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Foresight: The CPA Podcast

Episode 1: Can Sustainability be a Driving Force for the Canadian Economy?

David McGuffin: Hi, and welcome to "Foresight" the CPA podcast, a podcast produced by CPA Canada that explores the future of the accounting profession. I'm your host, David McGuffin.

In each episode, we'll reimagine what CPAs do, how they do it, and the impact they have around the world. This podcast is part of the Foresight Initiative from CPA Canada, aimed at setting a new strategic direction for the Canadian accounting profession. So, let's get started.

The environmental challenges facing our world have given rise to new ways of thinking, new ways of considering how we do business. The idea of sustainability has become central to these new ways of thinking, but what does sustainability actually mean in this context, and how does the concept of sustainability relate to the practice of accounting?

Davinder Valeri is the director of strategy, risk and performance with CPA Canada.

Davinder Valeri: Sustainability is not just climate change. It's much much broader. It's defined as the meeting of the needs of the present without compromising the ability of future generations to meet their needs.

I always look at it from that nested dependencies model, which is you got the environment, which takes the biggest chunk. Then you've got the society. Then economy fits in the middle of it. When you look at that, it reminds us that we must live within our means. That we will face some real challenges or consequences.

Those could be ecological consequences, societal collapse, or even economic collapse, as we're seeing with the pandemic. CPA Canada, we've been playing in this space of sustainability for over two decades. We were in that space when people were challenging us and saying, "Why are accountants in sustainability?"

Usually you think about back then, tree huggers and whatnot, but it's not about that. It's actually more about how we need to be able to sustain an environment that can be forthcoming for future generations. It's about how CPAs can play a role in that.

It's really about creating the ecosystem where finance at the centere of something that is pivotal or important, can start to change business decisions by saying, "Hey, you need to consider the environment. You need to consider the impact on our employees or the staff or our society."

CPAs are playing a pivotal role as finance leaders. It's about figuring out the risks and opportunities that are coming with these disruptors. We're helping carve out the understanding that our members need.

There's so much confusion out there right now, whether you say ESG whether you say technology, governance, data sustainability. There's a lot of disruption, a lot of confusion and we are really offering tools and methodologies and knowledge for our members to be able to understand that and apply that and be part of it.

2020 has been that year of unprecedented economic and social disruption to its nth degree, but as part of that disruption, there's been this movement, this transformative movement for ESG as well. We've seen this movement globally, we've seen it nationally, we've seen it in investment decision making, in corporate disclosure, in government policies.

There's been a lot happening in 2020 and I can say to you the trajectory of the movement in 2020 is indicating that 2021 is not going to slow down any further so it's actually moving really, really fast.

So what does this mean and what have we seen right? Globally, I mean you probably saw Larry Fink the CEO of Blackrock, he put out his letter basically to the CEO stating that climate risk is investment risk. He put that out there he understood that E factor are really important. But 2020 has also showed us that the S factor is extremely important and that's the social piece, so environment and social.

So what we're seeing is that governments and policy makers are starting to embrace this and recognizing that we need to change. We saw governments like New Zealand they are the first at the gate, the first country in the world, were they have actually made it mandate to have climate risk disclosure in their financial statement.

This is TCFD and they are saying that disclosure has to be mandated. Then we have seen that UK is following suit, you see Australia come forward, now even China has just recently announced their carbon neutrality. We've seen that movement.

The other thing I'll say is that from an accounting lens, we've seen the movement as well because there is ask for consistency. I talked about confusion there is so much out there, so many different frameworks, so many ways of doing things, but there's also this ask for consistency.

The IFRS foundation which is the International Financial Reporting Standards foundation, they put out a consultation paper asking for is there is a demand for global sustainability standards board. If nothing else that in itself is extremely pivotal meaning that someone saying we need a standards board, a global international standards board that will help offer some consistency in standards in terms of reporting.

Now, we look at our own government in Canada, and they have been extremely progressive. Our government announced their Net-Zero Emissions Accountability Act, which lays out the foundation for Canada's commitment to net-zero emissions by 2050.

When COVID had hit, and the government was introducing all of the different incentives, they actually put out the LEEFF program, which is the Large Employer Emergency Financing Facility.

For those companies that are impacted by COVID-19, they put a requirement in there saying that those recipients of this facility must disclose in their annual reporting climate-related financial disclosure. That was a huge kudo for Canada that the government asked organizations to disclose their climate-related issues, climate-related impacts.

Then you get into the investor side. I talked about the global investors, but Canadian investors are signaling their renewed focus on ESG. Capital markets are significantly integrating ESG into their assets management. I would say over the last two years, we have about 48 percent increase in the responsible investments under management.

Canada has maybe 3.2 trillion investment. That's huge. What that indicates is that there's a significant number of Canadian ESG funds that are outperforming the non-ESG counterparts. Again, that's signaling a direction that ESG is going, a direction that the whole market is going.

I would say overall, in 2020, we've seen unprecedented disruptions in the way we work, the way we live, the way we actually function. That has accelerated the ESG momentum to the point that it's not slowing down. The consumers are starting to ask for those changes. 2021, I would say get ready for the ride because it's continuing.

