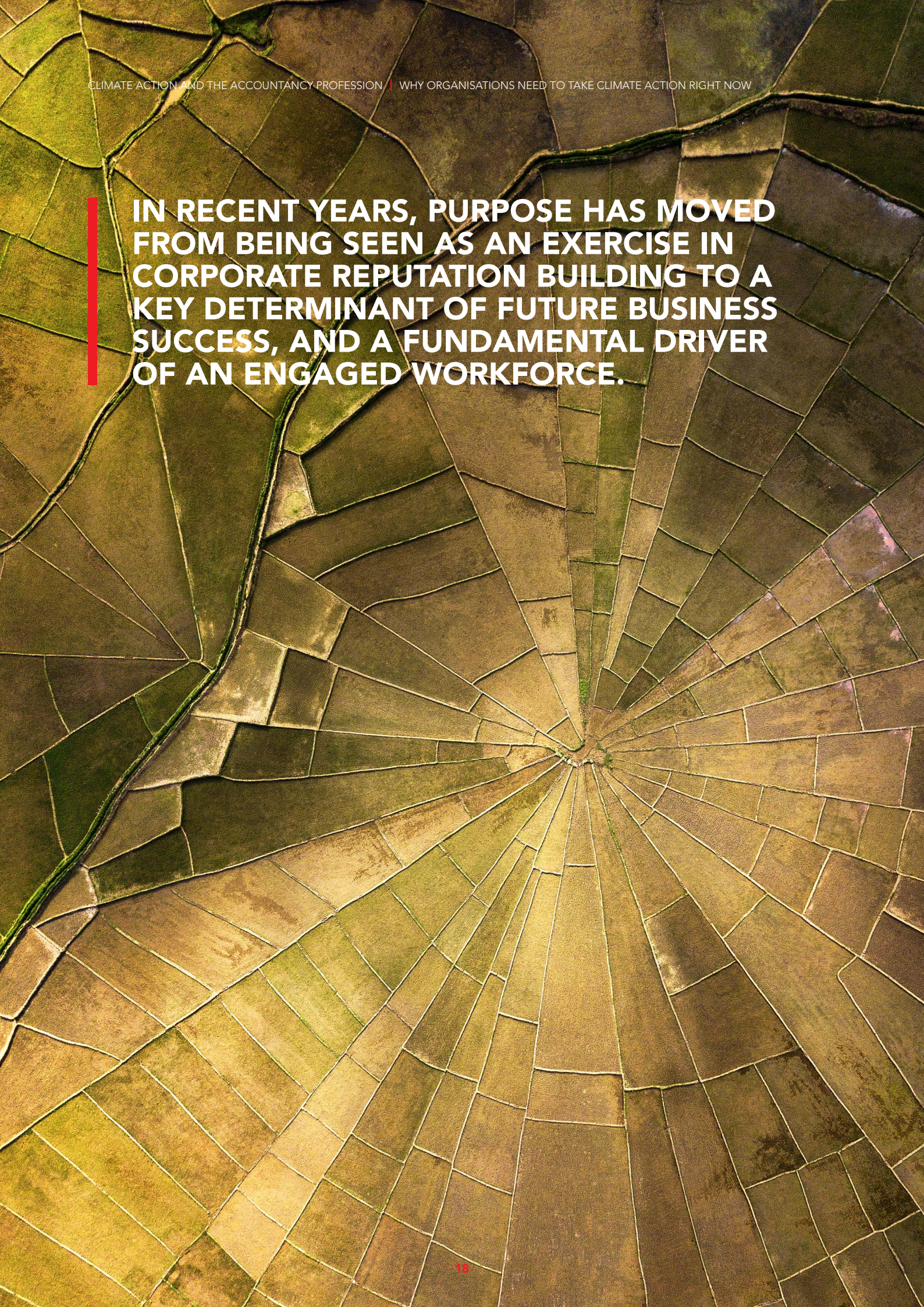
Perhaps it’s no surprise that so many organisations are embracing a new sense of business purpose and agility. This is focused on long-term sustainable growth over short-term profit and pledges to consider and value all stakeholders – rather than prioritising the needs of shareholders.

In recent years, purpose has moved from being seen as an exercise in corporate reputation building to a key determinant of future business success, and a fundamental driver of an engaged workforce. Climate risk is a central component in shaping this new sense of purpose. But, organisations also are having to confront and adapt to many other ESG concerns, including destruction of nature and biodiversity, racial, gender, income and digital inequality, corporate governance – and the impact that so-called Fourth Industrial Revolution technologies such as robotics and Artificial Intelligence (AI) will have on work, life and society.

This is not a rear-guard, defensive way of doing business. While climate change poses significant risks to organisations, transitioning to a low-carbon and ultimately zero-carbon economy will provide significant growth opportunities for the organisations that adapt and position themselves in the right place to succeed, with capable people driving their success.

‘If accountants can explain [the importance of climate action] to the business – whether that’s via talking about the value at risk from conscious consumers switching brands, or whether that’s valuing the ecosystem from which you’re extracting – then sustainability will take root.’ **Roundtable participant**

24 <<https://www.accaglobal.com/gb/en/professional-insights/pro-accountants-the-future/finance-functions-seize-opportunity.html>>

An aerial photograph of a terraced agricultural field. The field is divided into numerous rectangular plots of varying sizes, creating a complex geometric pattern. The colors range from dark brown and tan to vibrant green, suggesting different stages of crop growth or soil types. A prominent feature is a central point where many lines converge, creating a radial pattern that draws the eye towards the center. The overall texture is highly detailed and organic.

