ACCA
The Sustainable Development Goals: redefining context, risk and opportunity
Think Ahead
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About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, offering business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its **198,000** members and **486,000** students in **180** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of **101** offices and centres and more than **7,291** Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. It believes that accountants bring value to economies in all stages of development and seek to develop capacity in the profession and encourage the adoption of global standards. ACCA's core values are aligned to the needs of employers in all sectors and it ensures that through its range of qualifications, it prepares accountants for business. ACCA seeks to open up the profession to people of all backgrounds and remove artificial barriers, innovating its qualifications and delivery to meet the diverse needs of trainee professionals and their employers.

More information is here: www.accaglobal.com

About this report

This report explores how the United Nations Sustainable Development Goals provide a new prosperity creation framework for government, business and society to adhere to and how their effective delivery will increasingly call on the skills of professional accountants.

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Foreword

Just over two years ago, world leaders gathered at the United Nations and agreed to deliver the 17 Sustainable Development Goals (SDGs). This ambitious global framework for all countries to achieve by 2030 sets out the building blocks of a new type of inclusive prosperity creation that has as its motto 'to leave no-one behind'. Across the 17 SDGs – and the 169 targets of which they are composed – are a range of interconnected economic, social and environmental issues. Taken together, they provide government, business and civil society with a universal roadmap to tackle urgent challenges, meaningfully engage with emerging risks and discover new opportunities for creating value. These range from achieving gender equality and empowering all women and girls (Goal 5), to promoting sustained, inclusive and sustainable economic growth (Goal 8) and taking urgent action to solve climate change (Goal 13).

One of the most important aspects of the SDGs are that they recognise the critical role that business and finance will play, alongside national governments, in mobilising collaborative action to tackle critical socio-economic impediments to creating prosperity. Given the scale of the challenges ahead, this is vitally important. It has been estimated that $2.5 trillion per year will be needed by developing countries alone to successfully deliver the Goals.

Implementing strategies to deliver the SDGs will engage the accountancy profession at many levels. Driving investment to build the physical and institutional infrastructure that will recalibrate business, finance and government activity around the SDGs will require both the robust technical skills and sound ethical judgement that the accountancy profession around the world is well placed to deliver.

From more effective use of data and reporting that meets the evolving demands of finance and wider stakeholders, to designing new business models that take advantage of opportunities that the SDGs present, professional accountants will be central to delivering this critical agenda that will be the new engine of global growth – now and into the future.

Helen Brand OBE
Chief executive
ACCA

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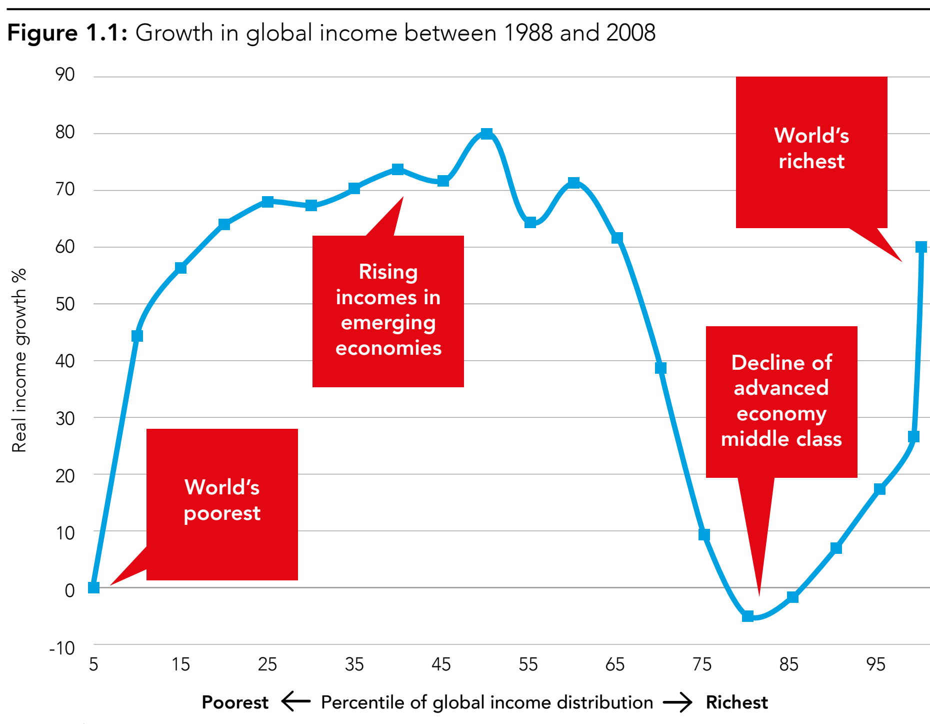
1. Introduction

Today's world has tools at its disposal, as never before, to create prosperity.

Digital technologies are transforming societies with new services that are radically reshaping how people live and work. Humankind has never been more prosperous, with rising global living standards being a hallmark of recent decades with the number of people living in extreme poverty falling by 1.1 billion between 1990 and 2013 (World Bank, 2016). The world is growing more interconnected and the way it interacts is changing. Emerging economies are now involved in more than half of global trade flows – with South-South trade exhibiting the fastest growth – and cross border digital bandwidth use growing 45 times from 2005–2014 (McKinsey, 2016). But reshaped growth and emerging poles of economic dynamism are also recasting the makeup of globalisation and creating new winners and losers. While incomes have risen dramatically in emerging economies, led principally by China, the world's poorest remain locked out of growth; incomes have declined steeply for advanced economy middle classes and the world's richest have seen their income spike (see Figure 1.1).

Figure 1.1: Growth in global income between 1988 and 2008



Source: Milanovic, 2016

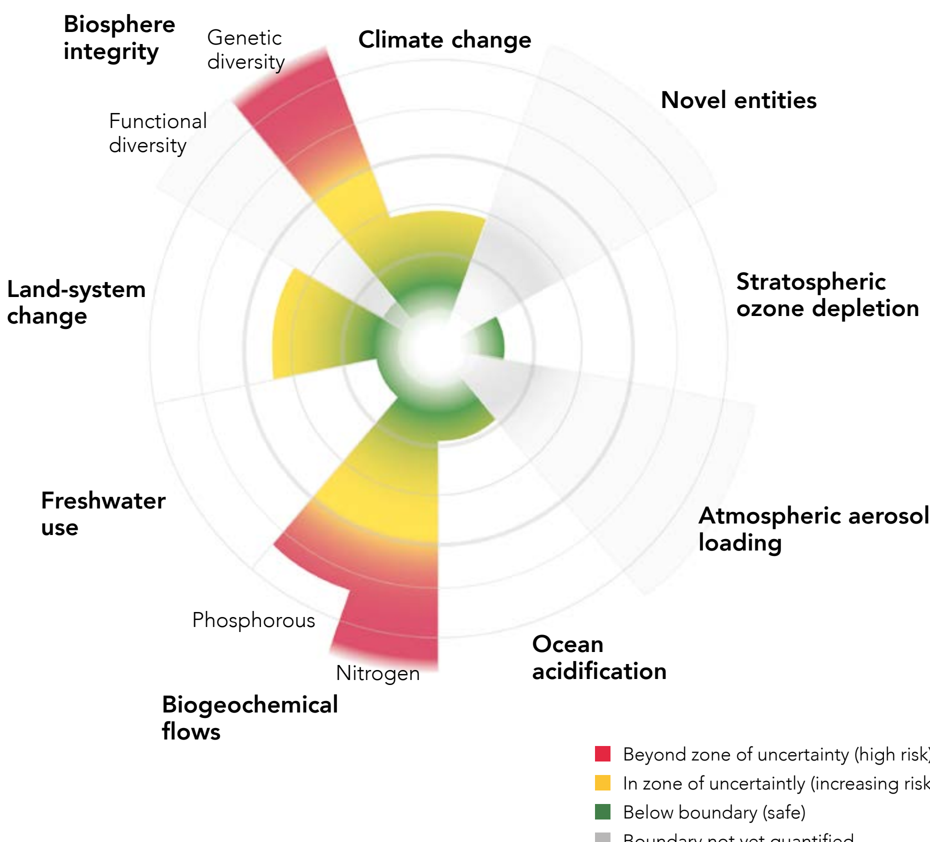
Despite gains, it is not hard to notice that in many parts of the world a number of the building blocks of prosperity creation are in a critical state.