David: Davinder Valeri, director of strategy, risk, and performance with CPA Canada, talking about what sustainability means in the business world.

What role do CPAs have to play as we create this newly sustainable future? To delve further into this topic, I'm joined by Anne-Marie Hubert, Canada East leader for EY. Anne-Marie has a strong history in sustainability initiatives and she's considered one of the key players in highlighting this topic within the broader business community.

Anne-Marie, from your vantage point, how is the investment community responding to the idea of sustainability?

Anne-Marie Hubert: From my perspective, David, the investors are leading the change. We are in a world where investors with around $50 trillion of assets under management or asking for TCFD disclosure -- Taskforce on Climate Financial Disclosure -- that's about 50 percent of investors on the planet who are interested in understanding what corporations' investing are doing about climate.

Those standards did not exist five years ago, those standards were developed in about 18 months. They've been in existence for over three years, and a half of the investors on the planet are expecting companies investing to do more for the planet. That's one element.

You would have seen the Maple 8, the largest pension fund in Canada. The CEOs, they issued the statement in November, saying, "OK, we take it seriously, both the climate and the inequalities, and diversity. We would expect corporations and employers to do more on those two topics."

They're truly living the change with their stewardship engagement with the asset managers that work for them or when they do the asset management themselves with the companies they invest in. They're expecting corporate Canada to step up.

Then when you look at what's going on in the US with the recent election, with the Biden administration, commitment to net-zero, Canada commitment to net-zero, that will just the regulators and the political side will accelerate the change one would expect for COP26.

David: Can you give us some examples of sustainable financial products? I've heard people talking about green bonds, for instance.

Anne-Marie: Yeah, there's discussions around green bonds, sustainable bonds. It's a financial instrument where you get a bond on the basis that you're committing to do better from an environment perspective for green bond or for a society for a sustainable bond.

You would commit for example, in the field of medication, one large pharmaceutical company committed to have some key medicine available to a greater proportion of people in underdeveloped economy.

I'm still going to service the needs of the broader population, but I've got to make sure some people who typically would not have got my medication will get it and they've committed to do so while reducing their carbon footprint and doing better from an inclusivity perspective, diversity/inclusivity perspective.

They set the very specific targets. They have a benchmark where they're at and what progress they're going to make. If they achieve that target, they keep the lower interest rate. If they miss the target, interest goes back up.

There is a financial incentive to achieve the right societal outcome. It also, at the same time, creates a very good brand effect because people realize you're doing good for society. You're doing it in a way that will preserve the planet.

David: The business conversation around the world is focused on recovering and rebuilding from the effects of the pandemic. In terms of COVID-19, some government support programs have been tied to sustainability. How would you say the pandemic has affected the case for sustainability?

Anne-Marie: It's very clear that the pandemic has accelerated the case for sustainability, what many governments in the world see as an opportunity to support the recovery and support a transition to a digital, green, and inclusive recovery.

If you're going to put government money to support business to maintain employment, might as well use the government money to advance the adoption of technology, the innovation by the various industries, advance the adoption of mechanism to reduce the carbon emission or improve other types of societal goals. Governments are moving very very fast in that direction.

David: In 2017, the Task Force on Climate-Related Financial Disclosures released recommendations around voluntary climate-related financial risk disclosures for companies.

More recently, CPA Canada has been involved in consultations with the IFRS foundation to widen its mandate to include sustainability standard setting. Why are standards so important? When do you think we can expect to see them in place?

Anne-Marie: We're talking about the investment community leading the change. If they want to be able to make investment decisions and consider the financial impact of climate, or other diversity, or other critical metrics for an inclusive growth, you have to give them the data.

If the data is developed with multiple standards and you can't compare the data, it's hard to make consistent decisions. A greater data will enable the investment community, the financial services community to make better financial decisions that uses the lens on the risks associated with climate or risks associated with social unrest.

If we don't have societies that are more inclusive and too much gap between the rich and the poor, that enables the financial community to make decisions that factor in those factors and the decision-making for investment decisions.

The data is key. Consistency of data is key. There was a big challenge. There are so many frameworks that exist for sustainability reporting.

When we started a project at EY a few years ago with the Coalition for Inclusive Capitalism, we worked with 63 existing frameworks. We need consistency. The financial landscape is global. Convergence on standards setting is critically important for the financial community.

It's also critically important for efficiencies at the business level. If you're a CFO and one investor is asking one set of standards, the other one is asking another side of reporting, you're trying to be in a piece of work and they're asking for different metrics, that's a waste of energy.

It doesn't allow you to have the impact we're trying to have. We're trying to make sure capital will be allocated to drive value for investors but also value for other stakeholders at the same time. If we don't have the data to do that, it's not going to be able to work.

David: Do you think it's appropriate that these measures remain voluntary, or is there a case to be made the companies should be required to release this sort of information?

Anne-Marie: Is it appropriate? It's hard to make consistent financial decisions if you don't have consistent data. Data is a big challenge. I would expect that at COP 26, we will see more countries moving in that direction.