**IN RECENT YEARS, PURPOSE HAS MOVED FROM BEING SEEN AS AN EXERCISE IN CORPORATE REPUTATION BUILDING TO A KEY DETERMINANT OF FUTURE BUSINESS SUCCESS, AND A FUNDAMENTAL DRIVER OF AN ENGAGED WORKFORCE.**

# How should organisations build their net zero transition plans?

Given the multiple climate risk pressures (and opportunities) that are starting to grow, it's clear that organisations need to formulate a comprehensive new approach to the way they do business – and interact with their stakeholders. The overall context organisations need to consider are:

- How to undertake such a fundamental reshaping of business priorities and activities while remaining relevant and thriving in a post-fossil fuel economy?
- How can they specifically incorporate climate risk into their business strategy?
- What are the skills and capabilities that they require to do so?

ACCA has been surveying its global community and hosting regional roundtables to help form a best practice guide to understanding, embracing and navigating this new climate risk reality. The guide also highlights the key role of accountancy and finance professionals. From the feedback we believe there are seven key areas organisations must focus on:

## Business strategy

For the past decade, a growing number of organisations have started to incorporate sustainability risks and opportunities into their business strategy. Some have taken a comprehensive assessment of their entire value chain. Others, meanwhile, have focused on more specific parts of the business where they see the most risk and opportunity.

However, too many organisations still fail to integrate climate action into their overall business strategy despite widespread acknowledgment of the risks they face. And they fail to involve their financial teams in climate strategy despite a strong desire on the part of accountancy and finance professionals to play a leadership role. Just 29% said that climate change is a significant or central consideration when making financial decisions in their organisations.

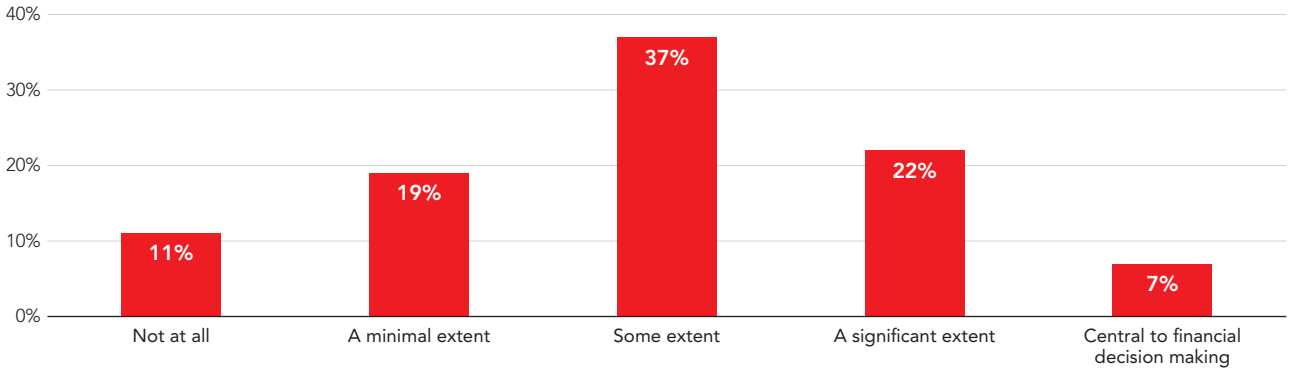
When we asked about the primary barrier preventing the finance team from supporting their organisation in tackling climate change, over half replied it was the fact that climate was not seen as the responsibility of finance team.

'As one of the leading European energy companies, we are mindful of our role in helping to achieve carbon neutrality targets by 2050. As such, we have been continuously progressing in decarbonisation and transitioning from coal to non-coal assets, focusing on renewable power generation and assets running on low carbon-intensive fuels such as natural gas – which we view as a critical bridging fuel towards reaching the net zero carbon future. As a result, already in 2020, 84% of our net power produced was from zero or low carbon-intensive sources and we strive to expand this share in the future. Also, our emission intensity declined by an enormous 58% between 2014 and 2020, which helped EPPE to achieve savings of ca 20 mt of CO<sub>2</sub>. Further substantial progress accompanied by investing into renewables, hydrogen and storage technology is planned for near future.' **Filip Bělák, Member of the management board and CFO of EP Power Europe (EPPE)**

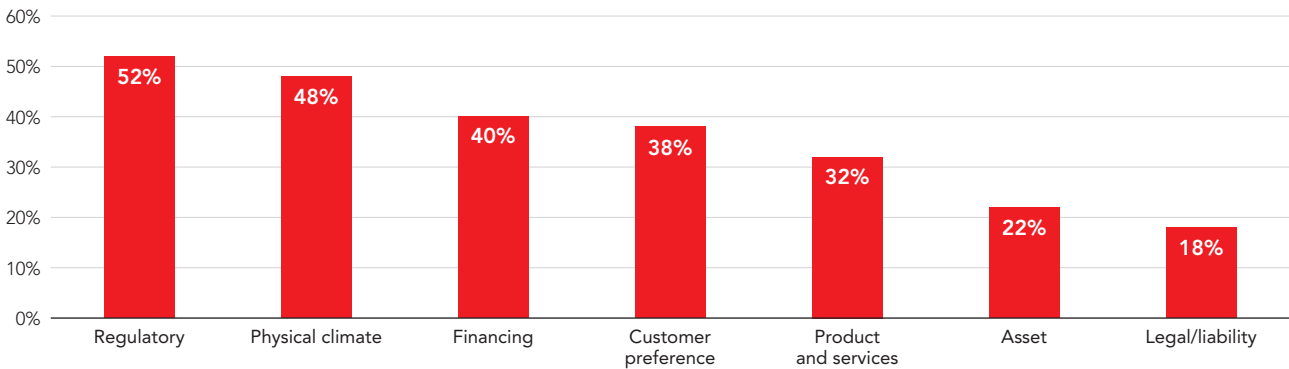
'Accountants support the business by allocating budget and sharing their insights – they have a seat at the table. The CFO is often an executive director on the board. So, you need to ask yourself, are you translating these issues for the board? Are you being an ambassador? Are you fighting for these changes all the way through to the AGM? Are you being a trendsetter?' **South Africa roundtable participant**

Over half of global GDP generated by business is moderately or highly dependent on nature. That's why a transformation of business strategy is central to achieving the required care for climate, nature and society's prosperity. Central to this new strategy is the four Rs – **remove** and **reduce** impact and **restore** what has been damaged. And most importantly, **reimagine** success.

