Spotlight on sustainability:

Redefining the role of the finance function

November 2024

Overview

Integrating sustainability into corporate strategies has become an important factor influencing investment decisions and shaping stakeholder expectations.

Weighed down by pressing environmental and social challenges, businesses are increasingly recognising the need to redefine how organisations measure success beyond quantifying, monitoring and communicating conventional financial metrics. This has presented important implications on the role of the finance function.

PwC has been examining how these dynamics play out in recent years, prompting important discussions around the need for finance professionals to invest in data-driven decision making and upskilling among other priorities.

This publication builds the case for greater involvement by the C-suite in **advancing the sustainability agenda and reflects on how finance can take the lead** on sustainable transformation. There is significant opportunity for finance function professionals to take up the mantle in enhancing stakeholder trust amid mounting pressure to achieve net zero aspirations.

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1 Sustainability is fundamentally reshaping the business landscape

Organisations are shifting focus from shareholder primacy to a broader stakeholder centric approach

The era of prioritising shareholders above all else is giving way to a new paradigm where the focus is on broader stakeholders. Beyond just rebalancing priorities; it’s about redefining how organisational performance is being measured.

Traditionally, value has been measured by financial returns alone, but in this new landscape, value creation encompasses a wider array of outcomes, including environmental and societal impacts. Pursuing value creation includes taking into account the varied needs of stakeholders like employees, who need to be engaged to get behind the organisation's vision and wider societal purpose.

As observed in a joint study by PwC Malaysia and the Asia School of Business 'Leading the leap: Trust-driven strategies to shape reinvention', employees working in a high-trust organisation are emotionally connected to the overarching sustainability goals of the business. They are invested in the success of the organisation and in doing so, they will be more likely to adapt to changes affecting the business, whilst staying aligned with the organisation’s end goal.

Adopting an inclusive approach to stakeholder management enables organisations to foster relationships like this both internally and externally for more equitable outcomes.

Sustainability provides insights into non-financial factors

Non-financial factors, often captured under the umbrella of sustainability, are increasingly crucial indicators of long-term success. Sustainability considers factors such as greenhouse gas (GHG) emissions, labour rights, and climate risk mitigation, and these factors are now being assessed with methodologies to attribute financial value to them. These are not just ethical considerations; they are predictors of financial resilience.

Understanding and managing these non-financial factors allows businesses to anticipate and mitigate risks before they materialise into costly setbacks, while also offering a lens through which organisations can identify new opportunities.