Despite gains, it is not hard to notice that in many parts of the world a number of the building blocks of prosperity creation are in a critical state. Warning signs abound that a series of negative megatrends are imperilling the future of the world's expanding population. Inequality is rising in many countries and across regions – often made worse by growing urban populations which are swelling congested and polluted cities (WHO, 2016). Environmental systems are becoming irreversibly degraded by human activities, breaching tipping points and increasing the risk of driving the planet into a much less hospitable state (See Figure 1.2) (Steffen et al., 2015). According to the IMF, 'climate change is a negative global externality of potentially catastrophic proportions' with rising temperatures having 'vastly unequal effects across the world, with the brunt of adverse consequences borne by those who can least afford it' (IMFa, 2017).

Ever more entrenched economic and well-being challenges are multiplying. From the declining labour share of income (IMF, 2017b), to rising numbers of deaths caused by pollution and non-communicable diseases (Lancet, 2017) (WHO, 2017). Economic, social and environmental problems are coming together and causing countries to underperform in creating prosperity for their citizens. Interconnected negative feedback loops that link environmental problems to economic challenges and social issues are becoming more pronounced and more difficult to disentangle.

The growing challenges related to the task of building prosperous countries that are as economically productive as they are socially inclusive and environmentally conscious, demands a better understanding by governments, business and civil society of the contexts and systems in which they interact and the recalculated parameters of successful prosperity creation.

Figure 1.2: The nine planetary boundaries



Source: Steffen et al., 2015. Planetary Boundaries: Guiding human development on a changing planet.

> The SDGs will rely on the expertise of the profession to operationalize the opportunities, build the systems for delivering the outcomes and report on the progress made towards achieving these new prosperity creation benchmarks.

The UN Sustainable Development Goals (SDGs) – 17 objectives agreed by all UN member states in September 2015 – provide a way for countries to recognise and meet these challenges to build future prosperity (see Figure 1.3).

Converging, interconnected issues have brought the SDGs to the fore as a unifying global agenda for countries, companies, investors and civil society to pursue. They create a framework for building enduring, inclusive prosperity that is fit for the future. The aim is for the SDGs to be fully achieved by 2030; this is the UN's 2030 Agenda.

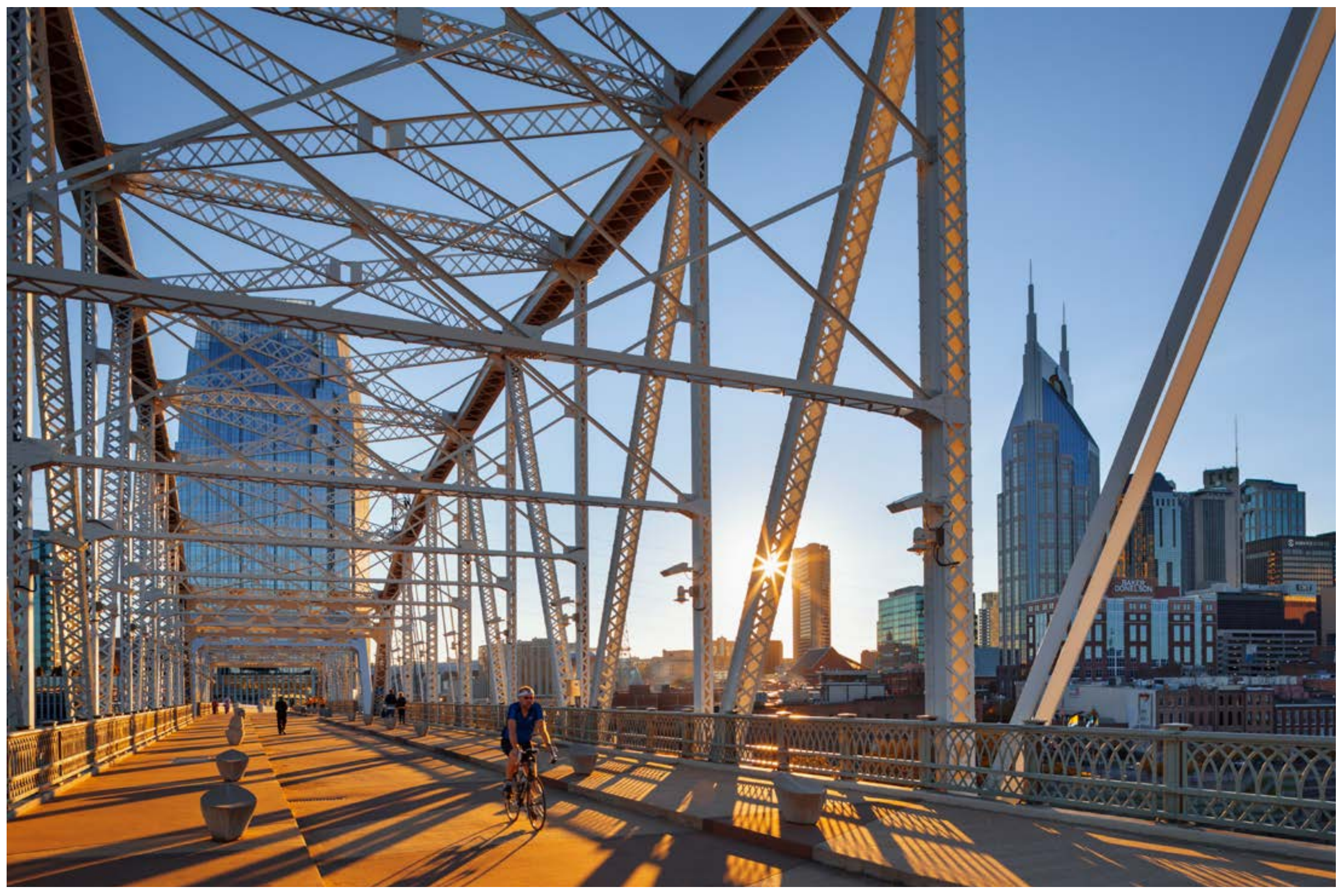
For countries, the 17 SDGs propose a new model to adhere to in order to deliver prosperity to their citizens. They combine environmental issues, like Goal 13 – take urgent action to combat climate change and its impacts – with social issues, like Goal 1 – end poverty in all its forms everywhere – and economic issues, like Goal 9 – build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation, to create an all-encompassing framework that has as its motto to 'leave no one behind'. The challenge of meeting the SDGs by 2030 is immense. The 17 Goals encompass 169 targets and 230 indictors. The task of ensuring widespread understanding, take-up and skills development in assessment, monitoring and reporting of progress towards the issues that the SDGs encompass will be a defining challenge for the accountancy profession for the coming years. And they go beyond assessment, measurement and reporting to demand an appreciation of complexity, the interdependence of systems and a desire to achieve tangible positive outcomes for society.

For business, the SDGs have been referred to as, 'a purchase order from 2030 for business and government action today' (BSDC, 2016). Can the private sector make the most of these 17 opportunities? Can it find new ways of working together and with a range of government and civil society actors that will address the systemic market failures that the 17 SDGs are setting out to repair? Mainstreaming the SDGs so that opportunities can be realised and that their delivery becomes embedded into business practices through monitoring, and reporting on progress towards them, will be a critical factor in their success.

