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Panel 4: Navigating the New Frontier: Empowering Accountants for a Sustainable Future

https://www.ifrs.org/content/dam/ifrs/supporting-implementation/issb-standards/issb-voluntary-application-preparers.pdf

https://www.icgn.org/icgn-investor-viewpoint-assurance-sustainability-reporting

Keynote – Navigating the New Frontier: Empowering Accountants for a Sustainable Future

By Christine Chow

Good afternoon, Chair Dr. Kelvin Wong, Chief Executive Janey Lai, distinguished guests, ladies and gentlemen,

It is a pleasure to be back in Hong Kong, my hometown. Thank you very much for the invitation to take part in this forum.

By way of background, I am the Chairman of the Board of Governors at the global investor-led organisation, ICGN, led by investors managing over 77 trillion USD of assets. Our mission is to advance the highest standards of governance and investor stewardship to create long term value.

Navigating the new frontier to empower accountants for a sustainable future is exciting. I would like to share three key points from an investor's perspective.

First – **investors' expectations on decision-useful sustainability information.**

Since the 2008 Financial Crisis, there has been increasing pressure on investors to become responsible stewards of investments for the long term. In 2012, the UK published the Stewardship Code, which has been influencing responsible ownership practices globally, and most notably in Asia.

Japan, South Korea, Hong Kong, Singapore, Malaysia, Taiwan and India established various versions of stewardship codes between 2014 and 2020. These Codes generally encourage investment managers to exercise voting rights on behalf of their clients, and engage with investee companies on financially material issues, increasingly sustainability related.

Investors have been asking for reliable and comparable sustainability-related information for capital allocation decisions, **beyond ratings**. As reporting frameworks such as CSRD and ISSB mature, with local markets adaptation; sustainability reporting is increasingly becoming part of the remit of the Chief Financial Officer (CFO) of a company, who tends to work closely with the Chief Sustainability Officer (CSO) to align on data definitions and collection, reporting cycles with integrated internal audit processes. With the advancement of technology, satellite imagery, geospatial data, other types of real time data have also become available[1].

However, **data rich could still mean insights poor**. Dealing with the volume of ESG data feels like going to the supermarket whilst we are hungry, getting everything but still having no clear recipes for prepping dinner. **The trick is finding the right ingredients, not always having more**. This is where the flight to quality matters. Accountants who are CFOs, CAOs, preparers of accounts, auditors, assurers can play a big role here. As they become more strategic and knowledgeable on climate and nature related impacts and considerations in a business, they bring insights into the assumptions used for scenario analysis, drawing informative conclusions from their assessment. This will help investors as users of accounts to more accurately evaluate **impact adjusted cash flow and P&L** from the companies we invest in.

This takes me to the second observation, **how to leverage technology such as AI to amplify the expertise of accountants and enhance their role**.

Human and AI competencies (slide 2) are converging in both learning and reasoning capabilities. There are thousands of AI use cases. We can summarise them at the functional and sector levels based on capabilities identified. Functionally (slide 3), these capabilities are industry agnostic, such as budgeting or regulatory filing. At the sector level (Slide 4), here are some examples from different industries based on investor engagement conversations.

AI is reshaping the role of accountants, transforming the scope and nature of their work. Its impact from enhancing insights on sustainability information can be categorised into four areas (Slide 5):

First, the **automation of routine tasks**. AI automates repetitive tasks such as data entry, transaction categorisation, reconciliations and invoice processing. Accountants can shift their focus from manual processes to higher-value activities. In the context of sustainability reporting, aligning ESG data with CSO is a good start.

Second, AI enables the processing of vast amounts of financial data quickly and accurately, providing **insights through advanced analytics and real time reporting**. Leveraging AI, accountants identify trends and anticipate financial risks or opportunities more effectively. In the context of sustainability reporting, accountants can support dynamic decisions and informed decisions with more real time emissions and supplier data at their fingertips.

Third, **improved fraud detection**. This covers the G of the ESG. AI has been used in anti-money laundering and fraud detection for years. AI systems can analyse patterns and anomalies to identify potential fraudulent activities with greater precision. Accountants enhance their role in ensuring compliance and safeguarding financial integrity.

Fourth, and most importantly, **strategic business partnership**. With routine tasks handled by AI, accountants become more involved in strategic decision-making and business advisory. They act as key partners in driving business growth, sustainability, and innovation.

[1] https://www.erm.com/insights/5-takeaways-from-cop16/

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This links to my third observation: businesses are **moving beyond target setting to implementing net zero plans, through the lens of nature and biodiversity. Accountants are strategic business partners to enable this.**

For those who attended COP16 in Cali, there is a consensus that a significant and growing number of companies has shifted from setting nature and biodiversity targets to implementation. The TNFD pilots, have accelerated this process. Insurers have spearheaded in innovations in this space. For example, Aviva investors launched a carbon removal fund that invests directly in nature-based and engineered carbon removal solutions. In Asia, 14 Japanese insurers have signed up to TNFD reporting[2]. From my own experience interacting with them, they are really advanced in integrating nature in holistic risk assessment for their businesses.

Many companies have now internalised their impact on nature and water which carries strategic risks and opportunities. They have established KPIs and are ready to step up and start the pilot phase of implementation.

At COP29 in Baku, there is progress on Article 6 around carbon markets, but the accounting rules will evolve[3]. Reaching consensus to reduce emissions from fossil fuels remains a challenge. This makes it more critical to focus on climate solutions that remove CO2 from the atmosphere. According to the World Economic Forum[4], to reach net zero by 2050, **up to 10 billion tonnes of CO2**[5] must be **removed every year**. Carbon dioxide removal, or CDR, currently removes **2 billion tonnes of CO2 per year**[6], of which 99.9% comes from nature-based solutions, such as afforestation or reforestation. Only 0.1% results from CDR technologies such as Direct Air Capture with Carbon Storage (DACCS) or Bio-energy with Carbon Capture and Storage (BECCS). In other words, all else being equal, we need to scale CDR technologies by a factor of 5,000 by 2050. We need insightful analysis into the viability and scalability of these technologies; and we need better measurement, reporting and verification standards.

SO, what does this mean to the accounting professionals?

This means that their learning curve to leverage AI, to understand climate, nature and financial materiality will be steep and interesting. Those who commit the time to build and apply the integrated knowledge on sustainability and AI will excel, advance in their career, grow businesses and drive impact.

With these three observations, I look to Teresa, to guide our conversation. Thank you.

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[2] https://www.insuranceerm.com/analysis/tnfd-blossoms-in-japan-as-insurers-begin-nature-reporting-journey.html
[3] https://carbonmarketwatch.org/2024/11/23/cop29-complex-article-6-rules-pave-way-to-unruly-carbon-markets/
[4] https://www.weforum.org/stories/2024/07/why-carbon-dioxide-removal-needs-more-government-support/#:~:text=CDR%20currently%20removes%202%20billion,of%205%2C000%20by%20mid%2Dcentury.
[5] https://www.ipcc.ch/sr15/chapter/spm/
[6] https://www.stateofcdr.org