**FIGURE 2:** To what extent does climate change influence financial decisions taken within your organisation?




**FIGURE 3:** Name three ways that you think climate change will impact your organisation/clients over the next five years



‘In BASF, we drive our sustainability agenda through strong cross-functional collaboration. Finance contributes through our expertise in reporting processes, in analytics and in performance management to also put the right steering mechanisms in place towards the achievement of our sustainability goals. As an example, finance was instrumental in developing BASF’s recently launched digital application to calculate Product Carbon Footprints (PCF) for all sales products – by providing the necessary expertise in product costing, internal material flows and IT applications and their integration.’ **Stefan Schnell, Senior vice president group reporting and performance management, BASF**



For more insight into how climate impact needs to be one of the main considerations when deciding on a business strategy, read ACCA’s recent guide to natural capital management, *Professional accountants changing business for the planet: a guide to capital management.* 

### Governance

If organisations are to succeed in placing climate risk and wider ESG issues at the heart of business strategy then executive boards will need to make climate change and sustainability a central part of their agenda – and not just pay lip service to these make-or-break issues once a year. Organisations need to implement a structure to make this happen in a way that links to other business functions, eg finance and risk HR. Over the next three to five years, our survey findings show that only 38% of respondents reported that their organisations will be willing to invest much more than today in taking climate action.

Given the existential nature of the crisis and the state of play today, there remains considerable scope to improve this further. Boards and their executive teams should therefore focus on the level of investments their organisations are willing to commit in addressing climate change and building their pathway towards net zero. This could either be in terms of reducing carbon emissions throughout the organisation’s value chain or in generating clean energy.

Risk oversight has long been an important part of a board’s responsibilities. Moving forward, a central tenet of good governance will need to involve understanding how to assess and act on climate-related risks – and how they communicate that action with external stakeholders such as regulators, investors, communities, customers and media. Only 31% of survey respondents consider climate risks in the due diligence on third parties, suppliers, clients and other stakeholders. There is also

a need to consider Scope 3 emissions – which cover emissions throughout the value chain and in the use of the product.

Key stakeholders are already calling for stronger action. In July 2021, 53 leading investors, managing more than US\$14tn of assets, called for the implementation of corporate governance measures that incorporate all existential risks into existing frameworks – so that shareholders can hold companies to account in achieving net zero emissions commitments.<sup>25</sup>

‘It’s the job of accountants to tell a story to the CEO and then to the board. If they don’t have the right data – including non-financial data – then the organisations cannot make the right decisions.’  
**Asia Pacific roundtable participant**

**EXAMPLE: City Development Limited (CDL)**

City Development Limited (CDL) has integrated sustainability matters throughout the organisation, therefore at all levels and across all functions. The key features of this integration are:

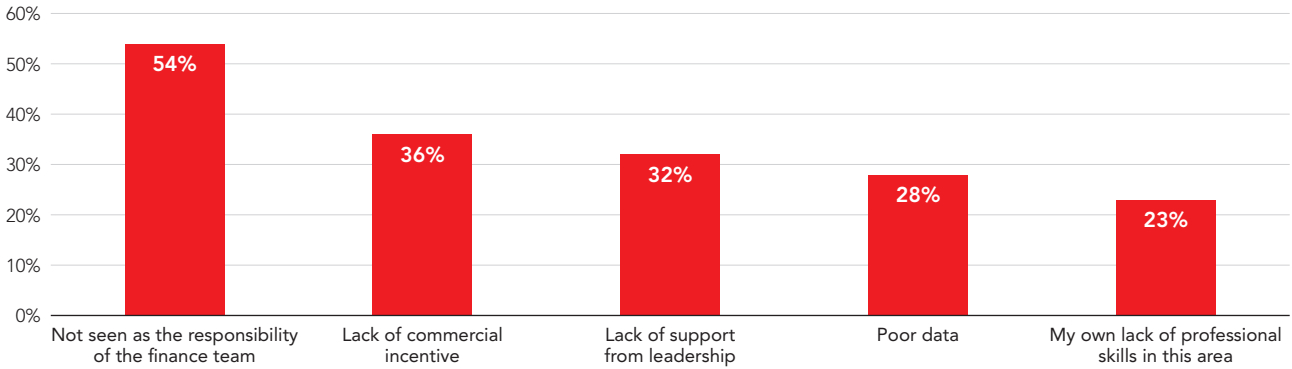
- **Leadership Commitment: Board Sustainability Committee (BSC)** has direct advisory supervision of CDL’s Sustainability Strategy and Programs
- **Chief Sustainability officer (CSO) chairs the Sustainability Committee that comprises members across all departments and operational units**
- **Sustainability Office as an Independent but Integrated unit:** reporting directly to BSC comprising 3 independent directors and Group CEO & Executive Director
- Line managers of each business unit are held accountable for their ESG performances, which are **linked to their remuneration and appraisal**



Source: <[https://www.accaglobal.com/hk/en/professional-insights/global-profession/Professional\\_accountants\\_changing\\_business\\_planet.html](https://www.accaglobal.com/hk/en/professional-insights/global-profession/Professional_accountants_changing_business_planet.html)>, Business Leaders guide, page 22

25 <<https://www.iigcc.org/news/usd-14-trillion-investors-call-for-consistency-on-corporate-net-zero-alignment-plans/>>