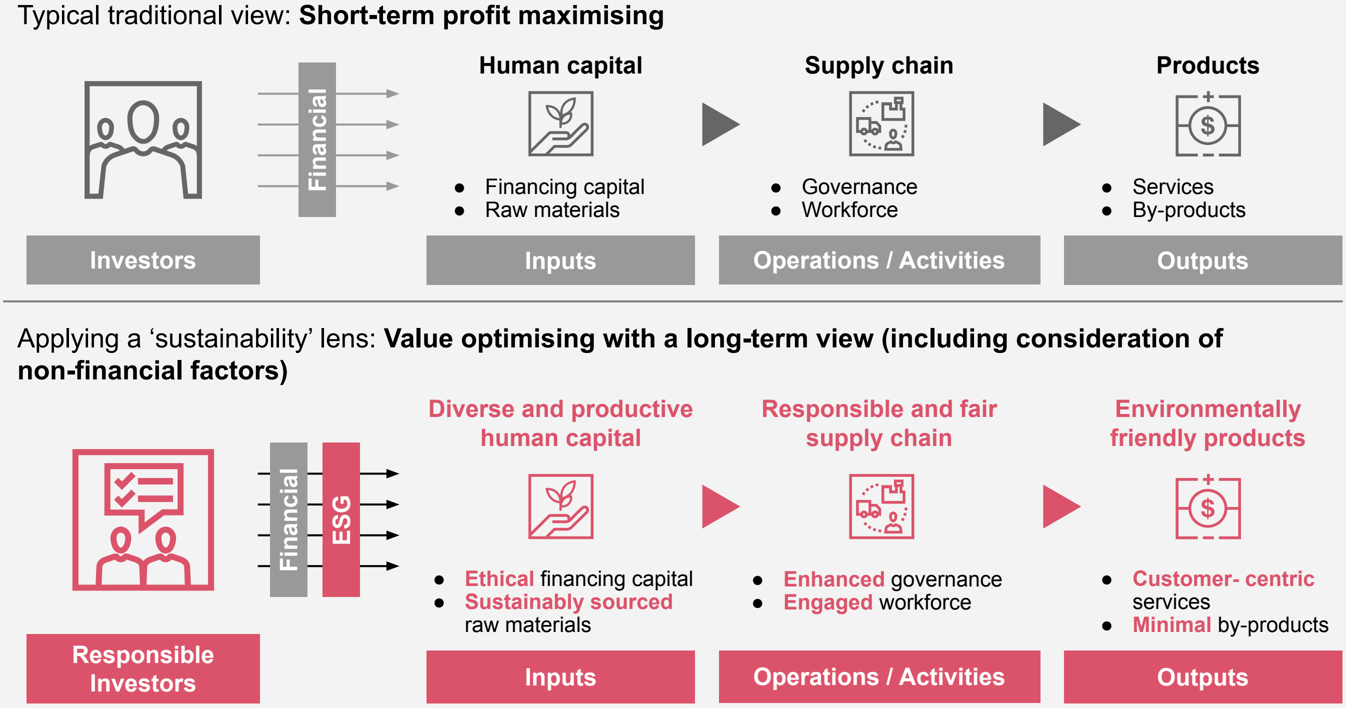


Figure 1: How organisations can create value beyond financial factors

1. Sustainability is fundamentally reshaping the business landscape (cont'd)

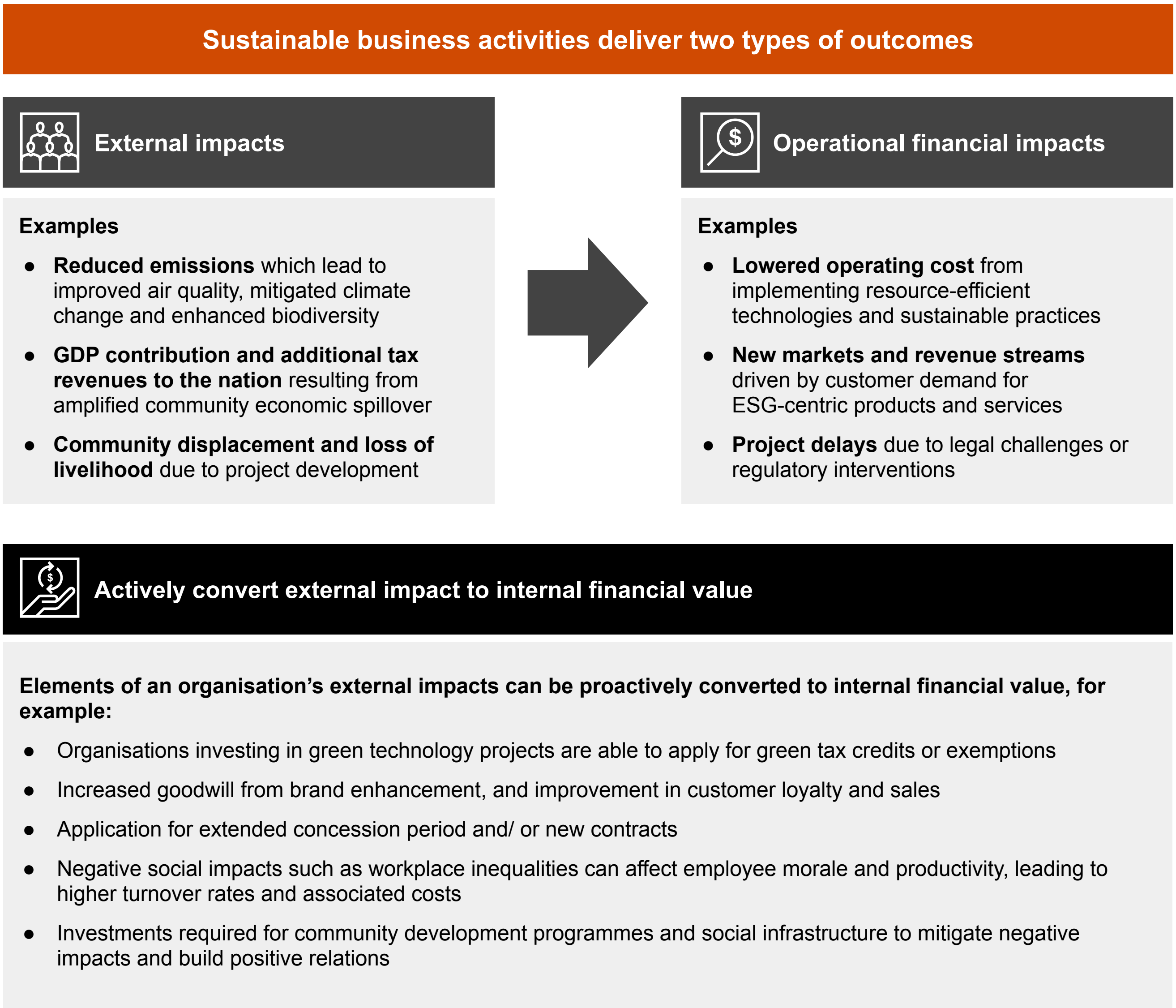
Leading the way: Capturing the societal impacts of business activities

Forward-thinking organisations are increasingly recognising that their business activities extend far beyond the immediate financial bottom line. The role of the finance function is now extended beyond management and financial reporting to supporting a wider scope, aligning sustainability performance to the organisation's financials.

However, despite this growing awareness, many organisations still fail to fully convert these external impacts into internal financial value to enhance their long-term performance. While negative impacts reveal room for improvement in mitigating present or future costs, positive impacts provide a broad range of opportunities for value capture, for example, leveraging government incentives, strengthening reputational capital and fostering a motivated and engaged workforce.

It is important to recognise that the ability to generate positive external impact is not just a matter of compliance or corporate responsibility; it is a strategic lever that can drive competitiveness and long-term success.

Figure 2: How organisations can convert external impacts into financial value



Sustainable business activities deliver two types of outcomes

External impacts

Examples

- **Reduced emissions** which lead to improved air quality, mitigated climate change and enhanced biodiversity
- **GDP contribution and additional tax revenues to the nation** resulting from amplified community economic spillover
- **Community displacement and loss of livelihood** due to project development

Operational financial impacts

Examples

- **Lowered operating cost** from implementing resource-efficient technologies and sustainable practices
- **New markets and revenue streams** driven by customer demand for ESG-centric products and services
- **Project delays** due to legal challenges or regulatory interventions

Actively convert external impact to internal financial value

Elements of an organisation's external impacts can be proactively converted to internal financial value, for example:

- Organisations investing in green technology projects are able to apply for green tax credits or exemptions
- Increased goodwill from brand enhancement, and improvement in customer loyalty and sales
- Application for extended concession period and/ or new contracts
- Negative social impacts such as workplace inequalities can affect employee morale and productivity, leading to higher turnover rates and associated costs
- Investments required for community development programmes and social infrastructure to mitigate negative impacts and build positive relations

1. Sustainability is fundamentally reshaping the business landscape (cont'd)

Key stakeholders are supporting organisations that demonstrate net positive impacts

As organisations demonstrate positive environmental and social impacts, stakeholders such as governments, policymakers, finance providers, employees, and tax authorities play a crucial role in fostering an ecosystem that rewards and reinforces sustainability and ethical practices.

They contribute to and influence the strategic direction of organisations through policy advocacy, financial backing, and active engagement in sustainability initiatives.

These stakeholders create an environment where sustainable practices are encouraged and are made accessible. By leveraging the support given by the various stakeholders, organisations will be able to progress in their sustainability journey while demonstrating commitment to their ESG goals and differentiate themselves in the market.

Figure 3: Illustration of how stakeholders are actively supporting organisations in advancing sustainability

Finance providers

Provides access to **affordable financing options** to accelerate an organisation's expansion of green initiatives, including:

- Green financing (e.g. taking advantage of the Green Technology Financing Scheme)
- Impact investing with clear ESG goals and policies

Government, policymakers and regulators

Contributes to an organisation's **social license to operate** through:

- Engagement on specific policies to support green sector growth (e.g. Green Technology Master Plan 2017 - 2030) and positive socio-economic impact
- Strategic partnerships for green growth opportunities

Employees and broader stakeholders

Contributes to an **engaged workforce and positive momentum** as a result of the organisation's:

- Efforts to share data from impact reporting with employees and involve them in shaping future sustainability initiatives
- Linkage to wider sustainability strategy and purpose

Tax authorities

Implements tax policies to influence organisations to adopt green and sustainable practices through:

- Green tax allowances, incentives and grants to support the development of green infrastructure and initiatives
- Carbon taxes to reduce GHG emissions

1. Sustainability is fundamentally reshaping the business landscape (cont'd)

Sustainability has been increasing in impact and signalling a need for more holistic transformation in organisations