The accountancy profession, today and into the future, has a key role to play in delivering the 2030 Agenda. The SDGs will rely on the expertise of the profession to operationalize the opportunities, build the systems for delivering the outcomes and report on the progress made towards achieving these new prosperity creation benchmarks.

Figure 1.3: The 17 Sustainable Development Goals

Source: UN



THE STRUCTURE OF THE REPORT

This report sets out to demonstrate why the SDGs matter to governments, business and society; the role of the private sector in their delivery and how professional accountants can be part of a collaborative group of actors working together to achieve the aims of the 2030 Agenda.[1]

Throughout the remaining chapters of this report quotes are featured from ACCA members and other experts from Vietnam, Pakistan, Singapore and Kenya who took part in roundtables and interviews. ACCA is grateful for the support of the United Nations Commission for Trade and Development and the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (UNCTAD ISAR) for co-hosting expert roundtables in Hanoi, Vietnam; Karachi, Pakistan and Singapore. ACCA would also like to extend its gratitude to the Pakistan Business Council's Centre for Responsible Business and the Singapore Accountancy Commission for their support of this research and in co-convening expert roundtables in their countries.

The remainder of this report sets out to:

- **Chart the evolving ways that professional accountants will engage in the delivery of the SDGs.**
- **Outline the factors behind the business case for the SDGs.**
- **Explore how environmental, social and governance (ESG) issues are transforming finance.**
- **Examine how corporate sustainability reporting frameworks are enabling business to engage with the SDGs.**
- **Explore the implications of the recent recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and how they relate to professional accountants future role in addressing SDGs issues.**
- **Provide recommendations for professional accountants and SDGs engagement.**

1 The findings in this report were compiled through a combination of desk research, in-depth interviews with ACCA members and wider experts and over 3 roundtables, produced in collaboration with UNCTAD-ISAR, held in Hanoi, Karachi and Singapore, that brought together professional accountants, sustainability professionals and other experts engaging with the SDGs.

2. The SDGs and professional accountants

Professional accountants around the world can make a significant contribution to the SDGs. A number of reasons for this include:

1. Future business growth opportunities and new market preferences that are more socially and environmentally aware are strongly aligned to the SDGs. These are as likely to arise in emerging and developing economies – which are not only where the largest proportion of future global growth is likely come from but also where SDGs issues are most acute – as they are to occur in rich nations. Increasingly, professional accountants will be involved in assessment and pursuit of SDGs-related opportunities that are more connected than ever with an understanding of the wider context of operating in more complex markets where sustainable development issues lie at the heart of value creation. Conception and implementation of new strategies alongside delivery and capture of value created will depend on the profession.

2. Environmental and social risks linked to many of the SDGs are growing for business at an exponential rate. They are also becoming more interconnected. For environmental risks, particularly climate change, this is already demanding a new level of precision when it comes to analysis, monitoring and reporting. Social risks are also rising up boardroom agendas. They too will require a greater degree of accurate understanding. Professional accountants are well placed to meet this growing demand for better, more inclusive risk assessment and for making explicit – through using tools such as the Integrated Reporting <IR> Framework – the connections between social, environmental and financial value creation and destruction.

3. Digital technology and the rise of data analytics and artificial intelligence (A.I.) are growing in application for the profession. This is no less so the case for engaging with SDG issues. Combined with core technical professional competencies related to areas including ethics, judgement, reporting and audit, familiarity with a growing set of digital tools that support environmental and social data collection and analytics are growth areas for the professional accountants of the future. Correctly employed, their use will better unlock new sources of value creation and improve emerging risks discovery aligned to the 2030 Agenda.

4. New investor preferences aligned to the SDGs will spur an increasing demand for better SDGs related disclosures from companies. From mainstream investing where ESG is growing in prevalence, to the continued expansion of impact investing that supports mission-led companies, the SDGs have the potential to provide an easy-to-understand framework for a range of investors across different thematic areas as they pursue future growth combined with positive social and environmental returns. Reliability of quality information will be critical for investors and presents an emerging space where professional accounts can use their skills.

5. Governments are reporting on their progress on the SDGs to the UN. This will involve coordinated approaches across government to cross-cutting issues, improved data collection and an increasing role for co-delivery with the private sector of SDG-related outcomes for citizens. Data collection and measurement will grow in importance with inter-departmental and wider collaboration becoming increasingly important. Not only will the SDGs be incorporated into frameworks for government action at many tiers, they will increasingly emerge in regulatory discussions.

> ‘I’m proud to be an accountant seeing the SDGs and the contribution an accountant can make.’
>
> **Singapore roundtable participant**

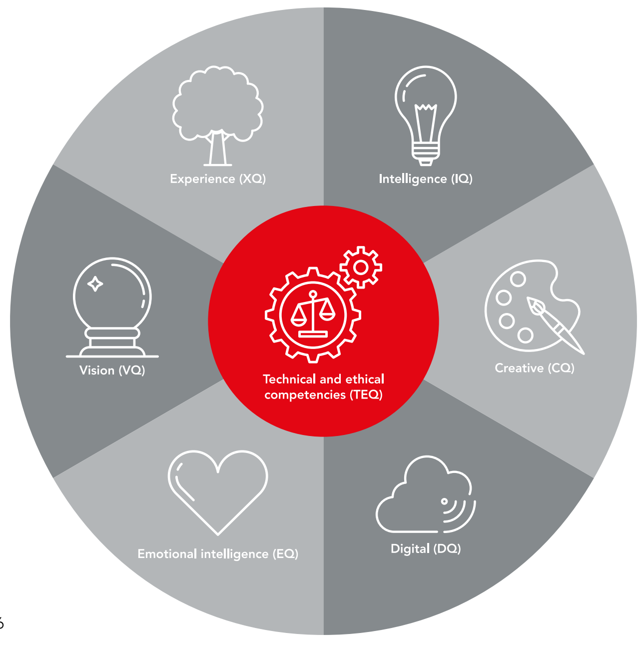
> While the SDGs agenda is relatively new, the issues it sets out to address are longstanding state and market failures that have grown to become urgent impediments to future prosperity creation.

While the 2030 agenda is relatively new, the issues it sets out to address are longstanding state and market failures that have grown to become urgent impediments to future prosperity creation. The role of professional accountants as strategic business leaders – with a unique blend of understanding of context, appreciation of risk, implementation and operational know-how, alongside technical and ethical competencies, leaves them well placed to elevate the SDGs so that they become a standard tool for measuring what success looks like across government, business, finance and civil society. From analysis of the impact of resource constraint issues, to operationalizing new business models that radically change the ways in which products and services are delivered, professional accountants are already contributing to the 2030 Agenda around the world.

The SDGs can be part of the daily work of a new generation of professional accountants. Stronger governance, the growing use of digital technologies, rising expectations on the role of professional accountants and more globalisation have been identified by ACCA as the four overarching Drivers of Change that are set to transform the profession to 2025 (ACCA, 2016a). In addition, in a recent survey of over 18,000 millennial professional accountants, ACCA discovered that the most important factor in attraction and retention was the opportunity to learn new skills (ACCA, 2016b). Despite this desire to learn new skills, only 38% felt that their current organisation offered them sufficient opportunities to achieve their goals (ACCA, 2016b).

ACCA has identified seven quotients for professional accountants to develop so that they are able to thrive in an environment made up of these four interconnected Drivers of Change (see Figure 2.1). Learning interventions around the SDGs to support career development can be a key tool in building the accountancy profession the world needs, going beyond core technical and ethical competencies and reaching into emerging domains. The SDGs can provide professional accountants with purpose driven, digitally enabled skills development opportunities at the cutting edge of business practice, in high growth sectors solving some of the world's biggest challenges and contributing to the successful endeavours of their organisations.