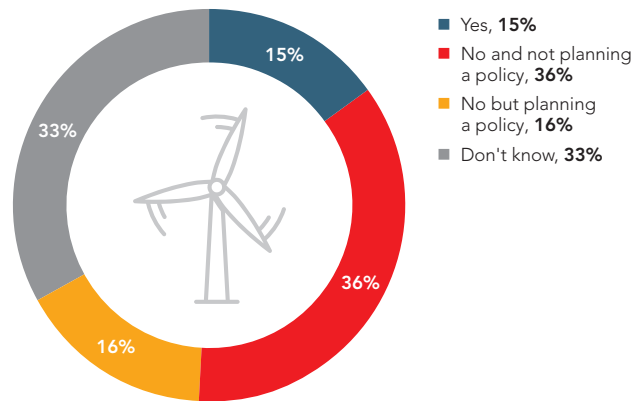
**FIGURE 4:** Primary barriers to finance teams in supporting the organisation to tackle climate change



Climate and nature-related strategies, plans and information must be integrated throughout the entire business ecosystem. It can't simply exist at board level or then be delegated to one area of expertise or a sustainability silo. To achieve this, business leaders must create organisational structures, processes and areas for discussion and collaboration that facilitate integrated thinking, a deeper understanding of climate science, and encourage employees to embrace climate action as part of their daily work. Boards and executive leaders should work towards having integrated thinking on climate as part of the organisation's DNA.

This lack of focus on net zero will surely change given the growing sense of urgency at governmental levels to reduce emissions. The financial considerations of net zero policies and targets will become paramount for future business success. And accounting and finance professionals will have a key role to play in advising and guiding organisations as they race to meet their emissions targets.

**FIGURE 5:** Has your organisation set targets to be net zero by 2050?



'What we are witnessing today is nothing short of a revolution. The new EU Corporate Sustainability Reporting legal framework will bring sustainability into the core of the private sector across the board – and systemic challenges need systemic solutions. Single companies cannot solve these issues alone, so I want to see this as a true Brussels moment. The EU is in a position to lead the way to eventually level a global standard for sustainable business. And of course, the EU is the most interactive international player and wants to have global frameworks.' **Heidi Hautala MEP, Vice-President of the European Parliament**

**The roadmap to decarbonisation**

How do we get to net zero? This should be the urgent discussion taking place within government offices and organisation's boardrooms on a daily basis. Yet just 15% of survey respondents say their organisation has established net zero by 2050 commitments. Over a third (36%) say there are no plans to do so, and another third (33%) said they didn't know what their organisation was doing in terms of forecast planning.

Improved energy efficiency throughout the organisation – including real estate and physical plants, operations and supply chain – can get most organisations somewhat towards achieving their net zero goals, but still big gaps will remain. There are high hopes for new clean technologies but many of these remain either conceptual or have yet to prove their effectiveness at scale. Take the case of carbon capture and storage in the oil and gas sector. Organisations are factoring carbon capture into their net zero projections even though most applications remain pilot projects.

'In my current and previous organisations, the sustainability agenda has always been taken seriously. As a finance leader in the organisation, I helped to develop a roadmap towards net zero goals as an integral part of the business strategy, set climate positive KPIs, evaluate the results, and refine the strategy accordingly. Strengthened sustainability culture within the organisation is also key to achieve the goals. SMART goals were set with clear purposes communicated within the whole organisation to ensure everyone played their part.' **Bonnie KY Chan, Financial planning and analysis manager, The Green Organic Dutchman**

When the organisation cannot within its own business model or strategic timeframe reduce its own carbon footprint to zero then carbon offsetting provides a mechanism to compensate for emissions, therefore aligned to the concept of carbon neutrality. It operates by funding an equivalent carbon saving elsewhere, for example to pay for emission savings in other parts of the world. Carbon offsetting, in the form of mass tree-planting and forest protection projects, is another tool that is being embraced by both governments and organisations as a stop gap while they look to fully decarbonise their own operations. In 2019, Ethiopia planted one million trees across the country in a single day. China, for its part, has undertaken a 40-year project to plant one billion trees – a so-called Great Green Wall that aims to protect from increasing desertification. Major corporates such as Unilever, Mastercard and Microsoft, meanwhile, are also investing heavily in tree-planting schemes.<sup>26</sup> Such is the desire to offset emissions through tree-planting that in 2020 the World Economic Forum (WEF) launched **1t.org**, a platform where organisations can work together reach the goal of planting one trillion new trees.

But, as with the often oversold promise of new clean technology, tree-planting and forest protection schemes also need to be approached with caution. Some mass tree-planting projects have caused more environmental problems than they solve – notably large monoculture plantations that, in some cases, have destroyed soil and biodiversity. And other carbon offsetting projects have been destroyed in wildfires. Even when the right type of projects are identified, forest protection is rife with accusations of greenwashing – including double accounting for carbon offsets, and lax enforcement and management of forests supposedly being protected.

'It is essential for large organisations to reach down into their supply chain and support SMEs to handle sustainable transformation.' **UK roundtable participant**

Carbon Trading is another initiative originating from the Kyoto Protocol in 2005.<sup>27</sup> Each year Governments authorise a set number of credits permitting an entity to emit a certain amount of carbon, thereby controlling the amount of carbon that can be emitted. The number of tokens issued are gradually reduced each year, and with that emissions. The trading of these tokens is likely to have the two-fold impact of fastening the pace of an organisation's emissions and the trading becoming a business in its own right. In July 2021, to support its efforts to reach carbon neutrality by 2060, China started its carbon trading programme, to which 2,225 companies are signed up.

'Supporting carbon zero is an opportunity for accountants. Carbon trading is becoming a business and many enterprises will need to change their business models. Costs related to emissions is needed to understand where changes in ways of doing business are required. Huge capital investment is required to achieve carbon zero, which also creates tremendous opportunities in investment and financing.' **Zhang Xinmin, FCCA, former Vice President of University of International Business and Economics, Professor of Accounting**

The first step all organisations need to take on the path to net zero is to understand the number of emissions they must assume responsibility for, and then look at how to reduce them. The current best practice approach for evaluating an organisation's GHG emissions involves three categories of business operations known as Scopes. The first and easiest to measure involves an organisation's own direct emissions. Scope 2 encompasses indirect emissions from the generation of electricity, steam, heating and cooling that is purchased and consumed by the organisation. The final category, Scope 3, is by far the hardest to account for. It addresses all other indirect emissions that occur in a company's value chain, including suppliers and consumers.

