

SUSTAINABILITY

*"Meeting the needs of the present
without compromising the ability of future
generations to meet their own needs"*

United Nations Brundtland Commission





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Presenting AFA's sustainability agenda for 2022

Our contribution to the ASEAN accountancy profession's capacity in sustainability



Voravit Janthanakul
President, AFA

“Leaders who think about their organisations’ go-forward strategies always incorporate and adapt sustainability to their business operation. Sustainability is no longer good to have, but a must have. Any organisation that does not put this on their agenda may face its own demise.”

When I delivered this message at one of our sustainability discussions this year, AFA was actively working with our member organisations, partners, and stakeholders to provide our ASEAN accountants with the latest update on sustainability. I am pleased to see the progress that we have made so far on our collective efforts to ensure that our stakeholders are well aware of the changes happening around us. Most importantly, on their potential impact on the future of our profession and our life.

In the space of six months, AFA has successfully organised several discussions together with key stakeholders such as the International Federation of Accountants (IFAC), IFRS Foundation, and the International Sustainability Standards Board (ISSB). I believe collaboration will be even more important, as we continue to identify and understand the challenges in front of us. AFA certainly will continue to work with our stakeholders on our common interests, including on sustainability.

As defined by the United Nations Brundtland Commission, sustainability is about meeting the needs of the present without compromising the ability of future generations to meet their own needs. It is time for us to truly embrace and commit to this cause. Accountants can and should play an important role in bridging the gap between financial and sustainability information and support businesses and organisations to make better decisions with sustainability in mind.

I am pleased to present the ninth edition of the AFA Connect as the first under my term as AFA President. We have chosen to put the spotlight on sustainability, as part of our sustainability agenda for 2022. I believe it is important for us to continue to collaborate in this space and for our profession to position itself as a leader in our joint effort towards a better tomorrow.

I hope you find this edition of the AFA Connect useful, especially in your sustainability journey.

Thank you.



Bridging the gap between financial and sustainability information

The importance of collaboration in building regional awareness towards sustainability



Aucky Pratama
Executive Director, AFA

Announcement of the formation of the International Sustainability Standards Board (ISSB) and consolidation of the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF) into the IFRS Foundation by Chair of the IFRS Foundation Trustee, Erkki Liikanen at the [COP26](#) in November 2021 has set the tone for many stakeholders' ongoing sustainability journey, including the accountancy profession.

Sustainability becomes a hot topic and a priority for most, as we reassess our role and contribution towards creating a sustainable future.

News of the IFRS Foundation and the Global Reporting Initiative (GRI) [agreement](#), as well as the ISSB's publication of its inaugural [consultation](#) for the proposed disclosure standards in March further encourage efforts from organisations around the world to keep

up with progress of the discussion and to mirror changes happening globally at regional or jurisdictional level.

AFA recognises the importance of building ASEAN stakeholders' awareness towards sustainability-related issues. In 2021, we have conducted discussions focusing on the [future of reporting](#) and the role of accountants in reporting [long-term value creation](#) with representatives of the International Federation of Accountants (IFAC), International Integrated Reporting Council (IIRC), Value Reporting Foundation (VRF), and our member organisations CPA Australia, Malaysian Institute of Accountants (MIA) and the Malaysian Institute of Certified Public Accountants (MICPA).

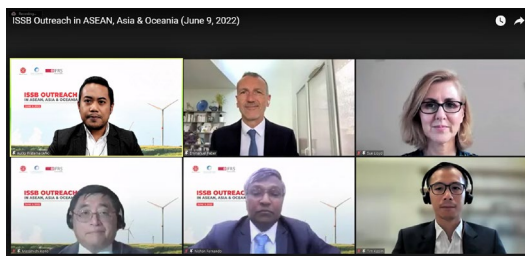
Together with representatives of the Institute of Indonesia Chartered Accountants (IAI) and ICAEW, as well as subject matter experts from the region, we conducted a discussion on [green and sustainable finance](#). A key takeaway from the discussion was the

need for a sense of urgency from everyone involved, including the accountancy profession to build expertise and capacity to understand sustainability issues and translate them into financial information for business decision making.