Figure 2.1: Professional quotients for success



Source: ACCA, 2016

3. The business imperative

> ‘Private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation. We acknowledge the diversity of the private sector, ranging from micro enterprises to cooperatives to multinationals. We call on all businesses to apply their creativity and innovation to solving sustainable development challenges.’
>
> **Article 67, *Transforming our world: The 2030 agenda for sustainable development***

Business has an essential role to play in delivering the SDGs. The forerunner of the SDGs, the Millennium Development Goals (MDGs), were conceived of as eight targets to improve the lives of the world’s poorest by 2015. And while one of the MDGs was ‘partnership’, they did not explicitly acknowledge the role of the private sector. By contrast, all UN member states have committed to the SDGs and they are clear-cut in emphasising the role of business in achieving them. At a variety of scales, business can use its ingenuity to address complex challenges as it transforms inputs into new sources of value. It can be a driver of investment, creator of employment and responsible member of society.

> ‘We don’t have to reinvent the wheel. This goes beyond regulation. Responsible leadership means you operate in an ethical and responsible manner.’
>
> **Pakistan roundtable participant**

Can the SDGs be the building blocks of a new type of prosperity creation by business that is inclusive, environmentally aware and rewards those that create enduring meaningful value? Research by The Business and Sustainable Development Commission (BSDC), a group of global business leaders, has estimated that achieving the SDGs can unlock $12 trillion of market opportunities in four areas of economic activity and generate up to 380 million jobs (BSDC, 2017) (see Figure 3.1).

New opportunities can arise from, for example, engaging with the challenges faced by growing urban populations in new centres of economic dynamism, or finding new ways to reach out to underserved groups with new business models and through harnessing lower cost digital technologies. And these opportunities go hand in hand with a greater acknowledgement of the risks associated with issues that previously may have been externalised, or ignored, by business. For example, health impacts on customers and society of products and services, business models that involve processes that cause irreversible environmental degradation or over-exploit finite resources and are to climate-related risks, such as rising sea levels. Critically, the BSDC makes clear that a new mindset will be needed to unlock these new possibilities. ‘To capture these opportunities in full,’ it states, ‘businesses need to pursue social and environmental sustainability as avidly as they pursue market share and shareholder value’ (BSDC, 2017).

> ‘Economic trade-offs related to sustainable development are difficult to fully map out with a fast growing country focused on growth. As systems change the way the economy functions changes. The growth model is a big issue. The SDGs need to be put in the long-term strategy of the country to determine what SDGs are suitable.’
>
> **Vietnam roundtable participant**

Figure 3.1: BSDC: 60 biggest market opportunities related to delivering the SDGs.

	Food and Agriculture	Cities	Energy and Materials	Health and Well-Being
1	Reducing food waste in value chain	Affordable housing	Circular models – automotive	Risk pooling
2	Forest ecosystem services	Energy efficiency – buildings	Expansion of renewables	Remote patient monitoring
3	Low-income food markets	Electric and hybrid vehicles	Circular models – appliances	Telehealth
4	Reducing consumer food waste	Public transport in urban areas	Circular models – electronics	Advanced genomics
5	Product reformulation	Car sharing	Energy efficiency – non-energy intensive industries	Activity services
6	Technology in large-scale farms	Road safety equipment	Energy storage systems	Detection of counterfeit drugs
7	Dietary switch	Autonomous vehicles	Resource recovery	Tobacco control
8	Sustainable aquaculture	ICE vehicle fuel efficiency	End-use steel efficiency	Weight management programs
9	Technology in smallholder farms	Building resilient cities	Energy efficiency – energy intensive industries	Better disease management
10	Micro-irrigation	Municipal water leakage	Carbon capture and storage	Electronic medical records
11	Restoring degraded land	Cultural tourism	Energy access	Better maternal and child health
12	Reducing packaging waste	Smart metering	Green chemicals	Healthcare training
13	Cattle intensification	Water and sanitation infrastructure	Additive manufacturing	Low-cost surgery
14	Urban agriculture	Office sharing	Local content in extractives	
15		Timber buildings	Shared infrastructure	
16		Durable and modular buildings	Mine rehabilitation	
17			Grid interconnection	

Source: BSDC, 2017

These environmental, social and economic issues come together and impede people's ability to live well. As these factors multiply and become more complex, the questions around the purpose of business and its role in society grow.

Today's global economy is a feat of interconnectedness that over recent decades, when successful in its implementation, has given rise to structural transformations that have radically altered the way people live and work for the better – but currently the businesses behind these shifts are falling short. Each year, trust in business, as well as in other institutions, erodes to new lows with people feeling that the institutional system is failing them (Edelman, 2017). Environmental degradation and negative social externalities caused by businesses are not being addressed sufficiently, nor do businesses fully understand or disclose the risks to their own operations from issues such as climate change. And at a time when quality job creation is needed on an unprecedented scale, the rise of more sophisticated automation threatens livelihoods around the world, across sectors and occupations, from manual to managerial. What's more, wages in many countries remain stagnant and where new employment is being created, it increasingly demands more flexibility from workers, who now lack the protections and support systems that once provided stability (ILO, 2017). These environmental, social and economic issues come together and impede people's ability to live well. As these factors multiply and become more complex, the questions around the purpose of business and its role in society grow.

> **'Real implementation will require better communication to improve accountability and transparency. Citizens will demand this if they know about it – do they know about it? Better government communication will help.'**
>
> **Pakistan roundtable participant**

Over the last few decades, the purpose of business has increasingly been questioned. To whom are companies responsible? What constitutes good corporate performance and on what does it rely? How should it be assessed?

The results of such questions often affect businesses in the form of increased regulatory requirements and demands from investors, customers and wider stakeholders. In response companies have begun to assess their performance on a range of matters that go beyond merely financial, related to social impact, community issues, supplier relationships and environmental management.

Companies are increasingly using frameworks such as the <IR> Framework to explain how they use and transform a range of capitals to create value for a wide group of stakeholders (ACCA, 2017). The <IR> Framework helps companies to think about and communicate how they create value over the short, medium and long term and their dependence on a range of inputs, or capitals, alongside financial inputs. Companies can also use standards such as the Global Reporting Initiative (GRI) to discover what issues are material to their stakeholders and to increase transparency and accountability on their impact on a range of specific social, environmental and governance indicators.

Adoption and continued evolution of tools for evaluating, measuring and reporting a more total type of value creation and the growth of frameworks and standards including GRI – now in its 20th year – and the increasing global adoption of the <IR> Framework have been pioneering developments. But given the challenges facing the world and the risks and opportunities these present, this shift is not happening fast or thoroughly enough to transform business and set the economies in which they operate on a pathway towards inclusive and sustainable prosperity creation.

The complexity and interconnectedness of the underlying problems behind the SDGs points to the need for a broader approach to business value creation that is collaborative and multidimensional.

Despite progress in corporate sustainability in recent decades, wider issues contribute to this lack of transformative potential by business. They include new demographic challenges; the scale of technological change and the incentives that structure finance; the growing urgency and complexity of shared social and environmental problems; the shift in the composition of economic activity. This external environment is the context in which businesses operate today. To address the negative impacts of the external environment challenges, business must go beyond the standard boundaries of corporate activity that stretch further than traditional approaches to sustainability. In so doing, they should be able to develop a recalculated understanding of their operations that is fit for the new context, renew their sense of purpose, and begin to thereby rebuild the trust deficit.

'If you have security problems, or transport issues, or there is too much waste, or a lack of water, you can't function as an industrial unit. That is an issue for business and it is for the private sector to work closer with government to do this.'

Pakistan roundtable participant

Given that the future of global growth will happen against this backdrop and that it increasingly will be powered by issues related to the SDGs, which will direct financial flows and will also impact regulation, there is a clear rationale for business to align and engage with the SDGs.

