ENVIRONMENTAL, SOCIAL, & GOVERNANCE (ESG) CHALLENGES FACING PROFESSIONAL ACCOUNTANTS

PAC 2020 PROFESSIONAL ACCOUNTING FUTURES CONFERENCE REPORT

&

ESG BACKGROUNDER AND CONFERENCE SUMMARY

Held virtually on October 22-23, 2020

Professional Accounting Centre
Institute for Management & Innovation (IMI)
University of Toronto Mississauga (UTM)

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INTRODUCTION TO THE CONFERENCE REPORT AND ESG BACKGROUNDER & CONFERENCE SUMMARY

The Public Accounting Centre (PAC) at the University of Toronto Mississauga (UTM) examines challenges affecting professional accounting with the aim of enhancing the future relevance of professional accounting. PAC’s fifth annual Professional Accounting Futures Conference: ESG Challenges for Professional Accountants, was held virtually (by Zoom) at UTM’s Institute for Management & Innovation on October 22-23, 2020. The Expanded Conference Agenda can be found on the PAC website at https://www.utm.utoronto.ca/pac/sites/files/pac/public/shared/PAC%20Conference%20Agenda%20October%2022-23%202020%20-%20Final.pdf. The Condensed Agenda can be found on the next page, followed by the Conference Report, and then the ESG Backgrounder & Conference Summary.

The PAC 2020 Conference Report has been prepared to provide a written record of the highlights of the two keynote speakers and four panels that made up the two half-day segments of the event. The ESG Backgrounder & Conference Summary provides ESG historical background information for professional accountants and students new to the topic, and blends comments made by conference speakers according to overarching themes emerging from the conference sessions.

Taken together, the Conference Report and the Report offer an excellent overview of the conference, and a useful information summary that will inform the thinking of professional accountants on ESG matters.

The Professional Accounting Centre (PAC) is pleased to acknowledge funding support for this conference from CPA Ontario. We would also like to thank PAC board members for their organizational support and our speakers for their informative presentations.

Additional thanks go to our media specialists, Alison Dias and Jermaine Ingram, and to Lee Benson for their contributions.

Len Brooks

Professor & Director, Professional Accounting Centre, University of Toronto Mississauga
https://www.utm.utoronto.ca/pac/
Condensed Agenda

PROFESSIONAL ACCOUNTING FUTURES – 2020
ESG CHALLENGES FACING PROFESSIONAL ACCOUNTANTS
Online on Zoom – Afternoons of October 22, 23, 2020

October 22 – 1:00-5:15 p.m.  ESG Governance Challenges

1:00  Len Brooks, Director PAC, Soo Min Toh, Director, IMI, and Craig Smith, EVP, Member & Student Services, CPA Ontario

1:15  Jean Charest, Partner, McCarthy Tétrault

ESG in a Post-COVID-19 World: Trends, Insights, and the Role of Accountants

2:00  ESG and Corporate Value Creation Challenges

• Sakis Kotsantonis, CEO, RGS, London, England – Redefining Profit, Value, Success: ESG 2.0
• Rosemary McGuire, Director, CPA Canada – CPAC Value Creation Initiative
• Linda Coady, Executive Director, Pembina Institute – Can Accounting Save the Planet? The Role of Financial Integrity in the Transition to a Net Zero Economy
• Jody Grewal, U of Toronto – Low-carbon Strategies and Value Creation
• David Beatty, Senior Board Member – Shareholders vs. Stakeholders in the Real World

3:30  Break

October 23 – 1:00-5:15 p.m.  ESG Disclosure and Performance Measurements

1:00  Len Brooks, Director PAC, Dushyant Vyas, Associate Director PAC

1:15  ESG Measurement and Disclosure Challenges

• Daniel Hicks, Miami Herbert Business School; Florida Sustainability Partners Partners – The Role of Media in Sustainability (ESG)Reporting &Assurance
• Simon MacMahon, EVP, Head of ESG Research, Sustainalytics – ESG Measurement and Disclosure Challenges
• Rob McLean, President, MatrixLinks – Insights Arising from Applying Measurement Fundamentals to Value Creation Solutions: Implications for ESG Reporting
• Stefan Reichelstein, Director, Mannheim Institute, Univ. of Mannheim – Corporate Carbon Emission Disclosures
• Moderator: Gord Richardson, Rotman School, University of Toronto

2:45  Break

...continued on next page
3:00 ESG Investing: Making Sense of Measurements and Disclosure

- Dominique Barker, Head, Sustainability Advisory, CIBC – Asset management view
- Carson Block, Chief Investment Officer, Muddy Waters – Short-seller perspective
- Shiva Rajgopal, Roy Bernard Kester and T.W. Byrnes Professor of Accounting & Auditing, Columbia University – *Five Myths related to ESG*
- Anthony Scilipoti, CEO, Veritas Investment Research – Analyst view

4:30 Naomi Soderstrom, University of Melbourne

*Getting from Learning to Doing: Insights for Practice from My (and Others’) Academic Research on Sustainability*
CONFERENCE REPORT: SUMMARY OF KEYNOTE SPEAKERS’ AND PANELISTS’ CONTRIBUTIONS

Two keynote speakers, and four panels of lawyers, investors, directors, academics, accounting professionals, reporting company representatives, and analysts shared their perspectives on ESG challenges and responded to questions. The virtual format (Zoom) permitted the assembly of a group of outstanding speakers from North America and the U.K. who provided a stimulating and interactive event for both speakers and attendees from professional accounting, academic and regulatory agencies from Canada, the U.S.A. and the U.K. The speakers’ video and PowerPoint presentations can be found in their entirety on the PAC website at 2020 PAC Annual Accounting Futures Conference - ESG Challenges Facing Professional Accountants.

Day 1, October 22

Opening Keynote Speech, by Jean Charest, Partner, McCarthy Tétrault


Jean Charest, the former Deputy Prime Minister of Canada and former Premier of Québec, offered his insightful comments on ESG in a post-COVID world. He traced the evolution of corporate stakeholder accountability and referred to its recent validation in the 2019 Statement on Corporate Purpose by the U.S. Business Roundtable of top CEOs, the 2020 rallying cry of Larry Fink, CEO of BlackRock focus on climate change, and at the 2020 World Economic Forum. He saw the COVID crisis as being different that previous crises, elevating stakeholder concerns for the public and corporate directors, such that the welfare of individuals was becoming a dominant driver of individual and corporate behaviour, with corporations increasingly aligning their values with their stakeholders and focussing on matters such as equality and trust, equity, diversity, and inclusion, moral imperatives, transparency, and the valuation of intangibles. This shift in focus from short term maximization of profit to longer term ESG issues related to the welfare of human capital and societal issues was seen to be driving the development and use of ESG metrics for executive, corporate, and investment performance and the need for reporting standards, particularly in the area of climate change. Jean closed with a number of recommendations for good ESG governance in the post-COVID world, including these:

Corporations should focus on ESG aspects of their purpose and culture; develop an effective set of ESG metrics and data for decision making; be proactive and engaged because ESG expectations are changing rapidly; integrate ESG considerations into the corporation’s risk management program and culture; develop a path to a net-zero footprint as soon as possible; watch the ESG trendsetters carefully; avoid greenwashing pitfalls; and be alert for shifts in government sanctions for poor ESG performance, and potential funding programs to support key ESG initiatives.
ESG and Corporate Value Creation Challenges Panel — October 22, 2020

ESG concerns are increasingly affecting how corporations create and measure value, so much so that boards of directors are reconsidering how their organization can and should be creating value. Panelists commented on how value propositions have changed due to recent ESG challenges, the role and duty of boards of directors in dealing with ESG challenges, and how boards of directors have assessed them and have changed corporate vision and strategic plans, as well as the critical success factors for achieving corporate ESG objectives, including the role of corporate culture, performance measurement, commitment of senior executives, and other factors.

Sakis Kotsantonis, Managing Partner, KKS Advisors, London, England, spoke about redefining profit, value and success in a framework he defined as ESG 2.0 which he has been developing with a team at Harvard. Essentially, they have been pricing ESG intangible impacts to redefine how companies’ impacts can be measured to inform strategic, procurement, and investment decisions, and to determine and compare environmental intensity and value at risk between products and companies. He gave examples of comparative measurements for sets of food and autos and discussed the measurement complexities involved, as well as the future role of accountants in this endeavour.

Rosemary McGuire, Director, External Reporting & Capital Markets, CPA Canada, who is in charge of the CPAC Value Creation Initiative, discussed preparation and findings of the related CPA Canada initiatives (CPAC Foresight, and Value Creation), as well as the future skills and competencies CPAs will need to fulfill expectations in this area. She addressed the relevancy of non-financial disclosures and their linkage to performance, and she offered a summary of Value Creation and ESG Reporting frameworks and noted the need for consolidation of the many options. Future challenges were mentioned, including working with and possibly blending both ESG and financial reporting, choosing disclosure formats and strengthening credibility, possibly through assurance, and shifting from periodic to real-time reporting. Regulatory interventions were thought to be inevitable to bring useful consolidation to the area, particularly now that the IFRS Foundation had signalled its interest in the area.

Linda Coady, Executive Director of the Pembina Institute, provided an update on the movement to a net-zero carbon impact for companies and countries. Many factors were noted as stimulating and motivating the movement, including the possible reality of Joe Biden’s campaign promise for climate protection, the encouragement of powerful forces such as Mark Carney (U.N. Special Envoy on Climate Action and Finance), and the creation of the U.N. Sustainable Development Goals for companies to adopt, as well as the framework and methodologies developed by the Task Force on Climate-related Financial Disclosures (TCFD). But Linda argued that the strongest force might be the interests of private capital that were encouraging business to plan for a net-zero footprint and to use ESG measures to develop a risk management and resilience agenda as evidence of sound business management. Linda says increased interest on the part of companies to get to Net Zero by accepting the governance challenge involved, developing tailored measurements of ESG performance to guide and monitor
performance, and to integrate ESG awareness and goals into the company culture. She closed with a discussion of challenges including costs, complexity and the integrity of ESG measurements.

Jody Grewal, Assistant Professor at the University of Toronto, then discussed her research on moving to a non-carbon, sustainable operation using low-carbon strategies and value creation. She showed the similarity of the pace and pattern of development of ESG and financial reporting and discussed the comparative rates of ESG reporting in different countries, the interest of investors in ESG performance, and the ESG reporting challenges of lack of standards and comparability. Her research on the impacts of mandated ESG disclosure produced several findings, including: ESG disclosures were considered economically significant and value-relevant by investors; the cost of mandatory disclosure was expected to be greater for companies starting with poor ESG performance and disclosures; and benefits were expected to exceed costs for companies with stronger ESG performance and disclosure; green opportunities were value-relevant to investors and were disclosed in sustainability reports 2.5 years before their disclosure in financial reports; and companies do respond to mandatory disclosure requirements to improve performance even if already reporting voluntarily. So, mandatory disclosure can be an effective policy tool.