Keeping with the momentum, under the leadership of President Voravit Janthanakul we have established our sustainability agenda for 2022. It consists of a series of discussions on different aspects of sustainability, culminating in a regional sustainability conference that will be organised towards the end of 2022. These discussions are aimed to continue building ASEAN stakeholders' awareness towards the latest developments in sustainability discussion and explore potential for collaboration in building ASEAN accountants' capacity in sustainability.

Sustainability reporting: Towards a global baseline of sustainability disclosure

"Today, the capital markets are required to play a key role in reaching net zero, through allocation of capital. For that to be a reality, sustainability information needs to be produced, with the same rigour, assurance of quality, and global comparability as financial information" said Nishan Fernando (Chair, Asian-Oceanian Standard-Setters Group or AOSSG) at the recently organised ISSB outreach in ASEAN, Asia & Oceania facilitated by AFA and the AOSSG.



ISSB outreach in ASEAN, Asia & Oceania webinar (June 9, 2022)

In order to be global, the standards need to consider and accommodate the different interests of the global stakeholders, including those in the ASEAN and Asia and Oceania

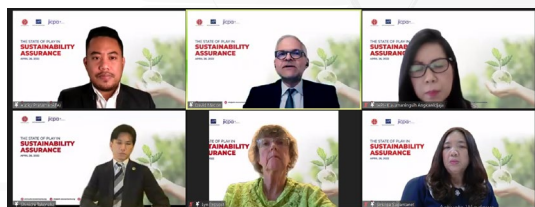
region. "Making sure that what the ISSB does is relevant for the further developments of economies in the ASEAN, Asia and Oceania region is absolutely fundamental, because of the demographics, economics, and potential contributions that the region can give to the rest of the world." Emmanuel Faber (Chair, ISSB).

AFA understands the importance of building our stakeholders' awareness towards sustainability, to promote the ISSB and its remit to the ASEAN stakeholders, and to get their support and participation in the development of the IFRS Sustainability Disclosure Standards.

It is also important to understand stakeholders' varying level of readiness and capacity to adopt and implement the standards. Capacity building will be an important part of our ongoing sustainability journey, one that AFA is very much look forward to contributing to together with our member organisations, partners, and stakeholders in the region.

Sustainability assurance: Establishing trust over credibility of sustainability disclosure

Stakeholders are responding to urgent demand from global investors and policymakers for a reporting system that delivers consistent, comparable, reliable, and assurable sustainability-related information. There is a growing understanding that sustainability disclosure must be subjected to high-quality, independent, and external assurance in order to be trusted.



Regional sustainability assurance webinar: The state of play in sustainability assurance (April 26, 2022)

In its vision for high-quality assurance for sustainability information, IFAC addresses the importance of global standards, regulation

that supports decision-useful disclosure, and the value of an interconnected approach to sustainability and financial information reporting and assurance.

“The global momentum for sustainability reporting is clear. Investors, policymakers, and others are increasingly seeking external assurance to provide confidence in the reliability of that reporting. The International Accounting and Auditing Standards Board (IAASB) is acting with a sense of urgency to meet this call by providing a global solution for high quality consistent sustainability assurance.” said Lyn Provost (Board Member, IAASB and Chair, Sustainability Task Force, IAASB).

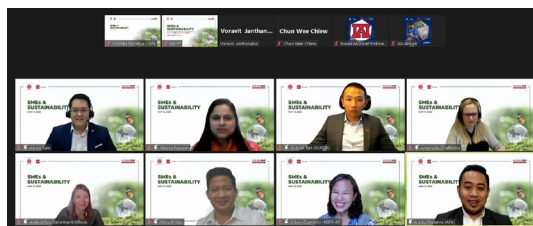
Our [discussion](#) with IFAC, IAASB, Indonesian Institute of Certified Public Accountants (IAPI), Japanese Institute of Certified Public Accountants (JICPA), and the Deputy Secretary-General of the Securities and Exchange Commission, Thailand led to an understanding that discussions on assurance of sustainability-related information must closely follow those of the sustainability reporting. It is an important piece of the big sustainability puzzle.