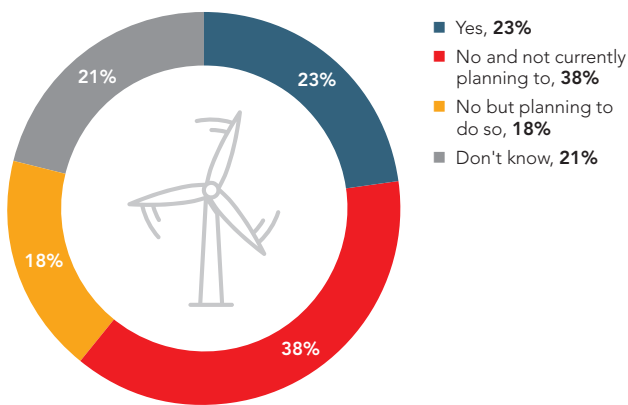
26 <<https://www.fastcompany.com/90544563/these-are-the-companies-leading-the-trillion-trees-effort-in-the-u-s>>

27 <[https://unfccc.int/kyoto\\_protocol](https://unfccc.int/kyoto_protocol)>

## Science based targets (SBTs) to guide decision making

One of the many barriers to the successful execution of climate risk strategies and decarbonising roadmaps has always been the lack of consistent, uniform and sector-wide science based targets to guide both decision making, and provide robust measurement criteria. Just 23% of organisations integrate climate KPIs into business strategy or risk frameworks. Over half (55%) still haven't taken this fundamental step.

**FIGURE 6:** Does your organisation integrate climate KPIs into its business strategy and/or risk frameworks?



Part of the challenge for organisations is that the complexity of delivering on climate and net zero strategies necessitates science based targets being applied through every part of the business value chain. This includes the sourcing of raw materials, the functioning of supply chains, the manufacturing of products – whether physical or digital – and their carbon footprint when used by consumers.

An increasing number of large organisations have started to adopt SBTs as a guide to reducing their climate emissions, including Kingspan, Stagecoach Royal DSM and Dixons Carphone Warehouse to name a just a few.<sup>28</sup> All are developing their targets in consultation with the Science Based Targets Initiative (SBTI), a partnership between CDP, the UN Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF).<sup>29</sup>

'Representing finance and treasury on Tesco's journey to set science based climate targets, I have since run our Renewable Energy Steering Committee and negotiated offsite renewable energy deals resulting in the build of nine new wind and solar farms in the UK. Also, forming an internal sustainability linked financing strategy leading to the 2021 launch of the UK's first sustainability linked supplier financing – incentivising many of Tesco's suppliers to start their journey towards net zero.' **Alexander Ashby, Head of treasury markets, Tesco plc**

Of course, not all organisations, especially SMEs, have the capabilities to act on science based targets. As one roundtable participant in Pakistan noted: 'Science based targets is one thing, but many organisations don't have the funds [90% of all the enterprises in the country are SMEs].' One way to help SMEs with limited resources, including skills, is for them to consider collaborating with other similar SMEs – as noted in ACCA's report.<sup>30</sup>

'I led a number of innovation projects aimed at using advanced analytics to measure and track carbon emissions linked to the Bank of Ireland's lending portfolios. The first was a Building Energy Rating (BER) for residential property – leveraging mortgage data and external data from the Sustainable Energy Authority of Ireland (SEAI) to assess energy efficiency of residential properties on loan book. The second is focused on vehicle financing – establishing the carbon footprint of vehicles financed through the analysis of data relating to carbon emissions, fuel type and engine size.' **Jamie Renehan, Data Analytics Lead, Bank of Ireland**

'At Maybank, I lead a work stream in establishing our carbon emissions, proposing reduction targets and relevant KPIs. An example would be establishing a baseline Scope 2 emission in accordance with the GHG Protocol, identifying initiatives such as the installation of solar PV at various locations, working out the estimated reduction this will bring, sizing up the Capex and impact to our financials, cash flows and funding strategy. Additionally, there are initiatives on data capturing and emission reporting systems across various geographies, engaging responsible parties and overseeing the project deliverables at various levels.' **Siva Raj Jeyarajah, Executive vice president, Maybank Group**

28 <<https://www.edie.net/news/6/Kingspan-Group-and-Royal-DSM-get-seal-of-approval-for-science-based-climate-commitments/>>

29 <<https://sciencebasedtargets.org/how-it-works>>

30 <[https://www.accaglobal.com/hk/en/professional-insights/global-profession/Professional\\_accountants\\_changing\\_business\\_planet.htmls.html](https://www.accaglobal.com/hk/en/professional-insights/global-profession/Professional_accountants_changing_business_planet.htmls.html)>



To address these concerns the SBTi recently announced a new, streamlined target-setting route for SMEs – helping them focus on their Scope 1 and 2 emissions rather than undertaking the arduous task of accounting for the emissions produced by consumers of their products and services (Scope 3).<sup>31</sup>

‘SMEs are the bedrock of the Nigerian economy, there needs to be a concerted effort to educate them on sustainability and help them get access to the finance that can drive change.’ **Africa roundtable participant**

Turning high-level climate business strategy into action can be intimidating for all organisations. That’s why being guided by science is so important in achieving climate goals. By working internally with their own sustainability professionals, consulting broad frameworks such as the UN SDGs, and seeking advice from industry-wide bodies like the Natural Capital Coalition, organisations can shape a science based target approach that helps, not hinders their business. Organisations will need support in this area – especially SMEs that are recovering from the pandemic.