David Beatty, Senior Board Member and Academic Director of the David and Sharon Johnston Centre for Corporate Governance Innovation, spoke about board challenges with ESG. He argued that there were powerful reasons why corporate directors should not abandon shareholder capitalism in favour of stakeholder capitalism as many other governance experts were suggesting. Specifically, the current corporate accountability regime was dominated by executive-incentive compensation schemes that focussed attention on financial performance geared to increases in share prices, not to ESG metrics. In fact, he asserted that ESG metrics and objectives were too fuzzy to enable good monitoring and accountability of executives. Moreover, he pointed out that the time horizon for ESG strategic plans to come to fruition is three years or longer, whereas the investing public want accountability and results on a much shorter basis of 2 years or less. In fact, David pointed to the existence of 660 hedge funds and similar anti-ESG activist investors (i.e., opponents of ESG-oriented investors) who were continuously searching for financially vulnerable companies to punish for falling short on quarterly financial results. He further cited current accountability problems as a reason (with high M&A activity) why the number of public share listings in the U.S. had declined over 50% from 1995-2015. In reality, David argued, it was unrealistic and misguided to think that board of directors would be well-advised and willing to embrace ESG objectives until some aspects of the current accountability regime changes.

David’s position stimulated comments during the question-and-answer period that followed that can be viewed via a link at https://www.utm.utoronto.ca/pac/2020-pac-annual-accounting-futures-conference.
ESG Strategy Challenges Panel – October 22, 2020

After corporations decide to incorporate ESG into their value-creation objectives, the board is responsible for meeting the challenges of designing and approving strategies that successfully lead to and sustain the desired value creation.

Panelists commented on developing strategies that: incorporate ESG objectives optimally; provide corporate resiliency from risks (Climate risk, COVID-19 events, etc.); lead to changed executive- and employee behaviour and performance; align with the interests of stakeholders; and accommodate legal challenges.

Sonia J. Struthers, Partner, McCarthy Tétrault, spoke on the topic of “ESG Legal Challenges” with particular focus on the fiduciary duty of directors, pension committee members, and portfolio managers. She established a legal framework by noting: (1) the change in the Canada Business Corporations Act in 2019 that requires corporate directors to act in the best interest of stakeholders, (2) the Pension Benefits Act (Ontario) requires Ontario pension plans to explain how ESG factors are used in investment decisions and, if ESG factors are not used, why not, (3) the Canadian Coalition for Good Governance (CCGG), Directors E & S Guidebook (2018) statement that “Integrating E&S into corporate governance considerations is part of the fiduciary duty of investors,” and (4) the UN Principles of Responsible Investment (PRI) that reinforce the inclusion of ESG factors in the decision making of Pension Managers (PMs). Sonia then commented on the 2019 CSA Staff Notice 51-358, Reporting of Climate Change – Related Risks that offers guidance to boards, the Sustainability Accounting Standards Board materiality map for ERM, and the Financial Stability Board’s Task Force on Climate-related Financial Disclosure (TCFD) matrix as useful guidance, as well as the 2018 Embankment Project for Inclusive Capitalism which offers guidance on measuring a company’s long-term value. She concluded with the advice that boards should understand that effective ESG disclosure is also an insurance policy against lawsuits concerned with ineffective consideration of ESG risks and disclosure, as well as against lawsuits charging that corporate claims of ESG performance were misleading.

Anton Tabuns, Senior Advisor, Mantle314, offered comments on “Climate Risk in Economy and Business” by providing insights into how executives and boards could build ESG considerations into their thinking. He suggested that the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) were potentially very useful because they suggested disclosures in four areas: (1) governance, (2) strategy, (3) risk management, and (4) metrics and targets, and that these disclosures constituted a forward-looking framework for corporate resiliency assessment. Anton referred to a recently completed study by CPA Canada, Summary Report: Study of Climate-related Disclosures by Canadian Public Companies (January 2020), which concluded that the TCFD was rapidly becoming a preferred source of guidance for disclosure and best practice for dealing with the four areas of disclosure identified above. He concluded with insightful comments on the use of questions posed by the TCFD in each of the four disclosure areas. In a nutshell, corporate boards are considering climate-
risk assessment and disclosure, with some corporations making external disclosures, but the future will see many more beginning to do so as board members become more familiar with their duties in this area.

**Gigi Dawe**, Director, Corporate Oversight and Governance, CPA Canada provided insightful comments on “ESG Strategy Challenges” for corporate boards. She referred to noted governance lawyer Carol Hansell’s recent publication “Putting Climate Change on the Boardroom Table”, in which she argues: *Since there can be little doubt that directors are aware of climate change risk, they must inform themselves of the risk that climate change poses to the corporation and how that risk is being managed. If this information is not already included in management reports to the board, the board should direct management to deliver the necessary information to them.* Gigi also supported David Beatty’s observation that board members are having real difficulty balancing the reality of immediate profit-related demands by some stakeholders against longer-term ESG demands of other stakeholders, but she argued that directors are making headway in bringing the complex ESG issues into the core issues on which their role demands oversight, in spite of the many new risks presented such as cybercrime, COVID-19, data governance and privacy. She suggested that boards should view ESG issues within a corporation’s resilience strategy and specifically consider the organization’s flexibility and agility to adapt to crises, including COVID-19, as well as the financial ability to respond and reallocate to enable accommodation of future needs. To further illustrate the challenges faced by directors, Gigi closed with a resilience-strategy example of a board that focussed on fixing their problem areas but failed to also consider the opportunities available in areas where there were no fires to put out. As boards face ESG challenges, she thought that *CPAs could offer significant value-added by offering insights for decision making, verification of the right data, data integrity, and assurance.*

**Susan McGeachie**, Global Director, Hatch Mining & Metals, then offered insights into “Building a credible ESG performance roadmap” by discussing how the development of a low carbon economy was developing and how it was affecting Hatch clients in energy, electrical generation, greenhouse gas mitigation, and decarbonization areas. By 2050, these areas will have undergone huge changes due to the development of green energy alternatives, new technologies, and new service infrastructure. Susan pointed out that the motivation for change was huge in that there was more finance available that bankable (i.e., sound financial) projects. As a result, she was experiencing a growing demand for her services to advise corporations how to assess their ESG risks and opportunities.

Day 2, October 23

ESG Measurement and Disclosure Challenges Panel – October 23, 2020

This panel tackles the thorny issues of ESG measurement and disclosure – what to measure, how to measure, and whether and how ESG measures should be disclosed. The panel will bring broad perspectives to the discussion – from preparers and data providers to standard setters, regulators, and academics.

Daniel Hicks, a media expert at the Miami Herbert Business School and Florida Sustainability Partners, led off with his comment on the developments in corporate sustainability and in the media. Corporations are now focussed on how best to report to stakeholders and how to engage them. Media has moved from a local, paper-based enterprise to a global, mobile, live/real-time, interactive, direct internet and social media communication mode with stakeholders and reputation influencers. All corporation reports – financial, CSR, and environmental impact – are readily available, and immediately analysed and tracked, so it is no longer what corporations promise that counts – it is what the corporation actually does (i.e., its impacts) that is important. It is also critical to realize that younger stakeholders are much more interested in the impact of corporations on health, fitness, and the environment than just financial performance, so the development of useful ESG reporting should be a very high corporate priority. Also, credibility and transparency are increasingly highly valued by both older and younger stakeholders, and professional accountants have a future assurance role to play in the ESG disclosure area.

Simon MacMahon, Executive Vice President and Head of ESG Research of Sustainalytics, the noted worldwide ESG ratings firm, then provided an excellent overview of the services that the company provides to over 700 corporations, investment advisors, investors, and government regulators and policy setters. The company employs approximately 1,000 individuals in total, and those involved directly in ESG data research review 60,000 data sources daily to generate approximately 1,000 controversy reports that are rated and tagged to the corporations whose impacts are tracked. Currently, the company provides the following (number of) services: ESG data integration (6), compliance and screening (6), portfolio analysis (4), ESG engagement services (3), and Index services (2). Simon went on to discuss how Sustainalytics’ staff conduct their research and make their decisions, and then discussed the various types of indicators developed: Exposure (4 types), Management (4), Events (4), and Product or Activity (3); as well as the principles used to develop the data used, including: relevance, simplicity, efficiency, comparability, consistency, durability, lack of bias, distributed, and orthogonal. Readers would be well advised to watch Simon's presentation at https://www.youtube.com/watch?v=3yduZ2LQg6k for a full understanding of this Simon’s remarks and PowerPoints, and how the indicators are put together. In closing, Simon commented that ESG disclosure rates have been rising dramatically, with approximately 80% of the top 4,500 companies doing so in some form, but that only 12% of these companies were observing best practices in their
disclosure, and only 64% of risk factors were being disclosed. In addition, inconsistent and low-quality disclosures present continuing challenges. In Simon’s view, a more demanding mandatory disclosure requirement is likely, particularly in Europe, that will improve ESG disclosures in the near- to medium term.

Rob McLean, President of MatrixLinks International Inc., spoke about his role as a senior consultant to CPA Canada in the development of the recently published CPA Canada’s Foresight Initiative: The Way Forward (downloadable from https://www.cpacanada.ca/foresight-report/), which examined value creation models, the emerging data-driven economy that CPAs must master, and the role that CPAs should play in the development of data governance and data integrity. Value creation is considered to move beyond traditional, historical transaction values to measures of potential future value streams such as “… revenue and net income that can be realized in the future, and/or … future benefits for the organization’s stakeholders.” Additionally, future benefits go beyond investors and capital markets to recognize, as well, the impacts on all stakeholders, including sustainability and other social impacts. The focus of the Foresight Initiative is on how CPAs can play leadership rules in the measurement and decision making needed in value-creation decisions, and what skill sets are needed to enable this. To facilitate this development, CPA Canada published the CPA Canada Global Value Creation Solutions Directory which discusses (1) principal measurement categories including: intangibles, intellectual capital and data; the capitals; indicators and metrics; monetized impacts; and future value streams and events, (2) measurement fundamentals, and (3) applications. Rob discussed these applications and went on to indicate that CPA Canada was eager to collaborate with others on developing ESG aspects of value creation, generally accepted methods for modelling incremental value-in-use for various types of intangibles, exploring the potential to measure components of the capitals as flows / value streams, and working toward generally accepted methods for modelling event-based value streams.

Stefan Reichelstein, Director, Mannheim Institute for Sustainable Energy Studies, University of Mannheim, and William R. Timken Professor Emeritus, Stanford Graduate School of Business, commented on his research on corporate carbon disclosures. He did so because he sees climate change and corporate carbon emissions as critical areas for society, and huge challenges as the “mother of all externalities” to be measured. At the same time, there has been a long tradition of corporate reporting of carbon emissions under the Carbon Disclosure Project (CDP), the European Trading System and the British Companies Act which, while not perfect, offer some useful information. Stefan indicated that he had observed a growing interest in climate change related to carbon emissions by corporations who had been announcing sweeping programs that promised to become carbon neutral by 2030 or 2050 by carbon reductions, carbon offsets, or carbon capture techniques, but he questioned the motivation for and credibility of many, because there were no near- and mid-term milestones announced, and the target dates were well beyond the life expectancies of the executives or boards of directors involved. He also noted that climate and carbon measurements disclosed had progressed from voluntary and loose to mandatory and tighter, although he commented that it would be some time before such
disclosures were comparable to financial disclosures in accuracy, transparency and credibility. Stefan drew attention to the fact that, although voluntary, public carbon emission disclosures had been available for some time: in 2013 when the British Companies Act made such disclosures mandatory, there was a further 13% improvement in actual emissions – which he saw as a “real” incremental effect. Moreover, his research indicated that this real gain was achieved without significant cost to the companies, which, from a policy standpoint, is very important to governments considering the mandating of corporate climate disclosures.