Sustainability assurance is an important element of establishing trust over credibility of sustainability disclosure.

Sustainability mindset: From reporting compliance to a way of doing (good) business

An important group of stakeholders often overlooked in discussions on sustainability issues are the Small and Medium Enterprises (SME). SMEs represent about 90% of businesses and more than 50% of employment worldwide. Global sustainability challenges can only be addressed appropriately and comprehensively with involvement from the SMEs and full support from accountants in the Small and Medium Practices (SMP).

Whilst larger enterprises are required to take concrete steps and report on their nonfinancial-information, and to cascade those requirements down the supply chains, SMEs need to be ready and keep up with the challenge to do the same due diligence.



SMEs and sustainability webinar: The path towards sustainable transformation (May 12, 2022)

From our [discussion](#) with ACCA and representatives of accountants practicing in SMEs and SMPs, it is clear that sustainability should not just be a requirement for compliance. By embracing sustainability as a mindset and potentially a competitive advantage, businesses can tap into new opportunities to grow and differentiate from their competitors. Accountants in the SMEs and SMPs are in the best position to help these businesses in their sustainability transformation journey, by offering the depth of analysis needed to make better informed decisions about implementing more sustainable practices in business operations for business growth.

As highlighted by Gabriel Tan (Director, Guava Amenities, Singapore) on adoption of sustainable practices, “It starts with a change of mindset, especially at the top of the leadership. Once started, it is important to understand what the business is trying to achieve”.

So, have you started your sustainability journey yet?

SMEs and the sustainability push

Professional accountants are key to driving small enterprises along the sustainability road



Aaron Saw

Head of Policy and Technical, ACCA



Aleksandra Zaronina

Head of SME Professional Insight, ACCA

Is sustainability a concern primarily for the largest organisations only? While it is true that the activities of the world's biggest companies have a significant impact on the environment and society as a whole, it is the huge community of small and medium-sized enterprises (SMEs) across the globe that collectively dominate economies. If we are to tackle the world's challenges through sustainable business practices, then it is SMEs that will make the difference.

As we celebrate the United Nations' Micro, Small and Medium-Sized Enterprises (MSMEs) Day on 27 June, it's a good time to remember that taking action on sustainability can be a significant challenge for MSMEs, as they tend to have fewer resources and more restricted access to capital than their larger counterparts. But as a recent webinar and panel discussion organised by the [ASEAN Federation of Accountants](#) (AFA) and ACCA highlighted,

sustainable business practices can bring real benefits to smaller businesses, and professional accountants are ideally placed to support them on their sustainability journey.

The business case

Taking the theme of 'SMEs and sustainability: the path towards sustainable transformation', the webinar put forward the business case for sustainability. There are compelling reasons why this is the right time for SMEs to take steps towards sustainable transformation:

- Wider supply chain transformation. Larger organisations are coming under pressure to make their supply chains more sustainable. It makes sense for SMEs to move simultaneously with them, as they form a significant part of the supply chain of larger businesses.

- ✔ Cost management. Sustainability is an opportunity, not a cost. Water and energy efficiency initiatives, recycling and waste reduction all offer opportunities to improve resource allocation, streamline operations and improve profitability.
- ✔ Creating value. In an increasingly environmentally conscious world, sustainable business practices can enhance brand value and ensure that organisations are more resilient to shock.
- ✔ Attracting talent. Younger workers in particular are attracted to organisations with values that reflect their own, and which take a strong stand on social and environmental issues. A purpose-driven business can make SMEs more attractive to talent.
- ✔ Securing investment. Lenders and investors are looking for and expecting commitment to sustainable business practices.