‘Through my different roles and assignments, I always ensure that sustainability is one of the most fundamental pillars in the decision making process. Sustainability and the planet as a stakeholder is always a consideration whatever may be the nature of the assignment: whether a conversation on the board, advising a client, or running my own business. It is absolutely essential to expand the definition of “business success” by integrating positive social, economic and environmental impact.’ **Ayla Majid, ACCA Global Council member, board director, Global Future Council on Energy Transition of the World Economic Forum member, sustainability enthusiast, impact investing and young global leader of WEF**

## Accounting standards and frameworks

Organisations have been producing non-financial reporting in the form of standalone sustainability reports or as part of management commentary in the annual report or integrated report for more than 20 years. In that time, a cottage industry of sustainability reporting standards and frameworks has grown to assist sustainability professionals produce non-financial reporting, including organisations.

The demand for more robust non-financial reporting has brought with it a deluge of regulation. Already there are more than 600 sustainability reporting requirements across 84 countries while 25 stock exchanges, encompassing 16,456 listed companies, require environmental impact reporting.<sup>32</sup>

Despite the multitude of reporting requirements, today’s corporate reports still have some way to go to providing meaningful, entity-specific analysis, or outlook on the how external factors influence the value and wellbeing of a business – whether that be the impacts of climate change on sourcing and supply chains, access to freshwater supplies or threats to biodiversity and nature.

This needs to change because, simply put, business, society and the planet all depend on each other. The way each organisation manages its key resources and relationships affects the enterprise value it generates for economies, societies and nature – in many ways besides returns to investors. That value can take the form of tax payments, employment, workforce wellbeing, customer satisfaction, the development of new technologies, and the use, transformation and regeneration of natural resources, among others. Organisations’ value contribution can be negative as well as positive: for example, when pollution is emitted through manufacturing processes.

Given the growing influence that climate-related risks are having on business performance, prospects and viability, it is critical that organisations manage and report on the value they create, preserve and erode through a different lens – one that reflects and integrates both financial and non-financial considerations.

Progress is being made. In 2020, the IFRS began consultation on a new body, the Sustainable Standards Board (SSB), with the goal of creating a single set of reporting standards for how publicly listed companies disclose climate-related risks. At the same time, the EU is developing its own set of climate-related disclosure and reporting standards.<sup>33</sup>

In June 2021, the new Value Reporting Foundation was instituted as an amalgam of the International Integrated Reporting Council and the Sustainability Accounting Standards Boards. They have joined forces to create a comprehensive suite of resources designed to help organisations and investors develop a shared understanding of enterprise value – how it is created, preserved, or eroded.

31 <<https://sciencebasedtargets.org/blog/smoothing-the-way-for-small-and-medium-sized-businesses-to-set-science-based-climate-targets>>

32 <<https://abmagazine.accaglobal.com/global/articles/2021/jul/comment/create-a-sustainable-scorecard.html>>

33 <<https://www.reuters.com/business/finance/new-standards-board-targets-mid-2022-global-climate-company-disclosures-2021-04-30/>>

All are pursuing the important goal of blending financial and non-financial reporting, so that stakeholders can accurately assess an organisation's full value to society. For that to be completely achieved, a single, globally accepted set of reporting standards will need to be agreed.

'For a comprehensive system of corporate reporting to be globally adopted, standards would need to be comparable and consistent as well as focused on the interoperability of regional or jurisdictional standards and frameworks with a globally accepted baseline.'

**EU roundtable participant**

'Together, we are making progress towards a coherent, comprehensive system of corporate reporting that can help bring the interests of organisations, investors and broader society into close alignment. By building the foundation for a globally accepted system of sustainability disclosure, we can accelerate our collective global progress.'

**Janine Guillot, CEO of Value Reporting Foundation**

At the moment, different governments, industry bodies and NGOs are working hard and fast to achieve the consolidation/harmonisation of different existing non-financial reporting standards and frameworks. The temptation for organisations is to wait for a fully integrated approach to be agreed – and then look to comply with it. That would be a mistake, especially as climate-related reporting will soon become mandatory in more jurisdictions around the world. Instead, organisations should keep informed of the main guidance as it evolves.

## A new approach to integrity and assurance on sustainability information

Just as new reporting standards and approaches are needed, organisations will also want to demonstrate that their assurance practices are also fit for purpose when it comes to climate-related risk.

Interestingly, in our survey 44% of respondents said climate risk management was the area of the business where they'd like to support their organisation over the next three to five years.

Recent experiences may well explain this interest in Environmental Risk Management. As ACCA's report *Rethinking Risk for the Future*<sup>35</sup> made clear, the Covid-19 pandemic has forced the world to look at risk in new ways – and accelerated the sense of concern and urgency about not just climate change but also social inequalities and negative impacts of shareholder-first mentality.

Assurance services, both internally and for clients, will likely play an important part in this risk management process. Here the accountancy and finance profession can play a leadership role. At the moment, there are many organisations providing assurance over non-financial aspects of business process and strategy. Accountancy and finance can bring much needed business skills, financial acumen – with long-established and respected auditing and ethical rigour to climate and nature-related impacts.

Global assurance standard-setters need to seize the initiative in the same way that the reporting standard-setters have done – this will be essential to deliver the step change required to provide fully assured non-financial information that all stakeholders can rely on. They need to invest to ensure that they have the skills and capabilities to provide assurance in what can only be a rapidly growing area of activity. At the same time, organisations need to focus on their own arrangements – making sure that the vital information that they gather and use to inform strategic decision making around climate strategy and action is robust and reliable.

Enterprise Risk Management must increase its breadth of considerations to include indirect non-financial risks and integrated thinking to appreciate the interdependencies between the material resources an organisation uses and impacts. When it comes to climate risk action, this includes considering how it impacts other resources – for example, how it may have positive and negative implications for local communities.