The panel Moderator, Gordon Richardson, Professor, Rotman School, University of Toronto led off the question-and-answer session that can be viewed through the following link:

ESG Investing: Making Sense of Measurements and Disclosure Panel – October 23, 2020

ESG investing has recently grown at an unprecedented speed and is now at front and centre in institutional investors’ investment portfolios. This shift to ESG-based investment portfolios has attracted high-profile endorsements such as a recent letter written by Blackrock’s Larry Fink to CEOs. On the other hand, some analysts argue that misrepresentation of sustainability promises and performance (aka “greenwashing”) is rampant. This panel will explore the rise of ESG-based investing, its current status, potential pitfalls, and the way forward. Among other things, the panel will discuss and analyze the types of metrics investors use to evaluate ESG, and the weights that they place on ESG metrics vs. financial and operational metrics.

Dominique Barker, CFA, Head, Sustainability Advisory, Global Investment Banking, CIBC Capital Markets, began the panel presentations by indicating that analysts have always been recognizing ESG factors when preparing a valuation of an investment, but based on relatively fewer measurements and indicators in the past compared to those available currently. Analysts have also been relying on a principle of inevitable policy response – when a country signs on to the Paris Agreement, which signals that the country will strive to reach a Net Zero carbon emissions position, the country’s policy actions will result in positive results for companies stimulated or favoured by the policy, and negative results for those whose operations require change. The example of Questor Technology Inc. that specializes in carbon capture technology was cited. While the advent of new ESG measures was attractive in general, the availability of too many new frameworks was cited with the hope that consolidation would result, now that major accounting standards setting bodies, including the IFRS, were actively involved.

Elizabeth White, Global Head of Strategy – ESG Sustainability, International Finance Corporation (IFC, World Bank Group), stated that ESG considerations were an important part of IFC Mission and Goals. She introduced Anticipated Impact Measurement and Monitoring (AIMM), the ex-ante ESG impact assessment tool that IFC developed in 2017 to enable IFC “to better define, measure, and monitor the development impact of each project” it is considering in its Impact Investment
Program. AIMM enables the scoring on each project out of a total of 100, and forces impact investors to build ESG factors into their investment screening, strategy, objectives, operations, monitoring, management, and risk management. This places ESG at the core of IFC’s Performance Standards and Corporate Governance Methodology and thereby helps address 16 of 17 Sustainable Development Goals. Information on AIMM can be found at: 

Carson Block, Chief Investment Officer, Muddy Waters Capital LLC, who exposed the fraudulent misrepresentations that brought down Sino-Forest Corporation, described his firm’s role as an activist short-seller and adviser that brought overvalued investments to the attention of its clients. A self-described skeptic on ESG measurements, he argued that too often the E and S promises of current corporate personnel and boards amounted to window dressing when compared to the actions actually taken, which were usually driven by the short-time horizon of corporate financial reporting, executive remuneration schemes, and many investors. Consequently, his focus is mostly on good Governance, not E and S which he views as antithetical to short-term profit. He pointed out that green investing was leading to massive investment in solar or wind power, but only nuclear power was really essentially carbon free, and yet unlikely to attract support. Carson thought that if corporations could be brought to focus on the interests of a shareholders who will hold the investment for 10 or 15 years, rather than those of short-term trading investors, then the externalities that ESG is concerned with would stand a better chance of coming to fruition.

Shiva Rajgopal, Roy Bernard Kester and T.W. Byrnes Professor of Accounting and Auditing, Columbia Business School, also stated that he was skeptical about the prospects of ESG because it seemed to be focussed more on values than on value from a stock-market perspective. He commented on five myths related to ESG, as follows:

1. ESG investing is abnormally profitable in terms of stock returns. When he looks at the relative performance of tech and energy stocks, he thinks their relative performance is more due to the underlying industry dynamics than the ESG factors, and it is impossible to separate the two.
2. Davos indicators of E&S are robustly related to operating performance and returns. Shiva thinks that the links between ESG factors and performance are quite tenuous rather than robust. He says that ESG factors are more about values than value in a financial sense.
3. Davos measures are comprehensive. Not true, he said. Davos measures are heavy on E, and labour-S, but are light on G. They do not cover issues like social returns to the taxpayer, lobbying, subsidies and awards, lawsuits and regulatory violations.
4. Europe has the ESG thing figured out and we ought to look to them to import those ideas. In fact, Shiva said that Europe and the U.S. are quite different in matters of corporate governance

and shareholder blocks, so using European measurements for G will not be useful. E and S measurements and reports are comparable in utility.

5. The Business Roundtable Statement (BRT) is a big milestone in stakeholder capitalism in the U.S. However, Shiva noted that BRT signatories systematically have worse environmental, labour and lobbying records than non-signatories. He concluded by indicating that, to see if the BRT was really a significant milestone, we would have to wait and see what the companies involved actually do.

Anthony Scilipoti, CEO of Veritas Investment Research, spoke on the topic of “Some Truths About ESG Investing: Measurement & Disclosure”. He explained that Veritas Investment Research grew out of a forensic accounting practice because of the need to find truth (veritas) in financial disclosure and relay that to investors to assist in developing their buy and sell strategies. He also commented that in his view, checklist thinking by professional accountants often signals companies that should be investigated, because people using that thinking tend to mess with the facts and obscure the truth. Anthony proceeded to offer comments on the following.

- **ESG Measurement**
  Environmental, social and governance measures, both quantitative and qualitative, are under development, as is evident from the number of alternative disclosure frameworks available. ESG measurement is having teething problems, which leave users, including Anthony, skeptical of their veracity. Moreover, Anthony noted a reluctance in accepting some governance measures given that in his experience, you really only know how good a governance system is after something goes wrong.

- **ESG Auditability**
  The need for accuracy and reliability of ESG reporting is akin to the need for the audit of financial reports. But there are different and significant challenges in developing effective ESG audit practices because: (a) you are dealing with non-GAAP measures that are not well-defined, (b) where matters of audit independence can be significant, (c) where standard methodologies and practices have not yet been developed, and (d) where serious liability may exist for ESG auditors. Resolving these challenges will require time.

- **ESG Relevance**
  The question Anthony raised was how should we define what is relevant? ESG information needs to be useful for investors (the investment mandate), and for those interested in sustainability (the sustainability mandate). Is there a set of measures that are relevant to both? Do they measure success? Should disclosures be made beyond that set? In other words, what does relevance really mean for ESG disclosures?

Anthony concluded by noting that his firm had adopted a multifactor ranking methodology for the quality of companies as investment targets that included: (1) accounting and disclosure, (2) cash flow sustainability, (3) balance sheet risk, (4) business operation risks, and (5) corporate governance. It will
be interesting to see if, when and how ESG factors emerge as a separate sixth dimension rather than be
incorporated into the other five dimensions.

A vigorous question-and-answer session followed that can be viewed via a link at

Closing Keynote Speech by Professor Naomi Soderstrom, University of Melbourne
“Getting from Learning to Doing: Insights for Practice from My (and Others’) Academic Research on
Sustainability”.

Naomi Soderstrom, a most respected researcher on sustainability for almost 30 years, offered
comments on the major themes of sustainability research, reviewed some of the insights gained from
her research, and offered evidence on matters discussed by previous conference speakers. She posited
that sustainability research could be viewed as contributing to decision making in three themes:
measurement, monitoring and reporting, as shown below.

Figure 1: Sustainability Research Themes, Naomi Soderstrom, 2020 PAC Conference,
Mississauga, October 23, 2020

Based primarily upon the broad scope of her work in the area Naomi highlighted research findings
within the three themes and provided the following insights:

Measurement contributions
• Sustainability measurement overload (multiplicity of measures) demands that we determine what
  are the right measures for our decisions.
Understanding the measures used by companies for climate risk is essential because they vary widely.

Scorecard indices or rankings are often black boxes that are very difficult to understand and use. For example, in the study cited, one focused on compliance and another on environmental impacts.

The same data can be interpreted differently by different raters. Although aggregating measures can make them easier to use, we need to understand what they are measuring.

**Reporting contributions**

- Climate risk disclosures in 10-K’s became meaningful after SEC guidance was issued and the number of firms disclosing increased dramatically. Making disclosure mandatory changes the way that decision-makers use the disclosed information.
- Disclosed nuclear decommissioning liabilities are captured in the market valuation of the utilities themselves, but also for the other owners of shared nuclear facilities and can indicate a credit for expected regulatory recoveries.
- The order of presentation of CSR versus financial information impacts the way that decision-makers use the information. The information presented first frames how the other information is considered and weighed.
- Disseminating information on toxic releases can reduce toxic releases, but can have no effect on toxic risk. On the other hand, providing structured and interpreted information such as health effects and risk analysis or trend and ranking analyses have no effect on toxic release levels but reduce toxic risk. Stakeholders demand and make use of broader disclosures that help communicate context. Also, reporting format matters.
- Based on an analysis of European sustainability reporting, the reporting landscape is quite varied. Information should be in the management report or a separate report provided within 6 months of the B/S date. If separate, should be available on the website and referenced in the management report.
- The sustainability reporting landscape keeps changing. Consolidation is essential.

**Monitoring Contributions**

- Auditors can provide assurance that can help regulatory programs be more effective.
- The assurance function not only helps to guard against opportunistic reporting, but it also facilitates improvement of reporting systems.

**Decision-Making Contributions**

- The impact of sustainability issues is significant. Underlying sustainability issues as well as their reporting have far-reaching influences on the market and on decisions made by a wide range of stakeholders.

Naomi concluded an outstanding review by indicating that accounting practice belongs in the middle of her sustainability decision model, where the three research themes overlap.


As the Conference concluded, participants were struck by how far ESG developments had progressed, and how much more development was needed. We are just beginning to know what we don’t know. The Backgrounder that follows is intended to bring professional accountants up to speed on vital ESG aspects.

ESG Background & Conference Summary

Professional accountants are becoming increasingly involved with the measurement, disclosure, monitoring, decision making and strategizing related to ESG activities. They need to understand the fundamentals of ESG sufficiently to undertake these responsibilities and to appreciate the points made by the speakers at the PAC 2020 Conference on Professional Accounting Futures that covered ESG challenges. This ESG Background Summary is designed to provide an understanding of some of those fundamentals.

In this summary, we blend ESG fundamentals and the PAC 2020 Conference discussions under five themes:

- ESG: Context and Definition(s)
- ESG: The Good News
- ESG: The Bad News
- ESG: The Hopeful News
- ESG: Roles for Accountants
- Concluding Thoughts

Panelists who discuss the topics are named to the side of the text and in the Endnotes.

We hope to pique your interest in ESG developments, inspire accounting professionals to become involved, and invite you all to watch for PAC’s Sixth Annual Conference on Accounting Futures in the fall of 2021.

ESG: Context and Definition(s)

This section provides some historical context for the origin of ESG through the impetus of the United Nations and current context, evolution, and definitions provided by conference panelists.