AFA and ACCA believe that sustainability is a significant area of untapped potential for professional accountants. Accountants work at the heart of organisations and are ideally positioned to help drive an organisation towards sustainable business practices. And as trusted advisers, they are particularly well placed to support SMEs on sustainability and able to play a critical role at every stage by, for example:

- ✔ explaining the business case for sustainability
- ✔ identifying and evaluating risks
- ✔ advising SMEs on reporting frameworks, waste reduction schemes and other emerging initiatives
- ✔ facilitating networking and information sharing on sustainability
- ✔ providing the data and analysis to help SMEs chart their progress and set and meet targets

- ✔ helping SMEs communicate transparently with stakeholders – SMEs are not yet required to report in detail on sustainability, but it is likely that reporting requirements will increase in the future
- ✔ helping SMEs to access government incentives and grants.

Transformation stories

Sustainability is a huge topic and can be intimidating for SMEs, but the journey towards sustainability need not be complex. A panel discussion during the webinar included businesses in the region recounting their own experiences of transformation or how they helped clients in their sustainability transformation. The speakers made it clear that transformation and sustainability action takes time and begins with knowledge and awareness. Even small, simple steps can have a large impact overtime.

In terms of a starting point for sustainability action, the United Nations' 17 Sustainable Development Goals are an excellent guide, but the individual context of each business is equally important. In other words, an SME should focus on those sustainability topics that align with its own purpose and strategy and which are relevant and important to the business. This might mean, for example, waste reduction, diversity and human rights. The next step is to identify sustainable business actions within these themes, such as recycling in the office or screening of suppliers.

New mindset

Another key point highlighted at the event is that sustainability is not just about reporting, disclosures or compliance – it is a way of doing business. Sustainability is a mindset that should be embedded from the very top of the organisation; it should be part of the business's culture and drive key decisions such as policy-making, investment and procurement.

The webinar speakers stressed that for sustainability to be credible it must be based on action rather than words, and that means monitoring and measuring it. Asking suppliers to self-declare their social or environmental credentials, for example, maybe an important first step but it should also be supported by verifiable evidence – for example, in the contracting process.

The business world is undergoing a profound transformation as it continues to embrace sustainable business practices, and accountants should be leading the way. Professional accountants' collective technical and business knowledge, analytical skills, understanding of risk and, above all, ability to explain sustainability in the language of business will be invaluable to businesses large and small. Together, we can make a real difference.

More information

AFA and ACCA have produced a range of resources to help professional accountants working in industry and practice develop their sustainability expertise and guide companies towards more sustainable business practices.

See, for example, ACCA and CA ANZ's [SME sustainability playbook](#), and ACCA's [Rethinking Sustainable Business hub](#) and [Certificate in Sustainability for Finance](#).

This article is reproduced from ACCA's member magazine [Accounting and Business](#).

What is the future of ESG reporting and what are its benefits?



Josh Heniro, Ph.D.

Senior Director of IMA Southeast Asia and Australasia

Organizations are setting broad sustainable business goals based on their purpose, values, and strategy. Many business professionals view the term sustainability through the lens of external demands for information on how a company affects society and the planet on issues such as climate change and deforestation. Business sustainability also means operating in a way that reflects an understanding that the Earth's ability to reabsorb the wastes of modern production, such as greenhouse gas emissions and plastic waste, is also limited.

Sustainability reporting has been steadily increasing. [According to G&A](#), only 20% of the S&P 500 companies were publishing a sustainability report in 2011. Fast-forward to 10 years later, in 2020, G&A found that 92% of companies in the S&P 500 were publishing a sustainability report, which saw an increase from 90% in 2019. The commitment has highlighted the importance of sustainability reporting in a post-pandemic recovery.

ESG reporting is also beneficial to the finance function. According to [a report](#) by KKS Advisors and The Test of Corporate Purpose Initiative, it noted that, “where a strong and rapidly growing body of [evidence](#) shows a positive link between corporate strategies that focus on societal needs and superior financial performance.” An increasing focus on environmental, social and governance (ESG) issues from investors, regulators, and stakeholders is creating new demands for companies to meet higher levels of transparency in ESG reporting.