The SDGs have been called 'a purchase order from 2030 for business and government action today' (BSDC, 2016). They present business with a globally recognised framework for deepening understanding of 21st-century risks and opportunities that are complex and interconnected. They also provide a way of thinking about the shape of the markets and business models of the future. The 17 SDGs link issues such as demographic shifts and degradation of environmental systems with other areas, including changing patterns of economic activity (for example, the shift from manufacturing to services), the role of technology (for example, the business implications of A.I) and the shifting nature of work (for example, the move to more independent employment). For business, the SDGs have the potential to renew 21st-century corporate dynamism in tackling and solving social problems and adopting a wider view on the value that they are creating over the short, medium and long-term.

'So the question goes beyond, do I need an auditor to do this? The questions is – is this data robust enough for us and our business to improve business decision-making? So the biggest question is for companies. This is not just to report to government it is for managing business.'

Singapore roundtable participant

The complexity and interconnectedness of the underlying problems behind the SDGs points to the need for a broader approach to business value creation that is collaborative and multidimensional. It is one that recognises a range of dependencies that play a role in value creation and a wider group of stakeholders beyond investors. On the one hand, there are new opportunities that will be new sources of growth. But on the other, there are social and environmental issues whose material impacts are currently not sufficiently recognised by business. By taking on the SDGs, and sharing their global common language with governments and society, business can reimagine its role in building inclusive prosperity.

'If the SDGs get a commitment from government and it can set certain conditions, it can incentivise and add discipline to implementation.'

Vietnam roundtable participant

4. The changing finance landscape

> 'We can choose to bemoan the lack of financing for the 2030 Agenda in a world awash with so much unproductive and unrewarding finance. Or we can grasp the opportunity to reshape finance, according to our urgent, collective needs. The choice is clear. Let us invest in the 2030 Agenda and finance a better world for all.'

These were the words of the UN Secretary General at the September 2017 UN General Assembly. His call to action to finance the SDGs is one that is increasingly echoed in financial markets. A number of developments have seen ESG issues move deeper into the mainstream of finance. According to the Global Sustainable Investment Alliance, an estimated $10.4 trillion of assets worldwide involves some form of ESG measurement, an increase of 38% since 2014 (GSIA, 2017). UNCTAD has estimated that US$5 trillion-7 trillion per year is needed to implement the SDGs and that developing countries face an annual investment gap of US$2.5 trillion in areas including infrastructure, clean energy generation, water and sanitation and agriculture (UNCTAD, 2015). Given the scale of investment that needs to be made to realise the SDGs, the continued mainstreaming of ESG is welcome evidence of a shift across the finance landscape towards more effective pricing of risk and allocation of capital. It is also one that is demanding more effective corporate disclosure on non-financial information.

The mainstreaming of ESG is taking place across finance. When global insurance provider Swiss Re announced in July 2017 that it was adding ESG criteria to all of its investment assessment processes, it was not a lone voice (Swiss Re, 2017). Earlier in 2017, Larry Fink, CEO of investment management company Blackrock, wrote in his annual letter to investors: 'Environmental, social, and governance (ESG) factors relevant to a company's business can provide essential insights into management effectiveness and thus a company's long-term prospects. We look to see that a company is attuned to the key factors that contribute to long-term growth: sustainability of the business model and its operations, attention to external and environmental factors that could impact the company, and recognition of the company's role as a member of the communities in which it operates' (Blackrock, 2017). A number of large financial institutions had been making similar public commitments to greater ESG integration.

> 'If I want to communicate to my directors I need to think about return. The stock exchange requirements are really important and have started the conversation. And it does bring business benefits –helps you have a well-managed company and that will work with investors.'
>
> **Singapore roundtable participant**

Climate change risks have become a key focus for finance. From fund managers, including Aviva Investors stating that they will vote against the annual reports and accounts of companies that fail to disclose publicly the risks posed to their business models by climate change (Business Green, 2017) to over 100 companies – with a combined market capitalisation of $3 trillion (£2.3 trillion) and investors with $25 trillion of assets under management – committing to implement the TCFD climate risk reporting recommendations (TCFDa, 2017).

The commitment to ESG has borne fruit for advanced and emerging economy investors alike. For example, not only has index fund provider MSCI's All Companies World Index ESG Leaders been consistently outperforming the similar non-ESG index, the MSCI EM (emerging markets) ESG Leaders Index has also been outclassing the MSCI emerging markets (EM) benchmark consistently since the financial crisis (FT, 2017).

Elsewhere, research has continued to prove the benefits of ESG. Norwegian pension fund Nordea has demonstrated that companies with high ESG ratings should be valued at a premium and that improving ESG performance bolsters stability in margins and returns, is a leading indicator of quality improvement, and correlates with lower share-price volatility (Nordea Equity Research, 2017). Bank of America Merrill Lynch has found that ESG ratings are among the best risk identifiers, finding that ESG ratings can help the investor to identify those stocks:

> Other components of the investment ecosystem, including stock exchanges, are deepening engagement with ESG matters.

- least likely to go bankrupt over the next five years
- least likely to have large price declines
- least likely to have earnings declines or increased earnings per share (EPS) volatility
- destined to become high quality rather than low quality
- likely to have extreme inflows over the next few decades
- with three-year returns significantly better than those of their peers (BAML, 2017).

Other components of the investment ecosystem, including stock exchanges, are deepening engagement with ESG matters. An example of the principles that stock exchanges want to embed to improve ESG disclosures can be seen in The London Stock Exchange Group's (LSEG) ESG reporting guidelines (LSEG, 2016) which sets out criteria for provision of quality data. The guidance lists the following 'Characteristics of investment grade data'.

- **Accuracy:** deploy rigorous data collection systems
- **Boundaries:** align to the fiscal year and business ownership model
- **Comparability and consistency:** use consistent global standards to facilitate comparability
- **Data provision:** provide raw as well as normalised data
- **Timeliness:** provide data to coincide with the annual reporting cycle
- **External assurance:** consider strengthening the credibility of data by having it assured
- **Balance:** provide an objective view, including both favourable and unfavourable information' (LSEG, 2016).

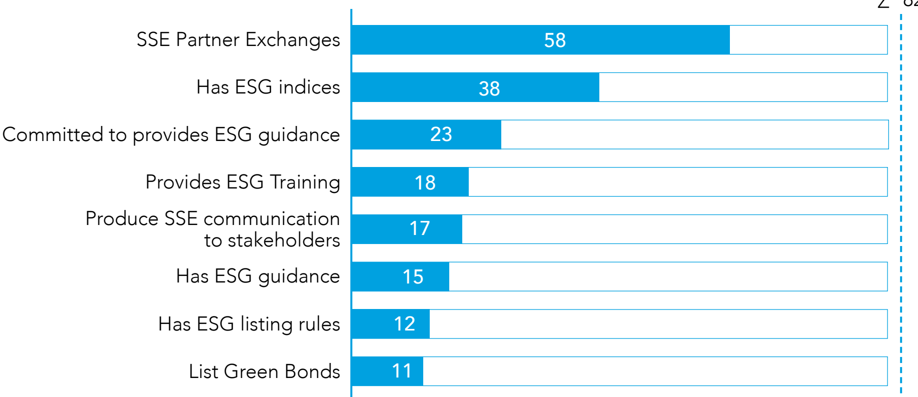
These characteristics echo financial quality rules for reporting, such as the need for factors including faithful representation, relevance, comparability, verifiability and timeliness. These qualitative characteristics are also intended to enhance the usefulness of the reporting for current and future investors.

> 'There is a challenge with business culture, risk appetite and becoming more future oriented.'
>
> **Singapore roundtable participant**

> 'There is a increased role for independent board directors. How to make sustainability a bigger part of the budget to discussed at board level.'
>
> **Pakistan roundtable participant**

At an institutional level, the UN Sustainable Stock Exchanges (SSE) initiative is a peer-to-peer platform for exploring how exchanges can promote responsible investment for sustainable development. An increasing number of exchanges are participating in this initiative – from including ESG indices, to issuing ESG guidance (See Figure 4.1).