ESG is loosely used as a synonym for corporate social responsibility, sustainability, social responsibility, etc. More explicitly, environmental, social and governance issues were linked to investment decisions (or responsible investing, socially responsible investing) in a 2004 United Nations-initiated report called Who Cares Wins. Through it, 50 major financial institutions made recommendations to “better integrate environmental, social and governance issues in analysis, asset management, and securities brokerage” in support of the UN Global Compact Principles for a more stable and inclusive global economy.
The “E” in ESG: Environment

In 2015, through the Paris Agreement, many countries agreed to “net-zero” economies by 2050: the balance between greenhouse gas (GHG)-producing and GHG-reducing industries to reduce net GHG emissions to zero to stabilize climate change. Certainly not the only environmental component of ESG, carbon reduction has the highest profile, the most agreement, and the greatest global impact. For environmental factors, the “E” in ESG, think resource use (energy, water, raw materials) and waste management (pollutants, GHG).

The “S” in ESG: Social

Flash forward to 2020, and the world is still recovering from the 2008-2009 recession. Growing are populism, authoritarianism, nationalism, wealth inequality, and voices against systemic discrimination. Exposed by the COVID-19 pandemic are inequitable health, labour, employment safety, and financial impacts along gender, income-level, and racial lines. Accelerated by COVID-19 are the development of the digital economy, increased protectionism, de-risking of supply chains, and the need to address systemic racism and a lack of diversity/pay equity at the executive/C-suite levels in any plan for recovery. For social factors, the “S” in ESG, think labour practices, human rights, diversity and inclusion, corruption, and product safety.

The “G” in ESG: Governance

A top priority of directors includes overseeing strategy, yet because of external factors (e.g., economic volatility, cybersecurity, the pandemic), boards of directors may struggle to fulfill this responsibility. Building back better is an opportunity to re-visit supply chains, build resilience, spur clean competitiveness and inclusive growth on the path toward net zero, but all of these need a long-term strategic vision. For governance, the “G” in ESG, think boards of directors (independence, competence, fiduciary duty), executive and director compensation, ethics, compliance, internal controls, enterprise risk management (environmental, technology/digitization, data security), strategy.

ESG: The Good News

This section looks at ESG and value creation, demand for ESG reporting, issues associated with reporting, and the impetus for integrated financial/ESG reporting. We refer again to the historical context (Figure 2) because we see how notions of value creation change over time and differ depending on perspective. So, here we look at:

- ESG and Value Creation: Many Perspectives
- Investor demand for ESG Disclosure and Reporting
Investor Demand Increases
Voluntary Corporate Disclosure Increases

ESG Reporting and Disclosure: The Issues
- Comparability, Complexity, Competition, Cost, and Confusion: “ESG 1.0”
- Still Early Days: ESG and Financial Reporting are not Integrated

Toward Integrated Financial/ESG Reporting
- Task Force on Climate-related Financial Disclosures (TCFD)
  - The TCFD Framework
  - Growing Support for the TCFD

ESG and Value Creation: Many Perspectives

In 2004, *Who Cares Wins*[^9] said that “good management of ESG issues can **contribute to shareholder value creation**” through a number of drivers[^10] [Emphasis added.] (See Figure 2).

**Figure 2: Initial Notions of ESG and Shareholder Value Creation**

*Source: Who Cares Wins*[^11]*

<table>
<thead>
<tr>
<th>Good Management of ESG Issues Can Contribute to Shareholder Value Creation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Early identification of emerging risks, threats, management failures</td>
</tr>
<tr>
<td>• New business opportunities</td>
</tr>
<tr>
<td>• Customer [and employee] satisfaction and loyalty</td>
</tr>
<tr>
<td>• Reputation as an attractive employer</td>
</tr>
<tr>
<td>• Alliances and partnerships with business partners and stakeholders</td>
</tr>
</tbody>
</table>

Optimistically, ESG is now sometimes **equated** to **value creation** because of the critical role that management of ESG factors play in an organization’s ability to create value.^[12]

For **some analysts**, considering ESG factors is nothing new. ESG can be used as a **concept**, a form of risk management; a frame for the future; the discount rate; the denominator in a free cash flow analysis. Considering ESG factors is way of formalizing a risk framework that is explicit in what risks are being taken into account, how they’re measured, and how they’re integrated into investment decisions. When evaluating a company, these analysts ask: What investment risks and opportunities does a company have in its future? Will what management does today have value in the future?[^13]

[^9]: *Who Cares Wins*
[^10]: Emphasis added.
[^11]: *Who Cares Wins*
[^12]: "Good Management of ESG Issues Can Contribute to Shareholder Value Creation"
[^13]: For some analysts, considering ESG factors is nothing new. ESG can be used as a concept, a form of risk management; a frame for the future; the discount rate; the denominator in a free cash flow analysis. Considering ESG factors is way of formalizing a risk framework that is explicit in what risks are being taken into account, how they’re measured, and how they’re integrated into investment decisions. When evaluating a company, these analysts ask: What investment risks and opportunities does a company have in its future? Will what management does today have value in the future?"
For capital markets, how will ESG issues (like climate change) affect investees’ future financial performance? What are the risks to investors?

Shiva Rajgopal
Anthony Scilipoti
Carson Block

To skeptical analysts and investors, however, that value creation is a chimera, because companies’ ESG measures – often intangible, hard to measure, and non-financial – do not necessarily translate into higher alpha; that is, lower risk or higher profits against a benchmark index.\textsuperscript{14, 15}

Rob McLean

ESG’s various declensions depend on that value creation perspective (Figure 3). CPA Canada’s provisional definition of value creation is: “the process by which an organization creates the potential for a) revenue and net income that can be realized in the future, and/or b) future benefits for the organization’s stakeholders.”\textsuperscript{16}

Figure 3: Value Creation Depends on Perspective\textsuperscript{17}
Source: Panelist Rob McLean

The perspective of the Business Roundtable seemed to move, in 2019, from the narrower view of value creation (shareholder perspective) to a broader view (stakeholder perspective).

Jean Charest
David Beatty

Signatories to a revised Purpose of the Corporation said that while corporations each have their own purpose, they share a fundamental commitment to all of their stakeholders: customers, employees, suppliers, communities, and shareholders, but not shareholders alone.\textsuperscript{18}

Investor demand for ESG Disclosure and Reporting

Investor Demand Increases

Jody Grewal

Between 1995 and 2018, investor demand for sustainable and responsible investing in the U.S. grew almost exponentially. In the U.S. by 2018, “one of every $4 invested under professional management [was] in sustainable, responsible and/or impact investments.”\textsuperscript{19}
The World Bank’s International Finance Corporation (IFC) finances companies in emerging markets as part of its mission

- to end poverty by 2030 and
- to build share prosperity in a sustainable way.\(^{22}\)

The IFC found that its clients with good ESG practices outperformed those with less-good practices. (See Table 1.) The results, “showing correlation, not causality,” are central to the IFC’s thinking about the business case for ESG adoption: they mean better business returns and a higher probability of investment success.\(^{23}\)

### ESG Reporting and Disclosure: The Issues

In 2019 the chair of the International Accounting Standards Board (IASB) said that financial and sustainability reporting would be one-and-the-same if the price of a product reflected its true cost, including its cost imposed on the environment.\(^{27}\) In this section, panelists reflect on the difficulties of measuring ESG impacts before they can be translated into costs.

**Table 1: The IFC, ESG, and Better Returns**

**Source:** Derived from information from Panelist Elizabeth White

<table>
<thead>
<tr>
<th>The IFC found that...</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Clients with good corporate governance (CG) practices outperformed those with poor practices.(^{20})</td>
</tr>
<tr>
<td>• Clients with high environmental and social (E&amp;S) performance outperformed the MSCI emerging market index.*</td>
</tr>
<tr>
<td>• Clients with poor E&amp;S performance underperformed index.(^{21})</td>
</tr>
</tbody>
</table>

* An index created to measure equity market performance in global emerging markets.

"In the early 1990s fewer than twenty organizations produced corporate sustainability reports; by 2019 more than 10,000 publicly listed companies produced such a report..."\(^{26}\)

*Panelist Jody Grewal and George Serafeim*
Comparability, Complexity, Competition, Cost, and Confusion: “ESG 1.0”

Despite the increased amount of company disclosure, the level of quality, comparability, reliability of these disclosures can be confusing and inconsistent, despite a 25-year proliferation of reporting frameworks, standards, industry and stock-market guidance, and ESG ratings organizations. (For a sample, see Table 2.)

Best practice could be considered linking ESG issues to core business drivers in accordance with a global standard, such as the Global Reporting Initiative (GRI) or Sustainability Accounting Standards Board (SASB). However, only about 12% of companies report to this level globally. Even so, those standards could be called “ESG 1.0,” because they look at company intentions, rather than outcomes.

CPA Canada has identified about 75 ESG “…frameworks, standards, guidance, methodologies, platforms and toolkits intended to help organizations develop a better understanding of the economic, social, and environmental impacts.” (For a sample, see Table 2.)

Table 2: The Reporting Ecosystem: Examples of Reporting Standards and Frameworks

<table>
<thead>
<tr>
<th>Value creation/ESG reporting solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDP</td>
</tr>
<tr>
<td>Runs the global disclosure system for investors, companies, ......to manage their environmental impacts</td>
</tr>
<tr>
<td>CDSB</td>
</tr>
<tr>
<td>Committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital</td>
</tr>
<tr>
<td>SASB</td>
</tr>
<tr>
<td>SASB’s mission is to help businesses around the world identify, manage and report on the sustainability topics that matter most to their investors</td>
</tr>
<tr>
<td>Encompassed Project for Inclusive Capitalism</td>
</tr>
<tr>
<td>We came together in pursuit of a single goal: to identify and create new metrics to measure and demonstrate long term value to financial markets</td>
</tr>
<tr>
<td>GRI</td>
</tr>
<tr>
<td>Helps businesses and governments understand and communicate their impact on critical sustainability issues</td>
</tr>
<tr>
<td>IR</td>
</tr>
<tr>
<td>To align capital allocation and corporate behaviour to wider goals of financial stability and sustainable development through the cycle of corporate reporting and thinking</td>
</tr>
<tr>
<td>IMPACT MANAGEMENT PROJECT</td>
</tr>
<tr>
<td>A forum for building global consensus on how to measure, report, compare and improve impact performance</td>
</tr>
<tr>
<td>TCFD</td>
</tr>
<tr>
<td>The work and recommendations of the Task Force will help firms understand what financial markets want from disclosure in order to measure and respond to climate change risks and encourage firms to align their disclosures with investors needs</td>
</tr>
</tbody>
</table>
“A growing number of organizations offer to help decision-makers understand sustainability performance by coming up with some sort of index or ranking.”

These third-party ESG screening- and ESG ratings-, research- and data-providing organizations include Sustainalytics, one of the oldest and possibly the largest. Companies like Sustainalytics may use existing frameworks and standards and measures of their own and aggregate scores to produce ESG ratings for financial-market clients.

These organizations are sometimes criticized because the reporting/rating coverage and methodologies can vary greatly among providers; the same data can be interpreted differently by different raters; and because scores may seem like black boxes. As businesses, their methodologies are proprietary, which may account for differences between ratings, and clients may see score breakdowns that appear aggregated for non-clients.

Still Early Days: ESG and Financial Reporting are not Integrated

For investors to gauge firm performance, financial information alone is incomplete, because it is a “lagging indicator of firm performance;” a view of the past. Sustainability is forward-looking, so backward-looking metrics are not useful.