ACCA can help support our members through Continuing Professional Development (CPD) resources, our learning providers and our Professional Insights.<sup>34</sup>

34 <<https://www.accaglobal.com/my/en/professional-insights.html>>

35 <<https://www.accaglobal.com/my/en/professional-insights/risk/rethinking-risk.html>>

## Education and skills

Throughout our regional roundtable discussions, one theme kept emerging – the need for better education about climate risk throughout the entire organisation. Here’s how one participant from Sri Lanka explained the issue:

‘If accountancy and finance professionals can explain [the financial importance of sustainability] to organisations – whether that’s via talking about the value at risk from conscious consumers switching brands, or whether that’s valuing the ecosystem from which you’re extracting – then sustainability will take root.’ **Sri Lanka roundtable participant**

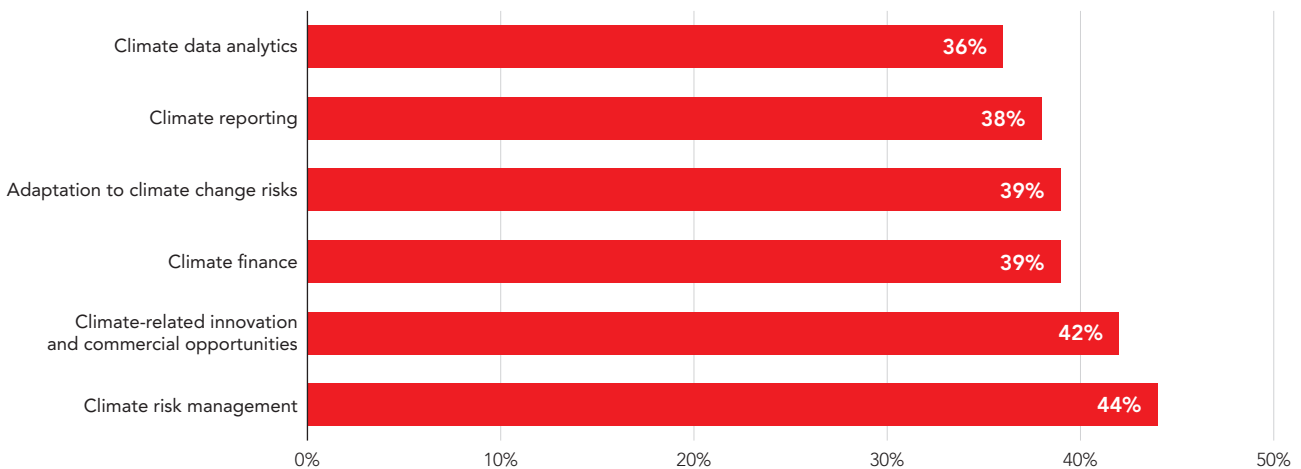
In too many organisations, expertise in climate risk and ESG still resides in a small group of sustainability experts who are distanced from financial decision making – and often still view issues they are passionate about through a non-financial lens. This must change rapidly if organisations have any hope of tackling the existential threats that climate risk will pose to their business. Gen Z employees are particularly aware and vocal about how their future will be shaped by climate action or inaction. Increasingly, they are likely to consider climate action and sustainability as core issues for the organisations they work for, and with the right training and skillset can become leaders in these areas.

‘My main focus is to make my management team aware of the principles of sustainability, but also to highlight the work that we are already doing as a group. This includes the use of ambassadors to promote awareness to issues affecting our oceans, research and development in areas of materials and packaging and the use of solar power and solar tubes to light our warehouses.’ **Graham Church, CFO, Aqua Lung America**

In our survey we asked how much respondents thought they would be required to support their organisations and their clients help tackle climate change over the next five years? Two thirds say they would need to be involved – and nearly a quarter saw climate change being a significant focus. Indeed, nearly three quarters say it is personally important to them that their future career involves acting on climate change. At present though, only 40% believe they possess the knowledge required to support their organisations in acting on climate change.

New initiatives are starting to make progress to solve the education gap problem. In the UK, the government, the Green Finance Institute, and 12 leading financial professional bodies – including ACCA – have created the Green Finance Education Charter. It marks a significant commitment from chartered and professional bodies in the UK and internationally to integrate green finance and sustainability within core curricula, new qualifications and the continued professional development of their members.<sup>36</sup>

**FIGURE 7:** In which areas would you like to support your organisation?



36 <<https://www.greenfinanceinstitute.co.uk/financing-the-green-recovery-with-launch-of-worlds-first-green-finance-education-charter/>>

There is a great deal more to be done when it comes to improving climate and nature-related education, however. As climate action becomes a core component of mainstream business, everyone within the organisation will need to understand how their own work can contribute and will be affected. This will be particularly important for accounting and finance professionals.

Finance and accountancy professionals should take a leadership role not just in strategy but also in educating the rest of the organisation about climate and nature-related action. They will also need to continue their own sustainable business education as policies and regulation change while best practice evolves at a rapid pace. ACCA's CPD and Professional Insight research and opinions can help keep organisations and individuals remain informed of the rapid changes taking place in sustainable business.