Figure 4.1: Overview of sustainability mechanisms used by stock exchanges



Source: SSE, Report On Progress 2016

> ‘We see that impact funds are increasingly well subscribed to and pro-actively looking to deliver positive societal impact.’
> **Singapore roundtable participant**

FROM ESG TO SDG

As the mainstreaming of ESG continues, the SDGs are emerging as a theme for the investment community.

The UN Principles for Responsible Investment (UNPRI), whose 1,700 signatories represent around one-third of global private capital, have put forward five reasons for an investment case for the SDGs:

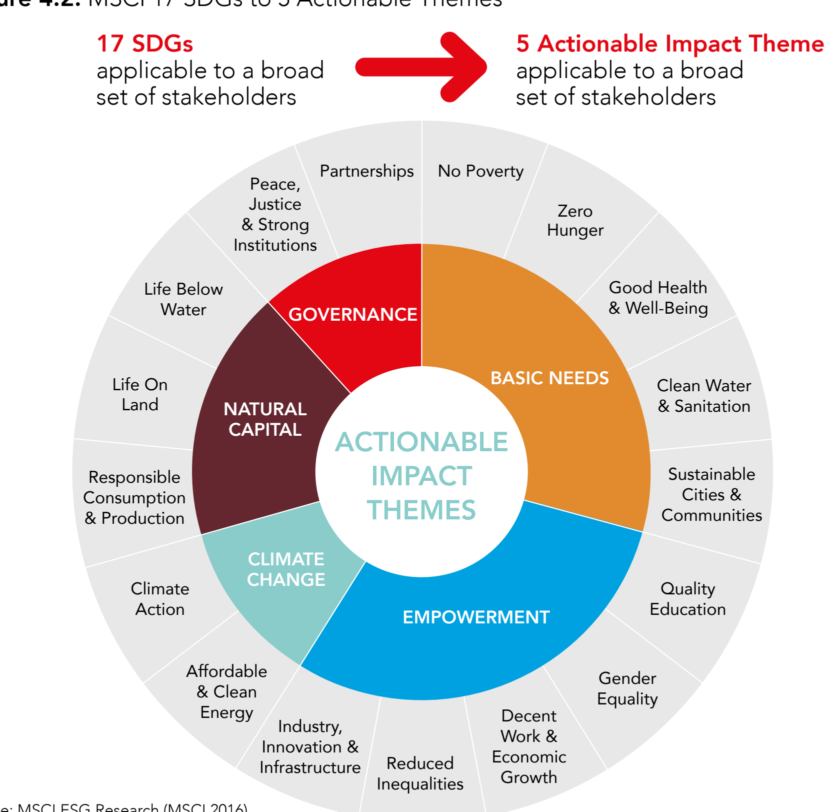
1. The SDGs are a critical part of investors’ fiduciary duty.
2. Financial returns for large institutional investors (universal owners) are dependent on healthy sustainable economies.
3. Achieving the SDGs will be a key driver of global economic growth.
4. The SDGs as a Risk framework reflect that there are very specific regulatory, ethical and operational risks which can be financially material.
5. The SDGs serve as a capital allocation guide to new investment opportunities (UNPRI, PwC, 2017).

MSCI has grouped the SDGs into five themes: basic needs, empowerment, climate change, natural capital and governance (MSCI, 2016). These areas can them be focused on sustainable impact solutions such as sanitation, affordable housing and sustainable water. This provides a framework from which to offer a range of SDGs services to investors (see Figure 4.2).

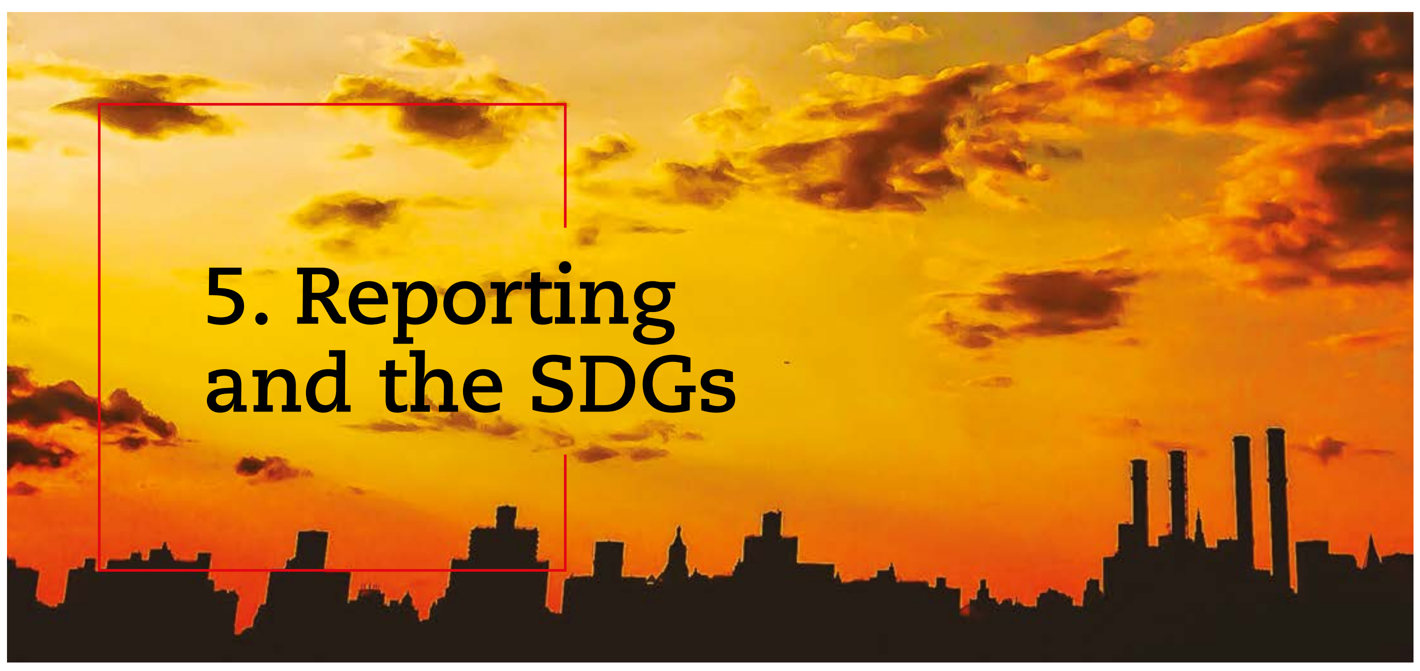
Aviva, with partners including the UK, Dutch and Danish Governments, are developing an open-access benchmarking platform to analyse, house and safeguard publically available information about corporate performance against the SDGs and ‘motivate a race to the top’ (World Benchmarking Alliance, 2017). As more initiatives emerge and the SDGs common language becomes better understood, there will likely be increased momentum in more precise, decision useful disclosures.

> ‘We see that impact funds are increasingly well subscribed to and pro-actively looking to deliver positive societal impact. Family offices, for example, are becoming more strategic and now they want an investment and a social return.’
> **Singapore roundtable paticipant**

Figure 4.2: MSCI 17 SDGs to 5 Actionable Themes



Source: MSCI ESG Research (MSCI 2016)



5. Reporting and the SDGs

Since the late 1990s, companies have been changing the way they approach issues and develop policies, strategies and reporting practices to engage effectively with sustainability.

One example has been a change in corporate reporting and the growth of sustainability reporting. While there is no universally agreed definition of the term, sustainability reporting can be defined as:

> 'Information that communicates how flows of material, resources and services between corporations, capital markets, society, the economy and the environment affect the ability of corporate, economic, social and environmental systems to continue and flourish' (ACCA, 2016c: 8).

When the UN member states agreed the SDGs, in September 2015, 71% of business leaders surveyed said they were planning to engage with the SDGS but only 13% said they had the tools to do so (PWC, 2015).