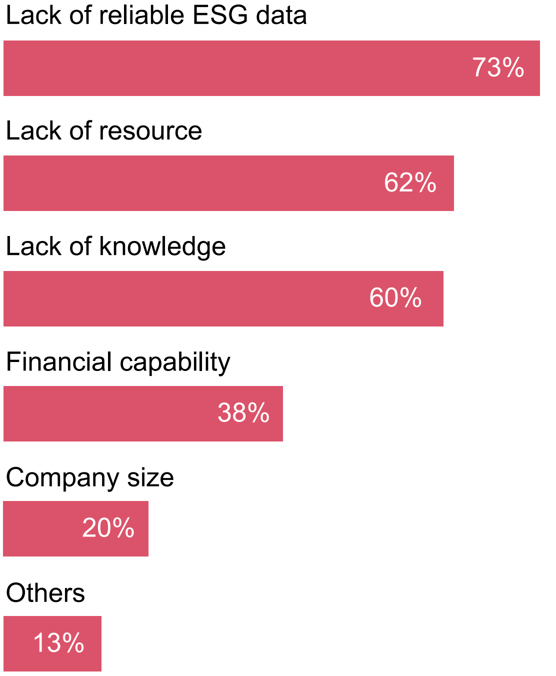
Going beyond maintaining the organisation's licence to operate, integrating sustainability into daily activities and decisions is about ensuring the organisation secures long-term value among its stakeholders. The full value of sustainability is only realised when an organisation moves beyond a compliance and high level commitment approach to embracing sustainability as part of its core day-to-day business activities.

Sustainability can no longer be treated as an independent topic within organisations and this calls for an all-in approach - in which sustainability permeates all aspects of an organisation (business unit priorities, functions, operating models, strategy and processes) as part of a wider transformation initiative.

However, at the core of every sustainability transformation lies a multitude of challenges, ranging from data and capability gaps and workforce awareness to a lack of commitment across different corporate functions.

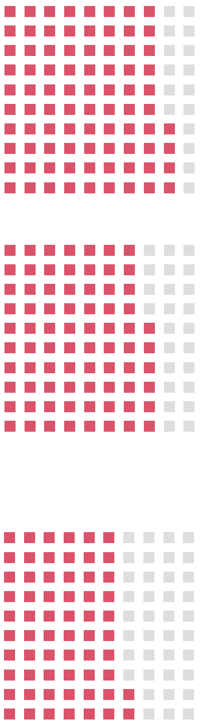
Limited in-house expertise could hinder progress. Respondents from PwC Malaysia's 2023 report in collaboration with MICPA 'From numbers to impact: A net zero remit for finance functions', believe there are clear challenges in finance's bid to turn organisations green.

Figure 4: Key challenges for the finance function in committing to sustainable practices



Respondents from PwC's 2023 Digital Trends in Supply Chain Survey indicate that while progress is being made in developing supply chain capabilities to integrate sustainability, insufficient digital skills and tools are hampering their best laid plans.

Figure 5: Key challenges in integrating sustainability into the existing supply chain



84%

say a lack of digital skills is the top challenge to integrating ESG into the supply chain

76%

say inadequate availability of data and digital tools is a challenge to integrating ESG into the supply chain

62%

say coordinating ESG investments across the company instead of separate spending is a challenge today

1. Sustainability is fundamentally reshaping the business landscape (cont'd)

Collaboration across the C-suite (CxOs) is essential for advancing sustainability and achieving the organisation's sustainability objectives

As individual elements of sustainability cannot be viewed or managed in isolation, collaboration across various business functions is essential to ensure that sustainability efforts are cohesive, effective and aligned with the organisation's wider transformation agenda.

Trust gaps can emerge when sustainability commitments are made but not fully executed, leading to perceptions of greenwashing. The Chief Financial Officer (CFO) plays a unique role in facilitating collaboration due to their comprehensive oversight and interaction across the organisation, stemming from their responsibility as the custodian of the organisation's financial data.

94% of investors believe corporate reporting on sustainability performance contains at least some unsupported claims

(PwC's Global Investor Survey 2023)

Figure 6: The CxO's role in advancing the overall sustainability agenda (non-exhaustive)

Chief Executive Officer

- Designs business strategies, including sustainability integration
- Sets the tone in nurturing stakeholders trust, showcasing both financial and non-financial performance

Chief Sustainability Officer

- Leads strategic sustainable business transformation including crafting sustainability goals and targets
- Define ESG metrics and targets, including overall reporting strategy

Provide strategic alignment to achieve the organisation's sustainability goals

Chief Financial Officer

- **Creates value through investments and financial planning**
- **Assesses financial outcome and impacts**
- **Converts positive impacts generated to financial benefits**
- **Links financial data to sustainability reporting outcomes**

Collaborate to achieve the organisation's sustainability goals

Chief Risk Officer	Assesses risks and opportunities related to sustainability. Establishes and monitors mitigation plans.
Chief Technology Officer	Identifies and integrates digital solutions for sustainability monitoring/reporting
Chief Human Resource Officer	Identifies skills and job needs and builds an engaged workforce with the right combination of technical and ESG skills to support the organisation's ESG agenda
Chief Operations Officer	Assesses opportunities for embedding ESG practices into existing policies and processes; green procurement, human rights policy, etc

2 The finance function is undergoing a significant shift

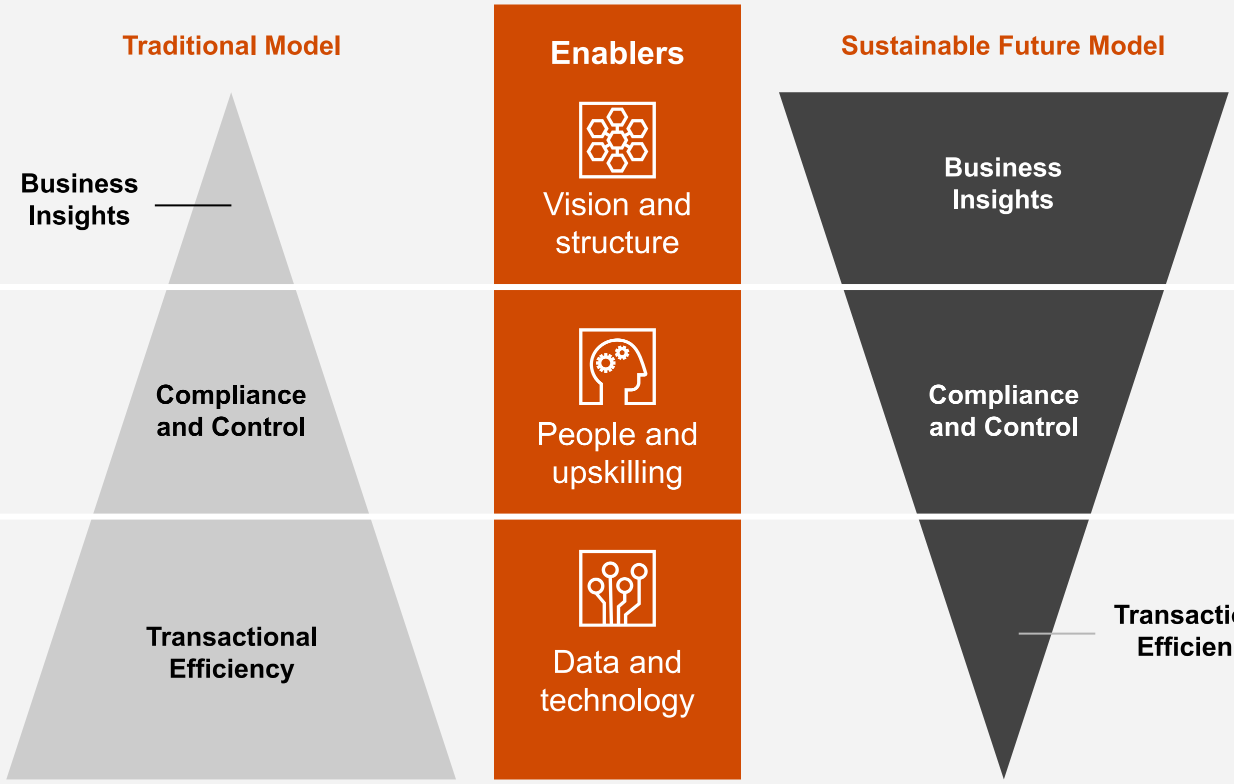
The finance function is responding to the imperative of integrating sustainability within organisations.