While financial reporting has matured because of internationally recognized standards, the breadth of information and variety of users for ESG reporting make it more complex. The plethora of frameworks for ESG/sustainability reporting and a lack of globally accepted standards show that it is still a young field. And although ESG information is used as a complement to financial reporting for evaluating current and future corporate performance, typically, it is non-financial information reported separately from financial statements.

Toward Integrated Financial/ESG Reporting

Among the most recent developments in the reporting ecosystem are methods of integrating ESG and financial reporting. Two examples, very different in approach, come from Harvard Business School and the Financial Stability Board’s Task Force on Climate-related Disclosures (TCFD).

Harvard’s Impact Weighted Financial Accounts Initiative: “ESG 2.0”

Traditionally, a company’s success is measured as profits, and externalities caused by its products are not really measured or priced. Harvard Business School’s Impact Weighted Financial Accounts Initiative aims to integrate a company’s financial, social, and environmental performance. To do this, the costs of externalities caused by a company are estimated, translated into currency, and deducted from the company’s profits. So, within an industry, leaders and laggards emerge, based on their products’ impact on the environment: their environmental intensity (how they utilize environmental resources). (See Figure 4.) For most
industries, environmental intensity will be associated with lower market valuation, lower revenue, and higher risk.\textsuperscript{50}

Importantly, displaying financial impact performance as part of financial accounts/reporting allows for the use of existing financial and business analysis tools: that places the system in the accountants’ realm. And, the data are not based on \textit{policies} or \textit{intentions} or \textit{future targets}, but actual \textit{outcomes}: call it “\textbf{ESG 2.0}.” So, managers and governments can make better decisions on how to reduce impact/create incentives.

\textbf{Figure 4: Example of Product Impact and Variation Across Companies}\textsuperscript{51}

\textit{Source: Panelist Sakis Kotsantonis}

Task Force on Climate-related Financial Disclosures (TCFD)

Every panel contributed information about the TCFD. This part looks at TCFD origins, its associated framework and growing support.

By 2015, the “\textit{E}” in ESG – specifically, the carbon in climate change -- became an \textbf{imperative}. The G20’s Financial Stability Board’s chair\textsuperscript{52} Mark Carney, then-governor of the Bank of England, said in his speech to insurer Lloyd’s of London,

\begin{quote}
\textit{“The challenges currently posed by climate change pale in significance compared with what might come.”}
\end{quote}

\textit{Mark Carney, Governor of the Bank of England; Chair of the Financial Stability Board, September 2015}\textsuperscript{53}

The week before that speech, the FSB considered “…recommending to the G20 summit that more be done to develop consistent, comparable, reliable and clear disclosure around the carbon intensity of different assets.” By December 2015, the recommendation had been made and the \textbf{Task Force on Climate-related Financial Disclosures} was born.

Its goal would be \textbf{stability of financial markets} reflecting the perspective of investors, lenders, and insurance underwriters. Its objective would be identification of information to appropriately assess and price climate-related risks and opportunities.\textsuperscript{54}
“...[T]hat which is measured can be managed. Information about the carbon intensity of investments allows investors to assess risks to companies' business models and to express their views in the market...[And] supply creates demand. This means that the act of producing new products creates income and profits that ultimately finance the demand for them.”

*Mark Carney, Governor of the Bank of England; Chair of the Financial Stability Board, September 2015*

The TCFD Framework

Anton Tabuns  “TCFD” now describes the task force and the framework, still under development, issuing from its 2017 recommendations.

See also: The TCFD is a “...a comprehensive, practical, and flexible framework for corporate disclosure of climate-related risks and opportunities,” related to transition to a lower-carbon economy, under themes of governance, strategy, risk management, and metrics and targets. (Figure 5) It is adoptable by all organizations and “brings the 'future' nature of issues into the present through scenario analysis.”

Figure 5: TCFD Recommended Climate-related Financial Disclosures

Panelists Linda Coady and Anton Tabuns

The Relationship Between Frameworks and Standards

“Frameworks and standards are complementary and are designed to be used together.”

Frameworks -- like TCFD -- provide guidance on “...the types of information that should be disclosed or considered,” while standards (some also called frameworks; recall Table 2) “...provide specific, detailed, and replicable requirements for what should be reported for each topic, including metrics.” [Emphasis added.]

As part of its mandate, the Task Force assessed the alignment with its recommendations of many existing voluntary and mandatory reporting frameworks. It named five, in particular, including SASB.
Likely as a result of TCFD prompting, in 2020, those five leading sustainability and integrated reporting organizations made a commitment to work together to develop a comprehensive reporting system. It would incorporate disclosures that:

- reflect an organization’s significant impacts on the economy, environment, and people
- are material for enterprise value creation
- meet the needs of capital markets and other stakeholders.

**Growing Support for the TCFD**

Mark Carney was Chair of the TCFD until 2018. Michael Bloomberg has been Chair since 2018. With such influential leaders, it is perhaps no surprise that the TCFD recommendations continue to gain support from banks, asset managers [including BlackRock], pension funds, insurers, and others as best-practice for climate-related disclosures that will be integrated into mainstream financial filings.

**Anton Tabuns**

In 2019, CPA Canada studied disclosures on climate-related risk from 40 Canadian TSX-listed public companies and the degree of their alignment with TCFD recommendations. The study showed that only one company "...disclosed in all four TCFD-recommended categories, and 11 sub-categories." With growing global acceptance of the TCFD, Canadian company alignment is expected to increase.

**Jean Charest**

The 2020 pandemic may have also increased Canadian company alignment with the TCFD, because receipt of relief funding from the Canadian government was contingent upon companies showing climate disclosure in annual reports consistent with TCFD recommendations.

**ESG: THE BAD NEWS**

Some panelists presented evidence that tempered some of the optimism around ESG. They “busted” myths, reported on ESG-message inconsistencies, and outlined problems with corporate behaviour – particularly short-term, rather than long-term planning horizons – that are barriers to true environmental, social, and governance changes. In this section, we look at:

- “Busted” ESG Myths
- Stakeholder-Focused Governance: Is it an Illusion?
- Cautionary Tales

**“Busted” ESG Myths**

- **Europeans are ahead of North Americans: Follow their lead.** Panelist Stefan Reichelstein busted this myth. He said,
“European companies and regulators aren’t any closer than their U.S. and Canadian counterparts in terms of [agreeing to] a set of comprehensive reporting and measurement standards for ESG activities...[T]hat shouldn’t surprise us too much, simply because the range of ESG activities is so broad and the boundaries [are so] fuzzy that having anything akin to the financial reporting standards we are used to is probably a long, long distance off.”

In other words, reporting standards may take time. Even the TCFD, said Panelist Anton Tabuns, had a five-year planning horizon.78

☐ **ESG investing creates alpha.** Panelist Shiva Rajgopal challenged this myth.

> “An ESG heavy portfolio is typically long on tech and short on energy; tech has done well in stock markets, but energy has suffered. And tech gets systematically higher ESG scores than energy. Hence, ESG outperformance is simply tech outperforming energy stocks.”79 Will returns -- stripped of subsidies -- be positive for investors? Taxpayers?80 Narrowing the gender pay gap does not seem to be associated with increased future performance.81

☐ **BlackRock’s Proactive Messaging.** BlackRock is the world’s largest asset manager. While more than one panelist applauded BlackRock’s ESG-promoting messaging, Panelist Carson Block challenged it. In his 2020 letter to clients, CEO Larry Fink wrote,

> “Climate change has become a defining factor in companies’ long-term prospects...[A]wareness is rapidly changing, and I believe we are on the edge of a fundamental reshaping of finance...Investors are increasingly...recognizing that climate risk is investment risk. Indeed, climate change is almost invariably the top issue that clients around the world raise with BlackRock.”82 83

Yet,

> “BlackRock’s hesitance to back climate-related shareholder proposals contrasts with warnings it has raised about financial impacts on businesses from climate concerns...Their limited support for other shareholders’ climate-related proposals highlights a broader pattern of deference to management at the companies in their stock portfolios, according to a Reuters analysis of their proxy voting records.”84 85

**Stakeholder-Focused Governance: Is it an Illusion?**

Panelists David Beatty and Shiva Rajgopal identified governance issues as barriers to the long-term thinking that sustainability/ESG investments require.

☐ **Marketing rather than market-moving?** Disappointingly, “Business Roundtable (BR) signatories have systematically worse environmental, labour, and lobbying records than very similar firms that did not sign the BR statement.”86 The 2019 statement by the BR “...represented a public-relations move rather than a commitment to bring about meaningful change.”87

☐ **Escaping public scrutiny?** From 1997 to 2015, the number of companies on the U.S. stock markets fell by 50%, from 7,428 to 3,754, from delisting, low IPO activity, and acquisition.88 The trend is similar for the U.K. market.89 While all traded companies must comply with securities laws, unlisted
firms can more easily escape: public scrutiny, the mandatory reporting required of public companies, and activist investors.

- **Activist-investor takeovers.** If a company doesn’t look profitable, relatively new players in capital markets called activist investors may buy enough shares to influence how it is run and may take it private... Global activism is a huge industry: in 2019, 666 firms90 did nothing else but appraise company performance against what they thought they could make that company worth in the near term.”91 They target companies of any size in any market-cap segment in any part of the world.92

- **“Short-termism” instead of a long-term view.**
  - **Average holding periods** for public company shares in 2017 were only 5.1 years in the U.S., and only 3.9 years globally.93
  - **CEOs inflate short-term results to the detriment of long-term performance** because of pressure from Wall Street analysts and investors for profitable quarterly results.94
    - Because a significant portion of CEO pay is in the form of shares/stocks and stock options and performance pay, CEO compensation is directly tied to shareholder value.95
    - CEOs—with terms of only 7 years, on average—have a limited time to make their own fortunes.96
    - Planning horizons are short. A McKinsey Quarterly survey of 1,000 C-suite executives and board members in late 2015/early 2016 found that “pressure to generate strong financial results within two years was growing.”97 A 2020 McKinsey/ FCLTGlobal study shows that COVID-19 has placed even more short-term demands on executives, and they’ve postponed or halted long-term growth projects.98

Therefore,

- **Shareholderism is alive and well.** “The interests of corporate leaders and shareholders are firmly entrenched in the compensation plans in place at almost all of the Fortune 500 companies in the S&P 500 index...So, at the moment, the centre of gravity is solidly on making quarterly earnings and nothing else.99

### Cautionary Tales

“*If businesses could be operating profitably or more profitably in ways that are sustainable or impose fewer externalities on the world, they’d be doing it.*”

*Panelist Carson Block*

Panelists Anthony Scilipoti, Carson Block, Daniel Hicks, and Sonia Struthers, in helping to make sense of measurements provided cautionary advice, including these points:

- What can be measured can be audited, but what can’t be measured should be treated with caution.
- Good ESG ratings may obscure poor financials. The small print in the prospectus is still important to read. Quality and clarity of accounting and disclosure should affect the level of trust to give to a company’s disclosures.
□ ESG reporting may result in form over substance, without getting reform.\textsuperscript{103}
□ Don’t forget the basics: quality and clarity of accounting and disclosure; cash flow sustainability; balance-sheet risk; business-operations risk; corporate governance, including management compensation alignment with interests of shareholders. Is the company set to delivering positive returns over the long term?\textsuperscript{104}
□ A lot of funds flow into ESG-type stocks. So, if a company does have an excellent ESG grade, the fund flows might push the stock price higher even if the actual cash flows and profits of the company decline.\textsuperscript{105}
□ While relying on ESG ratings and ignoring financial statements is ill-advised, the opposite is also true: saying a company is financially healthy if not healthy in corporate social responsibility (e.g., Black Lives Matter), is unacceptable.\textsuperscript{106} Some U.S. companies who adopted lofty goals with respect to diversity are now being sued for lack of results.\textsuperscript{107}

**ESG: THE HOPEFUL NEWS**

Despite the “bad news” about barriers to ESG reporting and barriers to changing corporate behaviour and investment, many panelists reported on forward changes that cannot be denied. In this section we cover:

□ Counter-actions to Short-termism
□ Changing Roles of Directors
□ Consolidation of Reporting Frameworks
□ Mandatory versus Voluntary Disclosure
□ Technology and the Changing Reporting Environment

> "We should remember that companies also pushed back when they were faced with mandated financial reporting in the 1930s. For ESG, it's early days. We're nowhere near the level of standardization that financial accounting has. We need to bear this in mind, both when we criticize sustainability reporting and when we praise it."