A number of standards and frameworks exist to help companies engage with and report on ESG issues in their corporate reporting. The UN Global Compact's Principles, The Global Reporting Initiative (GRI) and the <IR> Framework are commonly used by companies and organisations to report on issues such as how they create sustainable value and to communicate their performance on non-financial indicators. In addition to these, a wide range of frameworks for particular issues exist to help companies deal with specific risks and impact areas. For example, the CDP (formerly the Carbon Disclosure Project) provides guidance on climate change reporting while the United Nations Guiding Principles on Business and Human Rights (UN, 2011) helps companies approach human rights reporting.

Despite challenges around fragmentation of the sustainability reporting landscape, reporting standards and frameworks are constantly evolving and responding to changes in the wider external environment, the legislative landscape and requests by stakeholders for information (Table 5.1) (ACCA, 2016c).

HOW THE FRAMEWORKS ARE USED

The standards, frameworks and tools can provide businesses with a way to understand and communicate their impacts on, and contribution to, the SDGs. This section summarises four approaches to SDGs reporting that highlight different areas for companies to consider when integrating the SDGs into their activities. The four approaches are:

1. **SDG Compass**
2. **<IR> Framework five-step approach**
3. **GRI UNGC Business Reporting on the SDGs**
4. **UNCTAD ISAR Core Indicators**

Table 5.1: The old and new orders of corporate reporting

The old order of corporate reporting	The new order of corporate reporting
Long and cluttered	Concise and material
Boilerplate language	Effective communication
Backward looking and short-term	Forward looking and longer term
Complex	Simple and easily navigable
General purpose	Sensitive to audience needs
Focused on financial results for shareholders	Focused on value creation for the organisation and its stakeholders
Rule bound, narrow disclosures	Transparent and responsive to individual circumstances
Reflects stewardship of financial capital	Reflects stewardship of all forms of capital on which the organisation is dependent and that it affects
Locked in, static	Technology enabled

Source: ACCA 2016c: 15

The *SDG Compass* sets out five steps for companies to take to align their strategic priorities, and to measure and manage their contribution to the SDGs.

1. SDG COMPASS

The SDG Compass, developed in 2015 by the World Business Council for Sustainable Development (WBCSD), the UN Global Compact (UNGC) and the GRI, is collaborative approach to align business activities with the SDGs. It is intended to help businesses capitalise on the SDGs, and to make the most of the value that they can create, by helping them to:

- identify future business opportunities
- enhance the value of corporate sustainability
- strengthen stakeholder relations and keep pace with government policy developments
- stabilise societies and markets
- use a common language and shared purpose (SDG Compass 4).

The SDG Compass sets out five steps for companies to take to align their strategic priorities, and to measure and manage their contribution, to the SDGs.

Step 1: Understand: finding out what the SDGs are and what the business case is for engaging with them. The business case could be related to, for example, aligning with, and preparing for, new business opportunities, getting ready for regulatory shifts and evolving investor demands, and better engagement with new customer preferences that the SDGs have the potential to strengthen.

Step 2: Define priorities: mapping SDGs against the value chain, selecting indicators and collecting data and defining priorities.[2]

This three stage process involves:

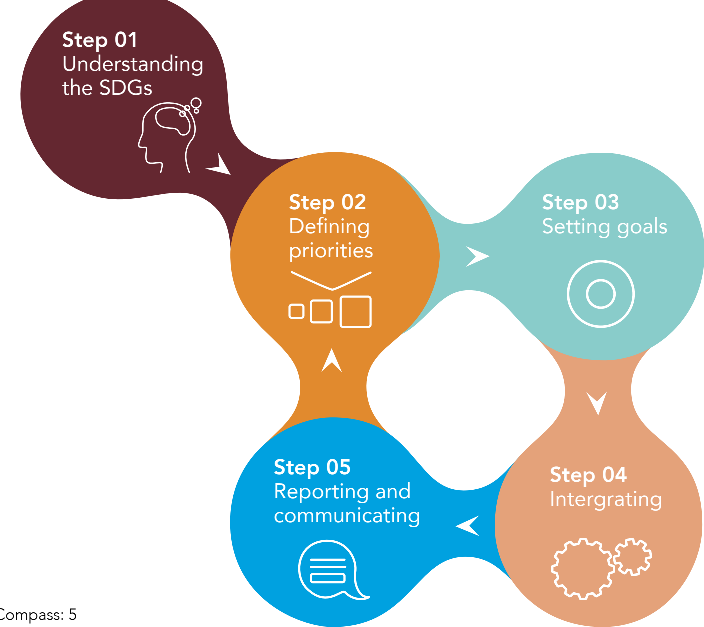
1. Mapping the value chain to assess direct and indirect, current and potential negative and positive impacts. Inclusive stakeholder engagement is core to the process.
2. Selecting indicators and collecting data that effectively demonstrate how business activities translate into impacts. The SDGs Compass suggests using a logic model to identify what data can be collected. This five step process spans i) inputs -> ii) activities ->iii) outputs ->iv) outcomes ->v) impacts.
3. Defining priorities using the evidence from the mapping and data gathered to focus actions on areas of highest impact.

Step 3: Set goals: selecting specific, measurable and time-bound key performance indicators (KPIs) that directly address the impacts or outcomes of activities. A baseline should be defined, an ambition set and a public commitment made.

'The paradigm shifts for smaller companies – if you are not part of global supply and value chains it is more challenging for the SDGs to gain visibility.'

Singapore rountable participant

Figure 5.1: The SDG Compass: applying the SDGs in business



Source: SDG Compass: 5

2 The value chain is defined as starting with the supply base and inbound logistics, including production and operations, and finishing with the distribution, use and end-of-life of products.

> Contributing to any SDG target is likely to involve increases or decreases in more than one capital. Where they are material to value creation, such increases, decreases or transformation of the capitals should be disclosed in the integrated report.

Step 4: Integrating: communicating and anchoring sustainability into operations. This involves making sustainability an integral part of financial, strategic and operational goals. It also involves embedding identified sustainability goals across business functions and seeking out meaningful partnerships that can target achieving shared objectives in a wider collaborative setting.

Step 5: Report and communicate: ensuring that information is material, is rooted in the appropriate context and adheres to internationally recognised standards for sustainability reporting. It recommends that reporting:

- explains why and how the identified SDGs have been recognised as relevant
- shows how the significant impacts, whether positive or negative, relate to the relevant SDG
- describes the aims for the relevant SDG and progress made in achieving them
- sets out the firm's strategies and practices for managing impacts related to the SDGs and achieving these goals through integration across the business (for example, by giving a description of policies, systems and processes such as due diligence) (SDG Compass: 28).

> 'We believe sustainability works for us. Which SDGs do I choose? For many organisations it is very tough to see which apply from an industry perspective.'
>
> **Singapore roundtable participant**

2. <IR> AND THE SDGs

The <IR> Framework's multi-capitals reporting approach provides a way for companies to consider how they create value for the business and stakeholders. *The Sustainable Development Goals, Integrated Thinking and the Integrated Report* (Adams, 2017), sets out five steps for companies to take to contribute to the SDGs through embedding them in the value-creation process (Figure 5.2).