As established earlier, finance is emerging as a critical driver of organisational transformation, particularly in the context of sustainability and long-term value creation.

Findings from MICPA-PwC Malaysia's 2023 survey report, shows that 77% of the respondents consider the shift in the overall finance role to increasingly support the organisation's sustainability goals as a welcomed transition. Of that number, many believe that finance as a core function is strategically placed to address sustainability goals.

This aligns with the PwC Finance Function Framework below where the finance function are expected to evolve towards a more sustainable future model, with higher focus placed on providing business insights within the organisations.

Figure 7: The PwC Finance Function Framework



Integration of sustainability factors into finance's analysis and decision-making processes is crucial for driving business strategies, fostering sustainable growth and maintaining a competitive edge in today's business environment. In Section 3 of this publication, we will further explore how finance can take the lead in promoting sustainability.

The growing ESG momentum underscores the need for strong leadership from CFOs, who are essential for advancing sustainability and achieving their organisation’s objectives.

It is evident that the CFO has an ever-evolving role, shifting its focus from measuring, managing and reporting traditional elements of financial value in recent years to a wider ambit including supporting organisational sustainability goals. This shift reflects a broader understanding that financial value and sustainability are inextricably linked.

Figure 8: Examples of how the CFO can drive the overall sustainability agenda (non-exhaustive)

CFO	
Creates value through investment and financial planning: Assess value creation opportunities that align with the ESG strategy and initiatives and reduces costs through sustainable practices, effectively managing ESG budgets and achieving direct financial outcomes	**66%** of investors fully agree that organisations should make expenditures that address ESG issues relevant to their business even if it reduces short-term profitability. (PwC's Global Investor Survey 2023)
Assesses financial outcome and impacts: Evaluates the financial and non-financial outcomes of ESG strategies and initiatives, providing recommendations on those with the best return of investment (ROI) and associated externalities **Converts positive impacts generated to financial benefits**: Measures positive impact of organisational actions to the wider society in quantitative terms and identifies opportunities to convert these outcomes into value, e.g. through applications for green incentives, tax exemptions, and green financing.	**47%** of leaders see the loss of competitive advantage as well as reputational damage as the largest impacts resulting from failure to comply with ESG practices. (MICPA - PwC Malaysia 2023 survey report)
Links financial data to sustainability reporting: Integrates data systems to link ESG with finance Enterprise Resource Planning (ERP) systems and facilitating the gathering and analysis of data for ESG-related decisions (e.g. quantifying the impact of ESG risks and opportunities). This improves compliance, data quality, reporting transparency, and alignment with emerging regulations.	**10%** of leaders say ESG data is maintained as part of their organisation's ERP system. (PwC's 2023 Finance Function Survey report)

In addition to those highlighted above, future-focused CFOs are also playing highly strategic, complex, and enterprise-wide roles. They have shared responsibilities with risk management, purchasing, human resources and operations. It is crucial for CFOs to reimagine finance team roles and upskill staff on sustainability. With fresh skills and knowledge, the finance team can effectively collaborate across business functions and champion the strategic importance of sustainability.

3 How finance can take the lead on sustainable transformation

So what's in it for finance teams? As the custodian of an organisation's financial data, the finance function is uniquely positioned to go beyond providing sustainability-related financial metrics. It plays a vital role in transforming finance processes, embedding sustainability into the core of the organisation's business strategy and operational plans, and effectively communicating sustainability achievements to the public.

This transformation requires finance teams to embed sustainability considerations into every aspect of their daily operations. This can be achieved through a focus on the following three key pillars, aligned with the PwC Finance Function Framework.

Figure 9: Examples of how sustainability can be integrated into finance processes (non-exhaustive)

Business Insights	● Include the impact of climate change in long-term budgeting and forecasting ● Monitor the financial impact and performance of ESG initiatives ● Incorporate environment, social and economic impact analysis in periodic reporting ● Draw insights from the organisation's sustainability performance to enhance performance analysis ● Assess the potential impact of carbon tax on operations
Compliance and Control	● Explore available sustainability financing arrangements, such as green bonds, including assessing its accounting impact ● Understand the evolving nature of covenants set by financial institutions, focusing on sustainability performance targets ● Incorporate relevant sustainability parameters in treasury investment and cash management to support the organisation's sustainability goals ● Factor in the organisation's climate mitigation initiatives in determining insurance costs
Transactional Efficiency	● Include carbon emissions assessments as part of vendor acceptance processes ● Expand Know-Your-Client assessment to cover other sustainability aspects, including ESG targets, scoring, and climate risk assessment ● Include sustainability-related targets and performance in quarterly/annual shareholder briefings ● Engage in sustainability reporting, particularly in areas requiring financial disclosures, such as the IFRS Sustainability Disclosure Standards

In the following pages, we will share a few examples, demonstrating how the finance function can integrate sustainability into its core activities.