*Panelist Jody Grewal*

**Counter-actions to Short-termism**

Panelists David Beatty, Susan McGeachie, Daniel Hicks, and Elizabeth White said some organizations and individuals are taking a long-term view. They --

□ **Advocate for “long-termism.”** McKinsey & Company and the FCLT (Focus Capital on the Long Term) are trying to convince CEOs and boards to change short-term thinking.\textsuperscript{108} The FCLT was formed to develop “…practical tools and approaches that encourage long-term behaviors in business and investment decision-making.”\textsuperscript{109}

□ **Find "patient” capital.**
  ▪ The Long-Term Stock Exchange\textsuperscript{110} is a new exchange in the U.S. for long-term investment.
▪ Some lenders offer longer-term loans and leases -- “patient capital.” Some green or transitional technologies could be commercially viable today, but investors may not understand them, particularly if they are looking for a short payback period. Governments can only invest so much, and more private investment is needed. Companies may be able to shape their investor base by not accepting capital from impatient investors, and there are strategies to do this.111
▪ Some impact investors may accept a wider definition of return, as long as measures of success are defined and audited.112 Others will screen for, and manage, ESG risk as part of their investment practices.113

☐ Some companies...
▪ Stay private for a longer time.114
▪ Adopt a dual-class share structure at IPO time adopt to insulate from activist investors.115

☐ Some leaders...
▪ Are committed to progress over the long-term (e.g., Paul Polman’s initiated Sustainable Living Plan when at Unilever in 2017;116 Michael Dell of Dell Technologies has a long-term plan for corporate social responsibility117).

☐ Some asset managers...
▪ Offer customized index portfolios for investors,118 which might avoid the dissonance between short-term returns and ESG- or values- or mission-based investments identified by several panelists.119

Changing Roles of Directors

Panelists Sonia Struthers, Jean Charest, Gigi Dawe, Susan McGeachie, and Anton Tabuns talked about legislation and attitudinal changes affecting the roles of directors.

“More and more, stakeholders are becoming important to the future success or future financial performance of companies. So, if shareholder interests are at odds with stakeholder interests (e.g., those of a community group that has access- or land rights), the company might, in the short term, focus on that area.”

Panelist Susan McGeachie

New Canadian changes to legislation (Table 3) require directors, as part of their fiduciary duty, to consider all stakeholders -- not just shareholders -- in decision making. That said, the question of which stakeholder should be considered above others or what is the best decision in the best interest of the corporation “…requires balance, weighing, situational context, and for boards to use their judgment.”120 There is no primacy of any one stakeholder or shareholders over another -- and there never was -- except acting in the best interest of the corporation. Directors must simply get away from the narrow interpretation of creating shareholder value above all else.121

Sonia Struthers
As with the general population, the recognition of climate issues by directors has grown, particularly over the last five years. Boards of directors see the need to consider climate-related risks and opportunities and their possible effects on the organization, and TCFD recommendations include describing how boards are overseeing those. Canadian changes to guidance (Table 3) require directors, as part of their fiduciary duty, to consider climate risk in decision making and to consider the use of SASB and the TCFD framework.

That said, the limited time directors have to consider immediate pressing issues, let alone long-term strategy, makes adding climate-related risks an additional challenge. That challenge is a duty, however, according to legal opinion sought by the Canada Climate Law Initiative:

“...The obligation of directors to consider the implications of climate change risk is grounded in the duties each director owes to the corporation...In managing or overseeing the management of risk, directors must meet the objective standard of what a reasonably prudent person would do in comparable circumstances...[D]irectors must put aside their own preconceptions about the reality or imminence of climate change risk. They may not demure to management and simply wait for presentations to be made to them. Directors must put climate change on the board agenda. They must require reports and recommendations from management and external sources as necessary, and be satisfied that the corporation is addressing climate change risk appropriately.”

Table 3: Examples of Canadian Legislation and Guidance

<table>
<thead>
<tr>
<th>LEGISLATION</th>
<th>GUIDANCE</th>
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<tr>
<td><strong>Canadian Business Corporations Act (CBCA).</strong> Many companies in Canada are incorporated under this federal law. Until 2019, the fiduciary duty of directors and officers was to act in the best interest of the corporation — traditionally, and narrowly -- interpreted to mean the best interest of the shareholders. The legislation was modified in 2019 and 2020.</td>
<td><strong>Canadian Securities Administrators (CSA) Staff Notice 51-358, Reporting of Climate Change-related Risks</strong> provides detailed guidance to boards on disclosure in respect to climate change risks.</td>
</tr>
<tr>
<td>▪ 2019. The newly defined fiduciary duty of directors and officers is to act in best interests of corporation for stakeholders: shareholders, employees, retirees and pensioners, creditors, customers, governments, the environment, and the long-term interests of the corporation. The new definition is an explicit codification of existing Supreme Court of Canada case law. So now, in exercising their fiduciary duty, directors and officers must take into consideration stakeholders and the long-term interests of the corporation.</td>
<td><strong>Canadian Coalition for Good Governance (CCGG).</strong> The CCGG includes most of the largest institutional investors in Canada.</td>
</tr>
<tr>
<td>▪ 2020. Public issuers [no matter what the exchange], not private corporations, must disclose numbers, targets, and policies (including participation on the board and as executive officers) for women, visible minorities, aboriginals and people with disability.</td>
<td></td>
</tr>
<tr>
<td><strong>Pension Benefits Act (Ontario)</strong> requires Ontario pension plans to explain in their statements of investment policies and procedures (SIPP) how ESG factors are used in investment decisions and, if ESG factors are not used, why not. McCarthy-Tétrault has found that most pension plans have adopted an ESG policy, which required a re-examination of their portfolios. De-selection of companies (public and private) without sufficient disclosure has led to a shift in investing patterns.</td>
<td></td>
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</table>

Source: Derived from presentations by Panelists Sonia Struthers, Jean Charest
“Integrating E&S into corporate governance considerations is part of the fiduciary duty of investors.”

Principle 7 of its voluntary Stewardship Principles, developed in consultation with members, says:

“Institutional investors should focus on promoting the creation of long-term sustainable value... Institutional investors should make sure they understand the risk and opportunities associated with material sustainability factors, including environmental, social and governance issues, and integrate them into their investment and stewardship activities. Institutional investors also should be aware of systemic risks that can affect the companies in which they invest.”

[Emphasis added.]

The CCGG:

- designed the principles “...to complement, rather than supersede or conflict with, the stewardship principles or codes of other countries or other investor organizations that institutional investors may choose to follow.”
- suggests the use of the TCFD disclosure framework. [Emphasis added.]

Canada Pension Plan Investment Board’s updated policy on Sustainable Investing on July 23, 2020 indicates preference for the Sustainability Accounting Standards Board (SASB) and the TCFD standards and reinforces the ESG role in long-term value creation. [Emphasis added.]

Consolidation of Reporting Frameworks

The need to reduce the number of reporting frameworks in order to increase comparability, and to reduce complexity, competition, cost, and confusion, was addressed by Panelists Daniel Hicks, Linda Coady, and Naomi Soderstrom.

“Investors are driving reporting frameworks to speak the same language. Why? Investors are demanding some level of standardization.”

Panelist Daniel Hicks

Alignment of the five leading sustainability and integrated reporting organizations and their commitment to work together to develop a comprehensive reporting system is hopeful news that may, eventually, reduce the administrative burden of disclosure.

Mandatory versus Voluntary Disclosure

Panelists Jody Grewal, Stefan Reichelstein, and Naomi Soderstrom reported on how mandatory reporting can force positive change.

U.K. public companies were mandated in 2013 to disclose GHG emissions in their annual reports. Approximately half had voluntarily disclosed prior to the mandate. For a subset of those companies that were also operating in Europe, their emissions data were already public. The requirement for additional transparency in the U.K. led to a further reduction in emissions compared to companies not subject to the regulation. So, “[d]isclosure regulation can be an effective policy tool to affect ESG outcomes even among already-disclosing firms.” The companies that further reduced their emissions did not show changes in profit margins, so the conclusion is that the regulation produced real effects with no significant cost. Other research has shown that “making disclosure mandatory changes the way that decision-makers use the disclosed information.”
Technology and the Changing Reporting Environment

Panelist Daniel Hicks focussed on the role of technology and media in sustainability/ESG reporting.

Daniel Hicks

Technology is driving change. The whole nature of communicating with stakeholders now has fundamentally changed: it is no longer passive, but interactive, thanks to social media. That means that corporations are rethinking what it means to engage with stakeholders across ESG, because millennials are used to responding -- and expect interaction -- because of the phone in their hands.\(^\text{142}\)

Every company has become a media company, because this interactive environment has produced direct communication between consumers and providers of information and has cut out the middle (traditional media: newspapers and television). This has ramifications around accountability: companies must start talking about how their financial- and non-financial metrics contribute to the overall value they produce, particularly in terms of social equity, diversity, and inclusion. Being financially healthy is not enough: a company must show it is socially healthy --- in real time -- when issues come across social media.\(^\text{143}\)

ESG: Roles for Accountants

Every panelist identified roles for accountants in “ESG space,” collected here under four sections:

- In the Middle
- In Measurement
- In Monitoring
- In Reporting
In the Middle

The potential role for accountants? Right in the middle (Figure 6). That middle position is the convergence zone between measurement, monitoring, and reporting.144

Figure 6: The Role for Accountants in Sustainability Space145
Source: Panelist Naomi Soderstrom

The middle also has advisory-role potential. It is the zone between climate/energy and business. Accountants could be the translators

Jean Charest
Linda Coady
Gigi Dawe
Naomi Soderstrom

- For directors, fiduciary duty is important and not optional. Directors know they must move forward on climate impacts and integrate ESG issues into corporate planning. So, advisors (e.g., accountants) could add value through data quality, assurance, and insights for decision making.147
- For development of broad-reaching ESG standards, momentum has increased because of the TCFD. Although accountants may be too late to provide leadership,146149 the coalition of leading standards/framework organizations recognizes the need for advice from the IFRS150 to add legitimacy to their reporting system:

“Our standards and frameworks act as a starting point for the technical content, while the IFRS Foundation could provide an appropriate governance architecture to achieve global acceptance. Integration with the IFRS Foundation’s governance and oversight could deliver internationally-accepted institutional arrangements for sustainability disclosures relevant for the capital markets, ensuring robust governance, rigorous due process and independent standard-setting, within the context of accountability to public authorities who foster outcomes that are in the public interest. This public/private model has proven to be effective in leading to general acceptance and widespread adoption of financial accounting standards.”151 [Emphasis added.]