IMA's commitment to ESG

In 2021, IMA established a [Sustainable Business Management Global Task Force](#) to speak on behalf of the management accounting profession, accountants, and finance professionals in business. As one of its primary objectives, the Task Force defined a set of fundamental principles for building a successful and sustainable accounting ecosystem.

The Task Force will look to:

- ✔ Advocate on behalf of the profession before governments, regulatory authorities, and other organizations on sustainable business management and the perspectives of accountants and financial professionals in business.
- ✔ Educate IMA members and the global business community on the role of accounting and finance professionals with respect to sustainable business information and management.

On top of establishing a global task force for sustainable business management, IMA is also committed to the societal part of ESG, such as diversity, equity, and inclusion (DE&I). In 2021, IMA collaborated with CalCPA (California Society of CPAs) and other research partners, contributors, and advisors to examine DE&I in the accounting profession. The study included an online survey of more than 8,500 current and former accounting professionals and interviews of more than 100 accounting, human resources, and DE&I practitioners and academics. The Asia-Pacific region saw most of the respondents viewing the profession as equitable or inclusive at 71%, which is the highest as compared to other regions and well above average. However, more work needs to be done to minimize the diversity gap. In April 2022, IMA and CalCPA collaborated with the International Federation of Accountants (IFAC) to produce a solution report in response to the issues addressed in the initial report.

IMA and IFAC are now co-sponsoring and mobilizing the next phase: the global series of research studies across multiple jurisdictions with the intent to publish an independent report for individual regions. The focus is the Southeast Asia region with a specific concentration on gender and race/ethnicity. This study is supported by regional research partners such as ASEAN Federation of Accountants (AFA) and the report is expected to be released in early Q3 2022.

What can CFOs and organizations do

CFOs have a large part to play in guiding the company and finance team in ESG reporting. Not only do they need to plan and forecast the costs for an environmentally sustainable operation, but they would also have to account sustainability reporting to the investors and stakeholders of the company. According to IMA's "[CFO of the Future](#)" report, 78% of the respondents believed that the ethical lens differentiated the CFO from other executives. The ability to apply an ethical lens is a strong attribute of the CFO and the finance community in general, which is especially important in times of rapid change. Those who take initiative and champion sustainable business and integrated enterprise approaches guide their companies to superior performance.

The role of the CFO kicks in to guide the organization in achieving its environmental goals. For instance, [putting a price](#) on greenhouse gas emissions such as electricity and utilities will bring awareness to the energy usage, cost, and alternative sources, encouraging employees to cut down on carbon emissions. Eventually, this will lead to a decrease in greenhouse gas emissions and regulatory requirements, striking off the environmental and governance goal. Thus, CFOs will have to work closely with the HR department to ensure a diversified, equal, and inclusive work environment. In the very near future, a company's financing rates will be directly linked to its ESG performance.

Benefits of having a strong ESG culture

Following last year's COP26 meeting, it is essential more than ever for CFOs and their finance teams to ramp up on ESG and financial reporting. Moving ahead, the public, government, and regulators will place more emphasis and attention on a sustainable recovery.

Sustainability and the growth of the company are inextricably intertwined. As a company works towards a more sustainable business operation, it will see long-term growth, profitability, and an increase in competitiveness in the market. Companies that are doing well in ESG reporting will appeal to more investors in the market, allowing the company to have greater access to funding. According to a [report by SAP](#), respondents who believe environmental issues are already materially affecting their companies' finances and operations are 11% more likely to expect that environmental sustainability will increase long-term revenues and profits as compared to respondents who don't or belatedly believe in the impact of environmental issues to their company's finances.

Therefore, companies, and finance and accounting teams, can no longer undermine the importance of ESG and financial reporting. The new norm not only refers to a hybrid work process but also a strong agenda for sustainability and ethics in which IMA is also striving towards.