3. How finance can take the lead on sustainable transformation (cont'd)

Example #1:

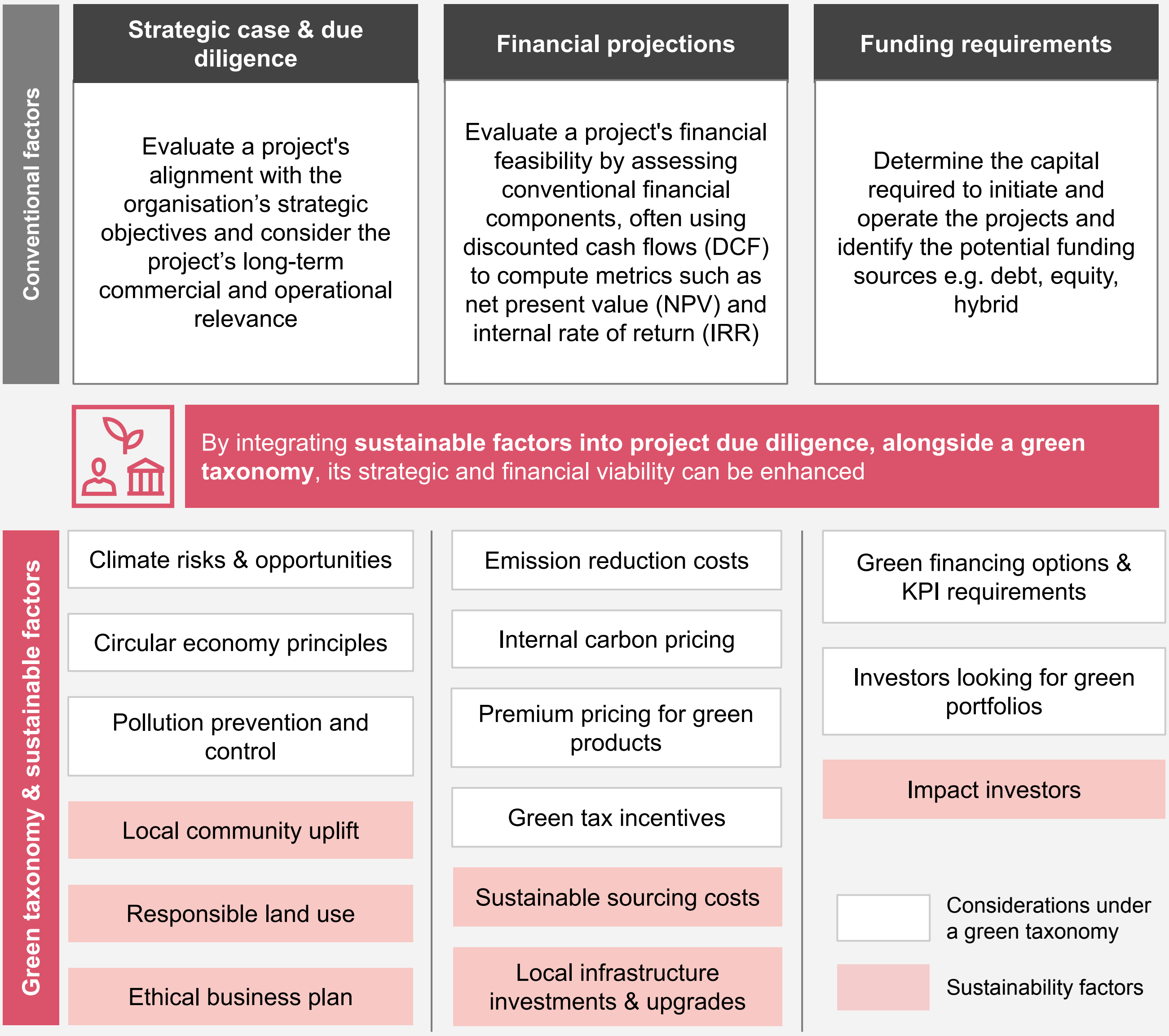
Transforming project analysis and decisions by embedding green and sustainability considerations

Incorporating green and sustainability considerations into project evaluations from the outset is crucial, as it sets the foundation for subsequent key performance indicators (KPI) and metrics, ensuring these considerations are built into processes from the beginning rather than being an afterthought.

Integrating these elements provides a more comprehensive understanding of a project's commercial viability and expected returns. Guided by a green taxonomy, which is a classification system highlighting the investment criteria that are aligned with environmental objectives (e.g. ASEAN Taxonomy), and embedding sustainability considerations, finance can uncover potential risks and opportunities that might otherwise be overlooked, leading to more informed decision-making.

Green taxonomy and sustainable practices encompass a set of criteria that go beyond the usual focus on climate and emission reductions. They also incorporate broader ESG factors such as responsible land use, sustainable sourcing and the interests of impact investors who seek community uplift and socioeconomic benefits. This challenges the misconception that all green projects are inherently sustainable, as they may only address specific green elements without considering the full spectrum of sustainability.

Figure 10: Examples of how sustainability can be integrated into project assessment (non-exhaustive)



	Strategic case & due diligence	Financial projections	Funding requirements
Conventional factors	Evaluate a project's alignment with the organisation's strategic objectives and consider the project's long-term commercial and operational relevance	Evaluate a project's financial feasibility by assessing conventional financial components, often using discounted cash flows (DCF) to compute metrics such as net present value (NPV) and internal rate of return (IRR)	Determine the capital required to initiate and operate the projects and identify the potential funding sources e.g. debt, equity, hybrid

By integrating **sustainable factors into project due diligence, alongside a green taxonomy**, its strategic and financial viability can be enhanced

Green taxonomy & sustainable factors		
Climate risks & opportunities	Emission reduction costs	Green financing options & KPI requirements
Circular economy principles	Internal carbon pricing	Investors looking for green portfolios
Pollution prevention and control	Premium pricing for green products	🟥 Impact investors
🟥 Local community uplift	Green tax incentives	
🟥 Responsible land use	🟥 Sustainable sourcing costs	
🟥 Ethical business plan	🟥 Local infrastructure investments & upgrades	

⬜ Considerations under a green taxonomy

🟥 Sustainability factors

3. How finance can take the lead on sustainable transformation (cont’d)

Example #1:

Transforming project analysis and decisions by embedding green and sustainability considerations

Finance playing a key role in fostering innovation

While sustainability projects could initially require higher capital costs, these investments often result in more sustained long-term revenue streams and lower operational costs due to increased efficiency. Financial institutions are also offering green and transition financing to bridge the potential financing gaps. Implementation of regulations such as the Carbon Border Adjustment Mechanism (CBAM) and the EU Deforestation Regulation (EUDR) further emphasises the need for organisations to incorporate sustainability considerations into their strategic planning and capital allocation.

The finance team plays a pivotal role in this process by taking a proactive stance, rather than merely awaiting directives. By actively embedding and refining sustainability practices within financial strategies, they can drive innovation and investment in green growth areas. This proactive approach helps organisations seize the opportunity to pursue sustainable returns and gain a competitive advantage in leading the transition towards a low-carbon economy.

3. How finance can take the lead on sustainable transformation (cont’d)

Example #1:

Transforming project analysis and decisions by embedding green and sustainability considerations

Figure 11: Considerations for finance teams to implement in their current role

▶ CBAM which will be affecting goods exported to the European Union (EU), is currently effective with full implementation expected by 2026.

Enhancing understanding of GHG emissions and carbon pricing

With 75% of Malaysia's exports to the EU expected to be impacted by CBAM according to Securities Commission Malaysia's Capital Market Stability Review 2023, it is crucial for finance teams to be able to anticipate and manage financial risks associated with the regulatory changes. Preparation will be key in terms of understanding future compliance requirements in order to manage long-term financials and contribute to the organisation’s long-term sustainability strategy ahead of the formulation of carbon pricing.