CDP, CDSB, GRI, IIRC, and SASB, September 2020
In Measurement

Measurement is where accountants excel. Accountants can apply measurement fundamentals intrinsic to the traditional transaction-centric accounting paradigm to other measurement categories, including metrics and ESG frameworks.

Rob McLean  
Measurement fundamentals are the principles that underlie valid measures (e.g., apples to apples; volume to volume, etc.). Measurement approaches that violate these principles can be misleading, incomplete, inaccurate, and lead to conclusions and decisions that differ from those that would be reached based on valid and precise measures.

Panelist Rob McLean

Traditional accounting focuses on measuring realized value. Now, accountants can contribute to estimating value potential in life-cycle terms.

For example, the development of a COVID vaccine has potential value; a developed vaccine has realized value.

How well is the company performing in making that potential realizable?

Accountants can help with “value streams thinking.” (Figure 7)

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**Figure 7: Accountants Can Help with Value Streams Thinking**

*Source: Panelist Rob McLean*
In Monitoring

Auditors have a huge role to play in the ESG area. Assurance of sustainability reports is more difficult than a financial report, just because of the diversity of things reported. The assurance function not only helps to guard against misleading reporting but facilitates improvement of reporting systems and help regulatory programs be more effective. Accountants are needed to account, qualify, assure, and certify. Could accountants close the gap between measurement and assurance by improving the quality and format of data? The IFC sees accountants as essential for auditing ESG factors and substantiating impact claims and data for its funded projects (e.g., water savings or emission reductions). Transparency is important to the IFC, and confirming that proxies do not take the place of real data is important in the fight against greenwashing. (Figure 8)

Figure 8: Importance of Accounting to the IFC

Source: Panelist Elizabeth White

In Reporting

Accountants could play leadership roles in forward-looking decisions related to value creation in their organizations. For example, all decisions involve choices among alternatives, and good decisions require good information. Decisions should be supported by measures that clarify the consequences of alternative decisions, at the highest level of precision practicable. Harvard’s Impact Weighted Financial Accounts Initiative requires a new generation of accounting statements. On the path to net-zero, the TCFD recommends disclosure of greenhouse gas (GHG) emissions, which are called Scope 1, 2, and 3 (direct, indirect, and
value chain) GHG emissions. (See Figure 9.) Accountants can play a role in this accounting. Accountants are needed for companies transitioning to net zero or developing transitional decarbonization technologies that require patient capital.164

Figure 9: Overview of GHG Protocol Scopes & Emissions Across the Value Chain165 166
Source: World Resources Institute.

CONCLUDING THOUGHTS

Some key messages from the conference can be summed up under the following group of headings.

Value and Values

“[A] company’s value is increasingly reflected not just in its short-term financial performance, but also by intangible assets such as intellectual property, talent, brand and innovation, as well as impacts on society and the environment that are not fully captured by traditional financial statements.”

About the Embankment Project for Inclusive Capitalism (EPIC), 2018167 168

Jean Charest

With more market value based on intangible assets, a company's social performance, particularly fair treatment of employees, will have direct impact on reputation, the ability to gain talent and win higher engagement from all stakeholders, especially employees.

See also

Daniel Hicks

Diversity and inclusion are moral and business imperatives. Diversity requires long-term vision: it takes years to have a pipeline of diverse candidates for leadership roles.169

Anthony Scilipoti

Shiva Rajgopal

Carson Block

If the value of a company, to many investors, will be in reflection of their values, not just alpha, this will require seeing a distant, not near investment horizon.
Long-termism versus Short-termism

“Instead of thinking about shareholder versus stakeholder capitalism, the better approach -- because it also is focussed on generating returns for shareholders and not degrading the profit generating capabilities of businesses -- is to think about shareholder returns in terms of the 10-year shareholder or the 15-year shareholder.”

Panelist Carson Block

| David Beatty | Long-termism -- getting away from quarterly-returns pressure and getting a handle on executive compensation -- is the key to working toward ESG goals. |
| Jean Charest | For the environment, almost all-important is the need to change compensation plans so that companies: |
| Sonia Struthers | □ increase their planning horizon |
| Elizabeth White | □ identify and reduce their environmental impacts |
| Gigi Dawe | □ evaluate everything in terms of climate impact, and |
| | □ keep up the momentum to net-zero. |

The TCFD asks “…organizations, where climate-related risks are material, to consider describing whether and how related performance metrics are incorporated into remuneration policies.”¹⁷⁰

You need to harness the power of good governance for institutional change: Governance takes centre stage as core driver of corporate change: “G” is the key to success in “E” and “S.”

Panelist Jean Charest

Accountants’ Roles

Measurement. Accountants excel at measurement and metrics. The qualitative nature of ESG factors makes them harder to measure and define. A better job of measuring ESG factors would facilitate the management of ESG, and that would influence the governance, risk-management, and remuneration within enterprises.

Monitoring. Companies will be held accountable for their ESG performance. Accountants will be trusted for auditing and assurance because it is a traditional role. Trust in company disclosures is important, particularly for impact investing.¹⁷¹

Reporting and Advice. Accountants could add value through data quality, assurance, and insights for decision making.¹⁷² Accountants have a role in the development of ESG reporting standards through the IFRS and the coalition of five sustainability and integrated reporting organizations.
Moving Beyond COVID. The conference began with a socio-economic context for ESG measures and an overview. Though we looked at E, S, and G separately at first, we saw that they are inextricably linked, with “E” and climate-related risks the imperative.

Companies with a long-term view will have a better chance of moving beyond COVID (Table 4).

Mark Carney warns, however, that we can’t self-isolate from climate. Climate change, “…from a human mortality perspective...will be the equivalent of a coronavirus crisis every year from the middle of this century, and every year, not just a one-off event. So, it is an issue that needs to be addressed now.

The power of money will ultimately play the biggest role in combating climate change.

The new financial system, spurred by the TCFD, will give investors, big or small, the information to choose how to invest.

Investors, with that information, “…can choose to be part of the solution, transitioning to net zero, or be part of the problem.”

Accountants have an important role to play in that solution. Let’s get involved.

With great thanks again to our panelists, supporters, directors, and audience,

Len Brooks

April 20, 2021

Table 4:Think Long-Term to Move Beyond COVID

<table>
<thead>
<tr>
<th>Think Long-Term to Move Beyond COVID...</th>
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<tbody>
<tr>
<td><strong>Panelist David Beatty</strong>173</td>
</tr>
<tr>
<td>• “So many companies follow the Wall Street time horizon that now, in a time of crisis, they cut staff, close factories, exit entire businesses and try to preserve what precious net cash flow they have ... and beg to their lenders for relief...</td>
</tr>
<tr>
<td>• “…[T]he creation of long-term, sustainable, differentiated and competitive advantage can be derived only with a strategic time horizon of five years and more...</td>
</tr>
<tr>
<td>• Companies with a long-term view support their people, partners and industry ecosystem. They win loyalty; they gain talent.</td>
</tr>
<tr>
<td>• The pandemic “…crisis can be used to dramatically shift the strategic horizons of your company to the longer term and in doing so help to shift free enterprise and publicly traded companies back to a sense of long termism.”</td>
</tr>
</tbody>
</table>
ENDNOTES

1 “The story of ESG investing began in January 2004 when former UN Secretary General Kofi Annan wrote to over 50 CEOs of major financial institutions, inviting them to participate in a joint initiative under the auspices of the UN Global Compact and with the support of the International Finance Corporation (IFC) and the Swiss Government. The goal of the initiative was to find ways to integrate ESG into capital markets. A year later this initiative produced a report entitled Who Cares Wins…[which] made the case that embedding environmental, social and governance factors in capital markets makes good business sense and leads to more sustainable markets and better outcomes for societies.” Kell, Georg. “The Remarkable Rise of ESG,” Forbes [online] (https://www.forbes.com/sites/georgkell/2018/07/11/the-remarkable-rise-of-esg/?sh=62d102931695), July 11, 2018. Note: This article presents a very readable past, present, and future of ESG.


8 Panelist Gigi Dawe, Slide 1 (notes).


12 Panelist Rosemary McGuire, CPA Canada.

13 Panelist Dominique Barker. As an example, a small-cap company in Calgary is developing equipment to reduce methane gas, which has a global warming potential (GWP) more than 20 times higher than CO2 over 100 years. Methane reduction is important and increased regulation is certain, so in an ESG risk analysis, this company would get a lower discount rate.
meaning a higher value. [For more on GWP, see United States Environmental Protection Agency, EPA Center for Corporate Climate Leadership, “Atmospheric Lifetime and Global Warming Potential Defined,” [webpage] (https://www.epa.gov/climateleadership/atmospheric-lifetime-and-global-warming-potential-defined)].


15 Panelists Carson Block, Shiva Rajgopal, and Anthony Scilipoti. See also Panelist David Beatty.

16 Panelist Rob McLean, Slide 4

17 Panelist Rob McLean, Slide 7.


19 Panelist Jody Grewal, Slide 5.


22 Panelist Elizabeth White.

23 Panelist Elizabeth White.

24 Also known as sustainable investing or responsible investing.

25 Panelist Elizabeth White, Slide 3.


27 Hoogervorst, Hans [Chair, International Accounting Standards Board (IASB)], ”IASB does not plan standards on sustainability reporting” [speech, April 8, 2019], Sustainability-Reports.com [website] (https://www.sustainability-reports.com/IASB-Does-Not-Plan-Standards-On-Sustainability-Reporting/). In this article, Hoogervorst said, “In an ideal world, there would be no need for sustainability reporting. Negative externalities, such as pollution, would be adequately taxed so that the price of a product would reflect the cost it imposes on the environment. A realistic carbon tax would cause the financial statements of smokestack industries to reflect the true costs of their products. Should these costs make an economic activity unfeasible, the financial statements would show the impairment of its related assets. Financial reporting and sustainability reporting would be one and the same.”

28 Panelist Linda Coady.

29 For more on the reporting ecosystem, see Panelists Rosemary McGuire, Linda Coady, Naomi Soderstrom, Daniel Hicks.

30 For more information, see also Clarkin, Catherine M., Melissa Sawyer, and Joshua L. Levin, “The Rise of Standardized ESG Disclosure Frameworks in the United States,” Harvard Law School Forum on Corporate Governance [online] (https://corpgov.law.harvard.edu/2020/06/22/the-rise-of-standardized-eg-disclosure-frameworks-in-the-united-states/). [Note: These authors also say that “…some investors have expressed concern that the lack of a standardized ESG disclosure framework... makes it difficult for investors to meaningfully evaluate and compare companies’ ESG practices and risks, and] reduces the value of such disclosures.”

31 Panelist Simon MacMahon.

32 Panelist Sakis Kotsantonis.


34 Panelist Rosemary McGuire, Slide 5.

35 Panelist Naomi Soderstrom, Slide 7.

36 See Panelist Simon MacMahon for details about Sustainalytics and its data collection and ratings. Protected by copyright, information from his slides could not be reproduced here. The Sustainalytics website can be found at https://www.sustainalytics.com/. Sustainalytics purchased by Morningstar in 2020. (Simon MacMahon.)