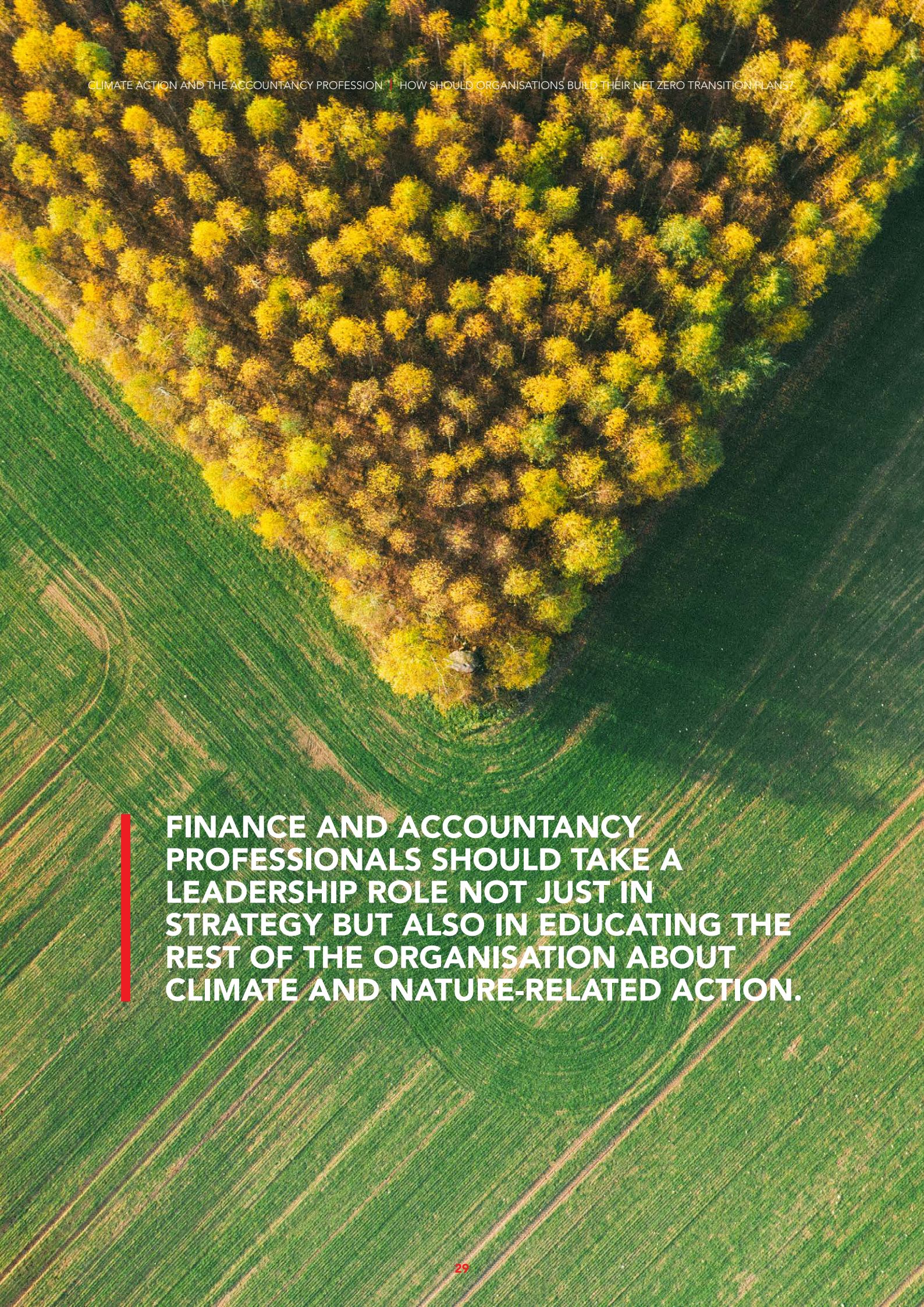
'Accounting bodies like ACCA can encourage, recognise, and motivate its members to make the enormous contribution of which they are capable.'

**Sri Lanka roundtable participant**

### The steps organisations can take right now

In this report, we've outlined how the business landscape for all organisations will be reshaped by imminent climate-related risks and opportunities. Leaders in finance and accountancy will have to balance many different considerations and paths as they prepare their organisations for this fundamental shift in how they think and operate. As they do so, here are some immediate steps they can take:

- **Get executive level buy-in for climate action.** The tone set by organisation leaders really matters when it comes to climate action. Play a lead role in supporting boards and executive leadership in net zero transition plans which cover the strategies the organisation will undertake to achieve net zero status by 2050 or preferably, earlier. These plans should include key targets that need to be achieved by 2030.
- **Ensure that climate-related risks are fully integrated into business strategy.** The days of treating sustainability and business strategy as two different priorities are over. From now on, climate risk, ESG and net zero will be at the heart of business strategy.
- **Integrate ESG, climate KPIs and risk considerations into decision making, from strategic to operational levels.** Leverage science based targets where relevant to cover the organisation's entire value chain and the use of its products in its assessment and decision making.
- **Reporting:** It's time to consider financial and non-financial reporting in accord, so organisations can account for their real value to society.
- **Assurance:** The accountancy and finance profession has developed robust and trustworthy assurance processes. These need to be adapted to integrate non-financial reporting.
- **Educate** and raise the level of knowledge and expertise among all employees, and in particular the finance teams, on the importance of ESG and climate action.



**FINANCE AND ACCOUNTANCY PROFESSIONALS SHOULD TAKE A LEADERSHIP ROLE NOT JUST IN STRATEGY BUT ALSO IN EDUCATING THE REST OF THE ORGANISATION ABOUT CLIMATE AND NATURE-RELATED ACTION.**

# Conclusion

The path to net zero requires rapid, prioritised action. To catalyse this, here are some prompts to begin or accelerate the discussion:

## 10 questions your organisation should be asking right now

1. Are climate and natural capital risks a specific board agenda item? If not, why not?
2. Does the executive board include a member with direct responsibility for climate and natural capital action?
3. Does the organisation understand the full cost of climate risk to it?
4. Does the organisation understand the new business opportunities that may arise from climate and nature-related business strategies?
5. Is climate action integrated into the organisation's end-to-end activities – strategy; investment plans; governance including organisation culture; reporting; decision making and assurance?
6. Is the organisation using climate based science targets in management and performance evaluation frameworks?
7. Is the organisation integrating financial and non-financial reporting (including climate and natural capital risks) so that it is making better decisions?
8. Does the organisation have the right talent, and is it attracting future talent who understand climate science in order to make necessary interventions – in business models, supply chains, etc?
9. Do our employees and colleagues have access to the right tools and education for this new business environment?
10. Is the organisation communicating effectively with all of its stakeholders on how it is addressing climate risks – at pace?