As it stands, carbon tax as an approach to pricing carbon has been introduced in Singapore in 2019 and more recently for Malaysia, a carbon tax has been announced for the iron, steel and energy industries by 2026.

▶ 62% of leaders say their finance function includes climate-related financial risks in financial statements. Investors are demanding for greater transparency; 75% say how a company manages their sustainability-related risks and opportunities is an important factor in their investment decision making.

Source: MICPA-PwC Malaysia 2023 survey report, PwC's Global Investor Survey 2023

Bridge both financial and sustainability indicators

Having an integrated approach provides a comprehensive view of the company’s overall performance accounting for both risks and opportunities, and demonstrates how sustainable practices drive financial value. This will enable the finance team to develop robust reporting frameworks that can attract sustainable investments and meet increasing stakeholder demands for transparency.

▶ MIDA has approved RM54.7 billion in green investments as of December 2023. The nation's goal is to attract RM300 billion in investments by 2030.

Keep abreast of available tax incentives

Transitioning to a low-carbon economy is not without substantial capital investments. Nonetheless, governments in transition economies are providing tax incentives to encourage investments in sustainable energy projects and stimulate economic growth. These incentives can significantly reduce costs and improve financial performance while supporting sustainability goals and commitments. Capitalising on these opportunities allows the finance team to ensure that the company stays ahead of competitors who may be slower to adapt.

3. How finance can take the lead on sustainable transformation (cont'd)

Example #2:

Leveraging sustainable products in treasury management to optimise financials

The emphasis on net zero goals by financial institutions, bolstered by strong policy support, has fuelled the emergence of diverse green financing instruments, contributing to the growth of robust local and international markets. According to the Climate Bonds Initiative, by the end of Q3 2023, the cumulative volume of green, social, sustainability, and sustainability-linked (GSS+) debt had reached USD 4.2 trillion.

Figure 12: Examples of sustainable finance products (non-exhaustive)

Green bonds

Supports climate related or environmentally sustainable projects and investments, e.g. renewable energy, energy efficiency, or sustainable agriculture

Sustainability-linked financing

Possesses various financial and/ or structural characteristics, depending on whether the **issuer achieves predefined sustainability/ ESG objectives**

Financing with GHG emission covenants

Financial arrangements that include **specific clauses or conditions related to the measurement, reduction, or reporting of GHG emissions**

Transition financing

Facilitates the shift from traditional, resource-intensive, or environmentally harmful activities to those that align with ESG principles and sustainability goals

Implementing sustainable financing introduces new loan covenants, specifically tailored to align with sustainability goals

As more businesses implement sustainability frameworks and adopt net zero goals, and as investors broaden their focus to include socio-economic impacts beyond mere emissions, KPI-linked debt has embraced innovation and quality improvement to keep the sustainable finance market attractive.

While these financing options offer attractive opportunities to optimise cost, the introduction of new covenants will require organisations to develop robust frameworks for forecasting and monitoring their sustainability performance. Refer to the next page for several considerations for finance.

Example #2:

Leveraging sustainable products in treasury management to optimise financials

Table 1: Covenant monitoring elements: conventional loans vs. green financing (non-exhaustive)

	Conventional borrowings	Green financing
Type of covenants	● Debt service cover ratio ● Debt / equity ratio	● GHG emissions **(new)** ● Emission reduction target **(new)** ● GHG intensity over revenue **(new)**
Key projections as part of monitoring	● Revenue ● Costs of sales ● Principal and interest payments	● Revenue ● GHG emissions **(new)**
Other considerations	The assumptions should align with the organisation's cash flow management	The assumptions should align with the organisation's operational performance.

What should be considered by finance?

Negotiating terms

- Have the financing terms taken into account the organisation's plan to transition towards a low-carbon economy?
- Has the interest rate taken into consideration the mitigation and adaptation activities undertaken by management in addressing its climate risks?

Accounting for the instruments

- How should the fluctuation in interest rate be accounted for under IFRS Accounting Standards?
- Does the fluctuation in the interest rate arise from variables that are specific to the issuing entity e.g. issuer's CO2 emissions over a defined period, the issuer's compliance with emissions and waste regulation standards, or with energy consumption standards?

Monitoring covenants

- How should GHG emissions be projected to address covenant monitoring requirements?
- Are the assumptions included in the GHG emissions projections aligned with the organisations' business performance, as well as its long-term business strategy?
- Is the projection robust enough to identify potential breach of covenant upfront so that this can be managed with the lenders?

3. How finance can take the lead on sustainable transformation (cont’d)

Example #3:

Elevating financial reporting with reliable sustainability metrics to meet stakeholder expectations

Significant progress has been made in the global adoption of sustainability reporting standards, with an increasing number of jurisdictions adopting the “Big 3” sustainability reporting frameworks:

Figure 13: The Big 3 sustainability disclosure frameworks

IFRS Sustainability Disclosure Standards (“IFRS SDS”)	European Sustainability Reporting Standards (“ESRS”)	Climate disclosure rules
• Issued by the International Sustainability Standards Board (ISSB) • Effective from 1 January 2024, subject to **jurisdictional-specific adoption** • Covers sustainability related risks and opportunities across environmental, social, and governance topics • **2 standards issued to date** • **Endorsed by International Organization of Securities Commissions (IOSCO)** (called on its 130 member jurisdictions to consider IFRS SDS) • Aims to deliver a comprehensive global baseline of sustainability-related disclosure standards for investors and other capital market participants	• Adopted by the European Commission (EC) for compliance with the Corporate Sustainability Reporting Directive (CSRD) • **Applicable to EU and non-EU entities** subject to certain criteria. Affects non-EU headquartered companies (EU subsidiaries) • Covers sustainability related risks and opportunities across environmental, social and governance topics • **12 sector-agnostic standards** issued to date (sector-standards expected to be issued by 2026) • Adoption in phases commencing from **1 January 2024** • Embraces **“double materiality”**	• Issued by the **US Securities & Exchange Commission (US SEC)**, an independent regulatory agency responsible for protecting investors, maintaining fair and orderly functioning of the securities market, and facilitating capital formation • Applicable to SEC registrants, including domestic and foreign private issuers • Require companies to publish information that describes the **climate-related risks** that are likely to have a material impact on a company’s business or consolidated financial statements. Separate guidance addresses specified human capital and governance disclosures

In Malaysia, the recently issued **National Sustainability Reporting Framework** mandates all listed companies and non-listed companies with revenue above RM2 billion to issue their sustainability report in accordance with the IFRS Sustainability Disclosure Standards on a phased approach from the financial year ending 31 December 2025 onwards.

These developments in sustainability-related financial information will have an impact on how organisations collect and report such data. The IFRS Sustainability Disclosure Standards includes the requirement of “connected information” not only within the sustainability report itself, but also between the financial statements and the sustainability report. For instance, GHG emission computations are expected to be based on existing financial data sources, utilising available information within the organisation’s current ERP system.