You see the work of the Financial Stability Board on climate where the central banks are working with a financial system to try to say, "OK, we want TCFD-type disclosure. How do we get there?" They're doing the pilots. We're doing a pilot in Canada as it is to be able to integrate physical climate risk, and transition climate risk, and decisions.

One would think that regulation will come at least on the climate front. There's one organization that's a very large organization in Canada. When they look at the results every month, they don't start with financials. They start with talent.

As more and more businesses move in that direction because they realize their investors are looking for this, it enables them to drive long-term value for all stakeholders, including investors. As more and more businesses move in that direction, it's going to be easier for regulators to regulate, make it mandatory.

David: How can companies that have a serious impact on the environment be persuaded to release this information, if they don't have to?

Anne-Marie: If we're serious about net-zero and preserving the planet, we need to help the largest emitters. That's the initiative that was undertaken with the Climate 100+ initiative.

The largest emitters in the world were approached to understand where's your emission coming from and what the transition plan could look like to get to a science-based target that would get you to net-zero.

This initiative was undertaken with support. What are the others do? Where do you go from here? We're in a place now where the majority of those large emitters in the world have their plans to get to net-zero by 2050 or 2060, depending if you're underdeveloped economies or not.

You look at the largest emitter in India that has a clear path forward, a path that will include becoming one of the largest producers of clean energy in the world. Their ambition is, in fact, to be number one. They're amongst the top as it is.

They simply stopped investing in legacy. They maintain because you don't want to cause challenges with your existing production, but all the new investments go to new source of energy.

You can't stop providing electricity or means of transportation to citizens that exist. You have to have a transition. They don't add. They add new sources of energy that are clean. They're working with other investors to invest in the transmission facilities and the storage facilities.

We saw a very sad example in Alberta where there was a decision that was the right decision. We got to stop producing electricity with coal. We got to close those plants, but we did it very fast.

What that meant, it meant lots of people losing their jobs. No other jobs available around for those individuals. Largest amount of suicides in the male population in the province ever, social unrest, all kinds of social issues that arose as a result of going too fast and not investing in enabling the individuals impacted in reskilling.

We can't lose sight of the human aspect of the transition. We have to make sure we work in a coordinated plan, and we help the industry and the individuals impacted effect the transition.

The roadmap to get there is pretty consistent from one place to the other. It's very obvious that we will need clean electricity production, transmission, storage, clean hydrogen production, transmission, storage, carbon capture and a carbon market.

David: The challenges we're facing are clearly enormous. I'm wondering how you feel when you look to the future when things seem so uncertain what roles the CPAs play in all of this?

Anne-Marie: When I look in the future, I think we have to face the reality and I think as Canadians we can face the reality and join forces to help each other make that transition beneficial for all Canadians.

We have all kinds of sources of energy across the country. We will need to embrace the challenge of energy transition, and oil and gas producers are already embracing, but we don't listen to each other and we don't have a Canadian roadmap.

We will need to invest together in infrastructures to support the transition. We have the infrastructure bank, the key infrastructure bank, that is in a key role that can help us get there and bring some of the public sector money to help make the transition and attract some other investment money to support the transition. We're well educated population, we should be able to embrace the challenge and be a global winner in that space.

We have natural resources, we will have to make sure we provide everyone with broadband access also to be able to embrace the reskilling challenge that is equally important. I see a bright future for Canada given the talent of people we have here and given our culture of working together. We need coordinated leadership though, that's critically important.

CPA Canada has been one of the key influencers globally in so many aspects to help us get to global standards, and we'll continue probably to play that role. We have roles that resemble us. CPA Canada has a key role to play in helping with the education, upskilling a number of people that need to learn new skills.

CPA Canada has a critical role to help its members provide the financial markets the trust required on quality information that we need to have to be able to make the right investments decisions and allocate capital to the right projects, initiatives, opportunities for collective future.

David: What do you think new CPAs should be doing to best position themselves for success in this space?

Anne-Marie: Current CPA and new CPAs need to be curious. They need to be interested in the changes that are impacting our lives and the life of our children, grandchildren. Science is giving us new information every day. Data collection is happening every day.

We will collectively with the CPA profession and other experts provide the financial markets with better data and data we can trust. That's one of the key attributes that we bring, ability to bring judgment, validate the data, understand the data and make it useful for the financial markets.

Curiosity, desire to learn because it's going to continue to evolve, desire to contribute relevant information to other financial impact to allocate resources to create a better future that will drive value for all stakeholders. Yes, for investors if you've a pension fund you have no option. You get to deliver money to pay the pension of people who will retire in the future. That is not an option.

The way you do it though, there are multiple options. We have the privilege to live in a world at a time where investors recognize that you will drive greater value for your investors if you drive value for your customers, your employees, and society.

David: Anne-Marie, thank you so much for joining me to discuss this critical topic.

Anne-Marie: It was my pleasure to be here, David.

David: Anne-Marie Hubert, is the Canada East leader with EY. Foresight, the CPA podcast is created by CPA Canada in partnership with Podcraft productions. For more information about the Foresight Initiative, head to foresight.cpacanada.ca. I'm David McGuffin. Thanks for joining me. See you next time.

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