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](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 focused 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: https://www.utm.utoronto.ca/pac/2020-pac-annual-accounting-futures-conference

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 standard 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: https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/development+impact/aimm.

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 https://www.utm.utoronto.ca/pac/2020-pac-annual-accounting-futures-conference

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.

A question-and-answer session ensued, followed by concluding remarks. (See https://www.utm.utoronto.ca/pac/2020-pac-annual-accounting-futures-conference)

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.

The PAC 2020 Conference speakers’ video and PowerPoint presentations can be found on the PAC website at 2020 PAC Annual Accounting Futures Conference - ESG Challenges Facing Professional Accountants.