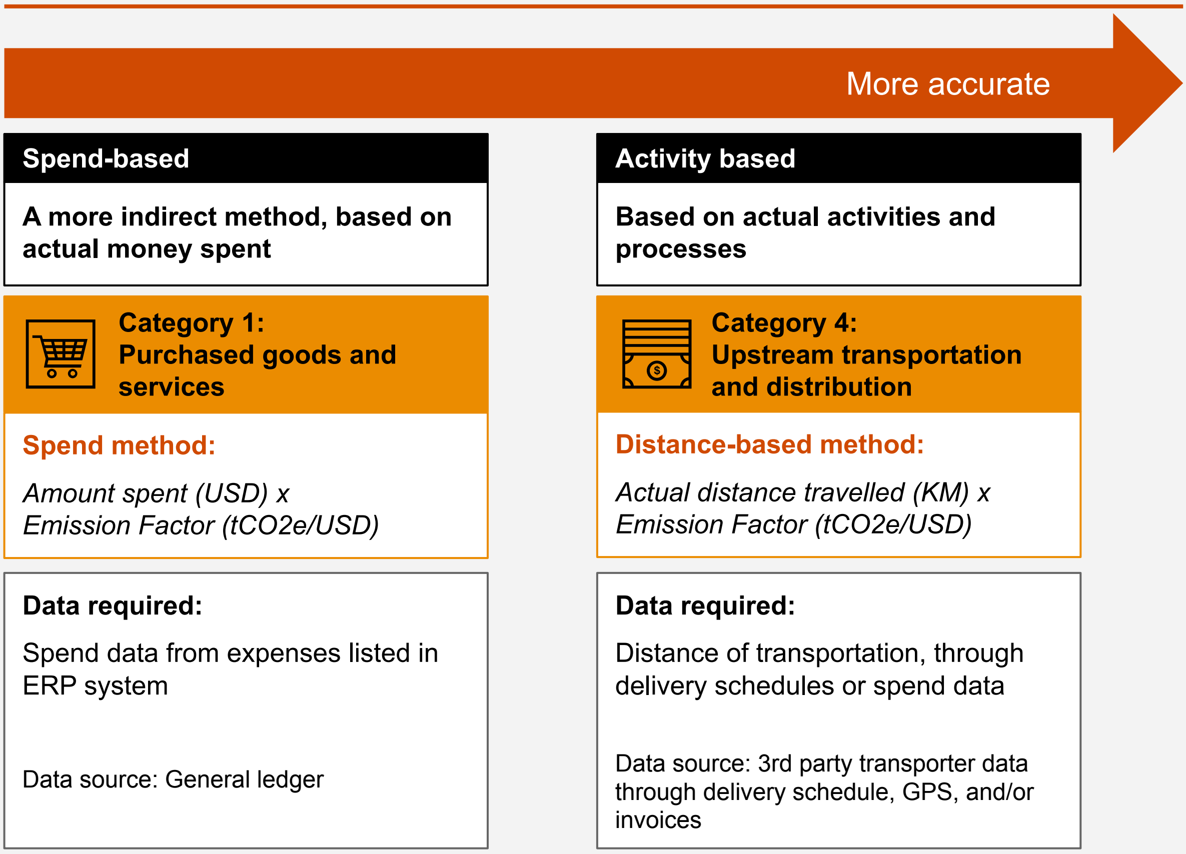
3. How finance can take the lead on sustainable transformation (cont’d)

Example #3:

Elevating financial reporting with reliable sustainability metrics to meet stakeholder expectations

Figure 14: Examples of linkages between sustainability and financial data (non-exhaustive)

Under the GHG Protocol, accounting for Scope 3 GHG emissions can be done based on the following approaches