39 See Panelist Naomi Soderstrom, Slide 8, for research that shows that same data can be interpreted differently by different raters.

40 See Panelist Naomi Soderstrom, Slide 7, for research that shows two rating systems that provide no information on how their ratings were derived.

41 Panelist Simon MacMahon.

42 Panelist Simon MacMahon.

43 Panelist Jody Grewal, Slide 8.

44 Panelist Jody Grewal, Q&A Session.


46 Panelist Jody Grewal, Slide 8.

47 See Panelist Jody Grewal, Slide 9: A 2019 survey by Association of Chartered Certified Accountants showed that 90% of those surveyed [n=?] “...expressed interest in an integrated report incorporating financial and nonfinancial information that would provide a more holistic view of the likely direction of future corporate performance.”

48 See also Panelist Daniel Hicks on communication and reporting.


50 Panelist Sakis Kotsantonis.

51 Panelist Sakis Kotsantonis [Slide 12, cropped] and Richmond Global Sciences ([https://www.rgsciences.com/](https://www.rgsciences.com/)).

52 Mark Carney, former governor of the Bank of England was Chair of the TCFD until 2018. Michael Bloomberg has been Chair since 2018 and was also Chair of the Sustainability Accounting Standards Board (SASB), targeted to public companies traded on U.S. exchanges.


54 Task Force on Climate-related Disclosures, “TCFD Created,” History [webpage] ([https://www.fsb-tcfd.org/about/#history](https://www.fsb-tcfd.org/about/#history)).


For details, see Panelist Anton Tabuns.

Panelist Anton Tabuns, Slide 6. Specifically, the framework applies to financial organizations (banks, insurance companies, asset owners, and asset managers) and non-financial organizations (in energy; transportation; materials and buildings; and agriculture, food, and forest products). From: Task Force on Climate-related Financial Disclosures (TCFD), Recommendations of the Task Force on Climate-related Financial Disclosures: Final Report

June 2017, p. iii.

Panelist Anton Tabuns, Slide 6.

Task Force on Climate-related Financial Disclosures (TCFD), Recommendations of the Task Force on Climate-related Financial Disclosures: Final Report

June 2017, p. 19.

Sustainability Accounting Standards Board (SASB), ), “SASB & Other ESG Frameworks,” About [webpage]


Task Force on Climate-related Financial Disclosures (TCFD), Recommendations of the Task Force on Climate-related Financial Disclosures: Final Report

June 2017, p. 33. [Note: For thumbnail descriptions of more disclosure frameworks for climate-related information by issuer (e.g., governmental or non-governmental organization), target reporter and target audience, see the report’s Appendix 4.]

Task Force on Climate-related Financial Disclosures (TCFD), Recommendations of the Task Force on Climate-related Financial Disclosures: Final Report

June 2017, p. 33. [Note: The named five frameworks were CDP (formerly the Carbon Disclosure Project), Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), and the Sustainability Accounting Standards Board (SASB).]


CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB), “Open Letter to Erik Thédeén, Director General of Finansinspektionen, Sweden, Chair of the Sustainable Finance Task Force of the International Organization of Securities Commissions (IOSCO),”


Task Force on Climate-Related Financial Disclosures (TCFD), “Task Force member – Chairman” [Michael R. Bloomberg]

https://www.fsb-tcfd.org/members/michael-r-bloomberg/, 2021. [Note: This webpage also says that Michael Bloomberg has been Chair of the Sustainability Accounting Standards Board (SASB), targeted to public companies traded on U.S. exchanges. SASB is one of the standards/frameworks assessed by the Task Force.]

In his 2021 letter to CEOs, Larry Fink endorses the TCFD, by asking all companies “…to report in alignment with the recommendations of the…TCFD and the Sustainability Accounting Standards Board (SASB), which covers a broader set of material sustainability factors.” See BlackRock, “Larry Fink’s 2021 Letter to CEOs,”


See, for example, the Canada Pension Plan Investment Board (Table 3).

See, for example, the Canadian Coalition for Good Governance (CCGG) in Table 3.

Panelist Anton Tabuns, Slides 7, 8.

For many more results, see Panelist Anton Tabuns, Slides 9-13.

Canada Development Investment Corporation, "Large Employer Emergency Financing Facility (LEEFF): Frequently Asked Questions (FAQ)," [webpage (https://www.cdev.gc.ca/leeff-faq/], July 10, 2020. [Note: "Borrowers will be required to produce an annual climate-related financial disclosure report highlighting how their corporate governance, strategies, policies and practices will help manage climate-related risks and opportunities and contribute to achieving Canada's commitments under the Paris Agreement and goal of net zero by 2050. The report should follow the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosure, which provides clear direction on the required disclosure. The climate-related disclosure report is part of the ongoing compliance with LEEFF loan terms but not a pre-condition to be considered for LEEFF loans." [Emphasis added.]]


Panelist Shiva Rajgopal, Slide 5.

Panelist Shiva Rajgopal, Slide 4.


Point raised by Panelist Jean Charest.


Point raised by Carson Block.


Panelist David Beatty, Slide 15.

Panelist David Beatty, Slide 26.

Panelist David Beatty

Panelist David Beatty, Slides 27-28.

Panelist David Beatty, Slide 17. Based on: Bower, Joseph L., and Lynn S. Paine, “The Error at the Heart of Corporate Leadership: Most CEOs and boards believe their main duty is to maximize shareholder value. It’s not,” HBR, May-June 2017 (https://hbr.org/2017/05/the-error-at-the-heart-of-corporate-leadership).


Panelist David Beatty.


Panelist David Beatty.

See also Panelist Shiva Rajgopal who said, “I think it’s really hard to do well and make money along the way.”

Panelist Anthony Scilipoti.

Panelist Carson Block.

Panelist Anthony Scilipoti.

Panelist Carson Block.

Panelist Daniel Hicks.

Panelist Sonia Struthers.


Panelist David Beatty, and see LTSE, “For a new generation of companies,” About [webpage] (https://ltse.com/about/).

Panelist Susan McGeachie.

Panelist Daniel Hicks.

Panelist Elizabeth White, Slide 3.

Panelist David Beatty.

Panelist David Beatty, and see Allaire, Yvan, The Case for Dual-Class of Shares, Policy Paper No. 11 (Montréal: Institute for Governance of Private and Public Organizations (IGAPP), 2019).


See Panelists Anthony Scilipoti, Shiva Rajgopal, and Carson Block for concerns about the difficulties of achieving short-term returns on ESG-weighted stocks.

Panelist Sonia Struthers.

Panelist Sonia Struthers.

Panelists Susan McGeachie and Gigi Dawe.

Panelists Gigi Dawe and Susan McGeachie.
125 Panelist Gigi Dawe.
126 See next endnote.

Note 2: "...The discussion in this paper, in particular with respect to the views of institutional investors... relates not to what organizations do to the earth, but rather what the earth is doing to the organization. Recognizing that climate change presents well documented risks, investors want to know how the organizations in which they invest are managing these risks.” (Opinion, p. 8)

128 Panelist Sonia Struthers. For more examples and detail, see Panelist Sonia Struthers; see also Panelist Jean Charest.

130 See Canadian Coalition for Good Governance (CCGG), at https://ccgg.ca/. [Topic covered by Panelist Sonia Struthers.]

133 CCGG, “CCGG Stewardship Principles,” About Us [webpage] [https://ccgg.ca/stewardship-principles-endorser/].
136 Panelists Linda Coady, Naomi Soderstrom.
137 Panelist Jody Grewal, Slides 12-17.
138 See Panelists Jody Grewal, Stefan Reichelstein.
139 Panelist Jody Grewal, Slide 17.
140 See Panelist Stefan Reichelstein.
141 Panelist Naomi Soderstrom, Slide 9.
142 Panelist Daniel Hicks.
143 Panelist Daniel Hicks.
144 Panelist Naomi Soderstrom.
145 Panelist Naomi Soderstrom, Slide 19.
146 Panelists Jean Charest, Linda Coady, Gigi Dawe, Naomi Soderstrom.
147 Panelist Gigi Dawe.
148 Panelist Rosemary McGuire.
149 Has the IFRS missed the boat? It may have a role, but may not be the leader.

The 2004 UN-initiated report, Who Cares Wins (see Endnote 1), p.ii, said,
“As an important next step, endorsing institutions plan to approach the relevant accounting standard-setting, professional and self-regulatory organizations, and investor relations associations in order to ensure that their intentions are fully understood and supported.” [Emphasis added.]

In 2019, however, the chair of the International Accounting Standards Board (IASB), the standard-setting body of the IFRS Foundation [see next Endnote], said:

“…I do not think the IASB is equipped to enter the field of sustainability reporting directly. Setting sustainability reporting standards requires expertise that we simply do not have. Moreover, there are already more than enough standard-setters active in this field.”

Hans Hoogervorst, chair IASB, April 8, 2019

Yet on September 30, 2020, the IFRS trustees (responsible for oversight of the IASB, which sets IFRS Standards) issued a consultation paper to stakeholders asking for feedback on “…whether the Foundation should play a role in setting global sustainability standards and, in addition to its current role as a financial reporting standard setter, whether its standard-setting activities should expand into this area.” [From Chan, Victor [International Director, Global IFRS Services, E&Y Global], “Why there is an urgent need for global sustainability standards” [webpage], (https://www.ey.com/en_gl/ifrsv/why-there-is-an-urgent-need-for-global-sustainability-standards).]

The IFRS Foundation, known as IFRS, is an “…international organization responsible for developing a single set of high-quality global accounting standards, known as IFRS Standards.” From: IFRS, “About us,” [webpage] (https://www.ifrs.org/about-us/).

“The IFRS Foundation has a three-tier structure with the IASB as the independent standard-setting body. The Trustees of the Foundation are responsible for the strategic direction, governance and oversight of the IASB and the Trustees themselves are in turn accountable to the Monitoring Board, which comprises representatives of securities regulators and public authorities around the world.” From Kö, Theresa [IFRS Foundation Trustee], “Speech: Sustainability reporting and its relevance to the IFRS Foundation,” [IFRS] News and Events [webpage] (https://www.ifrs.org/news-and-events/2020/05/sustainability-reporting-and-its-relevance-to-the-ifrs-foundation/), May 13, 2020.

Panellists Rosemary McGuire, Naomi Soderstrom.

152 Panelists Rosemary McGuire, Naomi Soderstrom.
154 Panelist Rob McLean, Slide 5.
155 See Panelist Rob McLean slides and presentation on value creation solutions.
156 Panelist Naomi Soderstrom, Slides 16, 17.
157 Panelist Linda Coady, Slide 22.
158 Panelist Rosemary McGuire.
159 Panelist Elizabeth White in presentation and Q&A session.
160 Panelist Elizabeth White, Slide 7.
161 Panelist Rob McLean, Slide 9.
Panelist Susan McGeachie details potential financing and role of accountants in data verification and accounting for green technologies, decarbonization projects and transitional technologies that require patient investment.


Project mentioned by Panelist Sonia Struthers.

Panelist Jean Charest, Slide 19. Note: During his tenure as leader, the Quebec Liberal Party wanted more women to run in ridings and to serve in cabinet. After 10 years of deliberate action to cultivate and coach women candidates, the Party had a gender-parity government in 2007. (Panelist Jean Charest.)


Panelist Daniel Hicks.

Panelist Gigi Dawe.