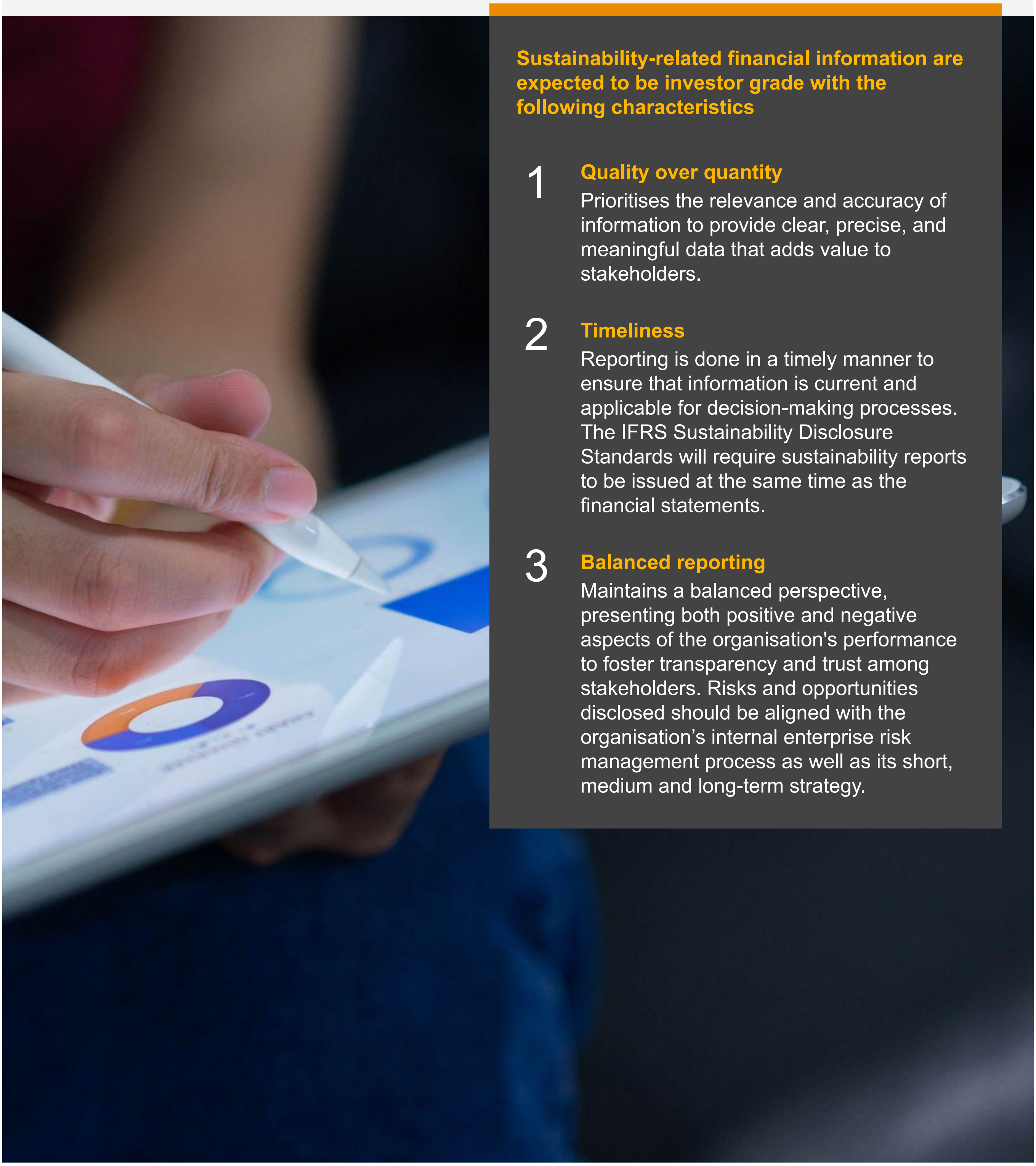


Spend-based	Activity based
A more indirect method, based on actual money spent	**Based on actual activities and processes**
Category 1: **Purchased goods and services**	**Category 4:** **Upstream transportation and distribution**
Spend method: *Amount spent (USD) x Emission Factor (tCO2e/USD)*	**Distance-based method:** *Actual distance travelled (KM) x Emission Factor (tCO2e/USD)*
Data required: Spend data from expenses listed in ERP system Data source: General ledger	**Data required:** Distance of transportation, through delivery schedules or spend data Data source: 3rd party transporter data through delivery schedule, GPS, and/or invoices

Example #3:

Elevating financial reporting with reliable sustainability metrics to meet stakeholder expectations

To streamline data collection and enhance efficiency, information should be collected only once to address financial, operational, and GHG reporting requirements. The finance function, as the custodian of financial data, with extensive knowledge of processes and controls, plays a key role in establishing the methodology to account for the organisation's GHG emissions. It is crucial for the finance function to collaborate closely with the Chief Technology Officer to implement suitable systems that support this process seamlessly.

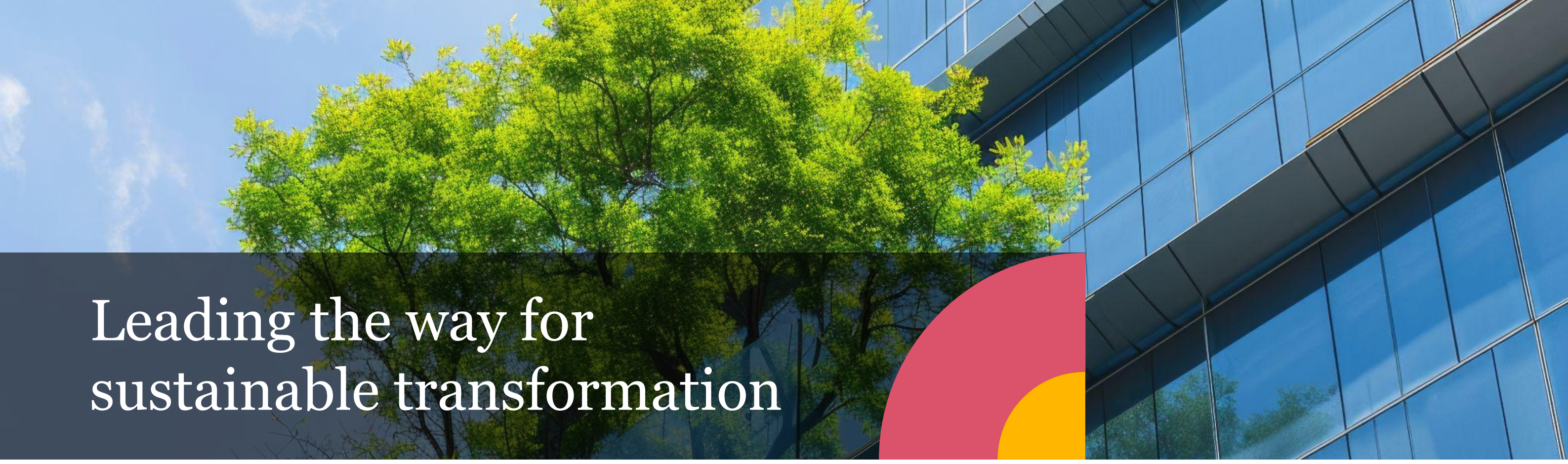


Sustainability-related financial information are expected to be investor grade with the following characteristics

1 **Quality over quantity**
Prioritises the relevance and accuracy of information to provide clear, precise, and meaningful data that adds value to stakeholders.

2 **Timeliness**
Reporting is done in a timely manner to ensure that information is current and applicable for decision-making processes. The IFRS Sustainability Disclosure Standards will require sustainability reports to be issued at the same time as the financial statements.

3 **Balanced reporting**
Maintains a balanced perspective, presenting both positive and negative aspects of the organisation's performance to foster transparency and trust among stakeholders. Risks and opportunities disclosed should be aligned with the organisation's internal enterprise risk management process as well as its short, medium and long-term strategy.



Leading the way for sustainable transformation

1 Promote early involvement by the finance team

Engaging the finance team early on the sustainability transformation journey is essential for successfully integrating sustainability into the organisational strategy. By involving finance professionals from the start, organisations can ensure financial implications are considered and managed, leading to informed decision-making, optimal resource allocation and enhance transparency and overall fairness in financial reporting.

Early involvement also fosters capacity building and knowledge development within the finance team, empowering them to drive initiatives effectively. This mitigates risks, unlocks growth opportunities, and influences other functions to transform together concurrently.

2 Identify areas to integrate sustainability into daily finance operations

Integrating sustainability into daily finance operations ensures that the finance function is properly involved in supporting the organisation’s long-term goals while recognising the added value of sustainable performance management. Key steps to achieve this include:

- Updating, formalising, institutionalising, and operationalising policies and procedures to embed sustainability principles within the finance function.
- Investing in upskilling initiatives to equip finance teams with the necessary skills to drive sustainability efforts, enhance transparency, and address stakeholder expectations. This includes developing expertise in areas such as accounting for GHG emissions, quantifying environment and social impacts as well as sustainability reporting, amongst others.
- Setting KPIs to encourage robust adoption across various functions is key. For example, establishing sustainability-related financial KPIs in each function ensures they assume leadership and accountability for advancing the overall sustainability agenda.

3 Leverage technology and pursue cross functional collaboration

Finance functions need to adapt by embracing emerging technologies and expanding their focus to include sustainability-related financial activities. This shift demands collaboration across the business, as it requires the enhancement of existing processes and controls for collecting and disclosing financial data.

Organisations can augment their current ERP systems with additional capabilities or implement entirely new reporting modules tailored for sustainability metrics. Ultimately, this collaborative effort ensures that no single function is working in isolation, driving unified and impactful sustainable transformation.

How can we help?

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2023 Finance Function Survey Report

From numbers to impact - 2023 survey report in collaboration with MICPA