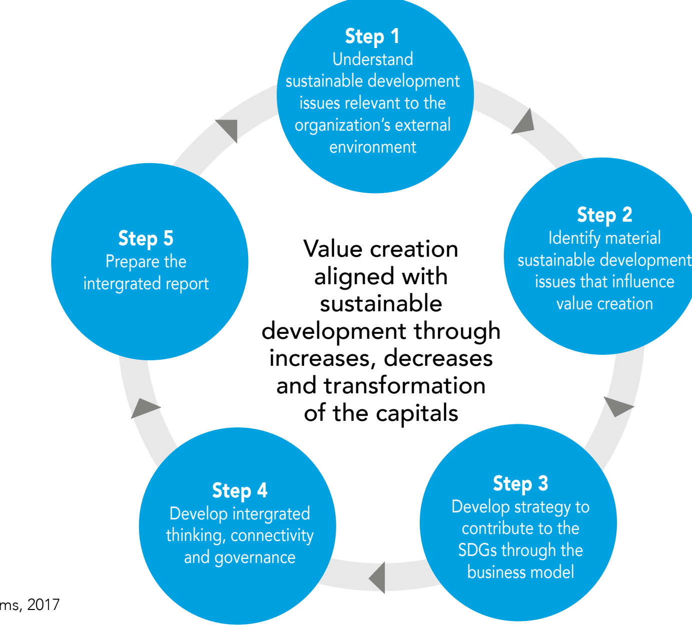
Step 1: Understanding sustainable development issues relevant to the organisation's external environment

The SDGs are relevant to many external environment factors referred in the <IR> Framework over which the board has responsibility to create an oversight structure. These external environment factors impact strategy and resource allocation as an organisation transforms a range of capitals to create value. Transformation of capitals will have a positive or negative impact on the SDGs.

Step 2: Identifying material sustainable development issues that influence value creation

The <IR> Framework emphasises that value created over the short, medium and long-term is created through relationships with others. A materiality assessment that engages with external and internal stakeholders to identify positive and negative impact areas as capitals are transformed can help identify relevant SDGs to be prioritised.

Figure 5.2: Five steps for aligning SDGs to the value-creation process



Source: Adams, 2017

> The core expand across four areas: natural resources, human resources, finances, and institutional and governance issues, and are based on existing initiatives' requirements and companies' practices.

Step 3: Developing a strategy for contributing through the business model
Understanding which SDGs are relevant and material permits an organisation to map them to strategic priorities and hence to the business model inputs, outputs and outcomes and corresponding resource allocation plans.

> 'If the group financial officer has converted to using the <IR> Framework for their annual report, using that to engage with the SDGs opens up another frontier for improvement.'
>
> Singapore roundtable participant

Step 4: Developing integrated thinking, connectivity and governance
Governance that supports connectivity of an organisation's strategy and business model with the external environment and embeds integrated thinking will be essential in engaging with identified SDGs, which are interconnected and dependent on multiple capitals.

Step 5: Preparing the integrated report
Organisations should report their contribution to SDG targets alongside their outcomes with respect to the six capitals. The integrated report should cover how the business model produces outcomes (both positive and negative) for multiple capitals and how this makes a contribution to achieving the SDGs.

Contributing to any SDG target is likely to involve increases or decreases in more than one capital. Where they are material to value creation, such increases, decreases or transformation of the capitals should be disclosed in the integrated report. Appropriate indicators should disclose material changes in the capitals and contributions to, and material negative impacts on, achievement of the SDGs (Adams 2017).

3. GRI UNGC BUSINESS REPORTING ON THE SDGS: AN ANALYSIS OF THE GOALS AND TARGETS

Business Reporting on the SDGs: An Analysis of Goals and Targets (GRI/UNGC, 2017) is a guide that complements the SDG Compass and sets out to be a first step towards the creation of a harmonised indicator set and methodology for companies reporting on their contributions to the SDGs. It examines each SDG and the intermediate targets below them and identifies possible relevant business actions to help achieve the targets. It examines gaps where disclosures have not been made or are in the process of becoming established and links back to relevant indicators developed by the UN-backed Inter-agency Expert Group on SDG Indicators (IAEG-SDG).

The indicator guide can be used to report to a standard set of indicators across the SDGs. In this way, it is applicable both to those using the Compass and using the <IR> Framework approach.

4. UNCTAD ISAR CORE INDICATORS

Engaging with its UN mandate and working with UN Environment, the United Nations Conference on Trade and Development (UNCTAD) has worked with the Intergovernmental Working Group of Experts on International Standards of Reporting and Accounting (ISAR) to build a set of core reporting indicators.

The core reporting indicators are being established to provide the criteria for answering what constitutes a sustainability report in the context of the SDG monitoring framework.

SDG Target 12.6 encourages:

> 'Companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle'.

The UN IAEG-SDG indicator 12.6.1: is *Number of companies publishing sustainability reports.*

UNCTAD has been working on metadata guidance for indicator 12.6.1, so that countries have more clarity on criteria and methods for collecting data that can be useful for measuring their contribution towards the SDGs. It is expected that the metadata's definition of sustainability reports will take into consideration these core indicators. The core indicators expand across four areas: natural resources, human resources, finances, and institutional and governance issues, and are based on existing initiatives' requirements and companies' practices (UNCTAD, 2017).

> 'The idea of a simple set of indicators that is useful for companies and helps them measure their impacts. Standardised, recognised indicators will be easier to compile and compare.'
>
> Vietnam roundtable participant

6. The Taskforce for Climate-related Financial Disclosure

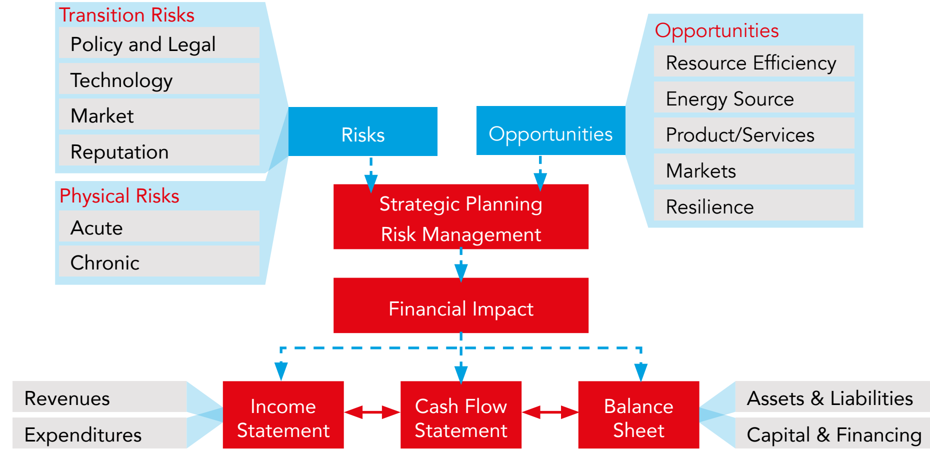
A new force on the future of corporate reporting – and the SDGs – comes from the Task Force on Climate-related Financial Disclosure (TCFD).

The G20's Financial Stability Board, headed by Mark Carney, governor of the Bank of England, established the TCFD as a subcommittee, chaired by Michael Bloomberg, to provide recommendations that enable companies to understand their climate-related risks and better communicate these risks to financial markets.

Beyond merely helping companies with reporting climate-connected SDG risk and SDG impacts, the TCFD recommendations have the potential to be relevant for companies to better engage with the SDGs and align non-financial risks even further with mainstream business (see Figure 6.1).

The TCFD recommendations call on professional accountants to apply their skills, developed in financial reporting, to this non-financial area.

Figure 6.1: TCFD Climate-related risks, opportunities and financial impact



Source: TCFD 2017

The TCFD have a number of differences from other non-financial frameworks, the main three being as follows:

- The focus is not on how a company contributes to climate change and the environment but rather on how climate change risks affect that company.
- Reporting must be incorporated into existing financial reporting – as a minimum in the annual report, but more frequent reporting is recommended.
- The recommendations are strongly forward-looking, involving scenarios, risk evaluations and stress tests, which the TCFD wishes to have incorporated in the current risk statements. The purpose of this information is for the financial community to gain insights into how climate-related risks and opportunities will affect the company's future cash flow, assets and liabilities.

> Risks can include direct physical impacts on a company. For example, rising water levels could flood a factory or operating facility or wildfires could destroy a food producer's crops.

This information is crucial in enabling the financial sector to evaluate the risk profiles of companies and then to make efficient capital allocations. Another key distinguishing feature of the TCFD's framework is that in addition to demanding regular disclosures from large companies, it also covers investors' disclosure demands.

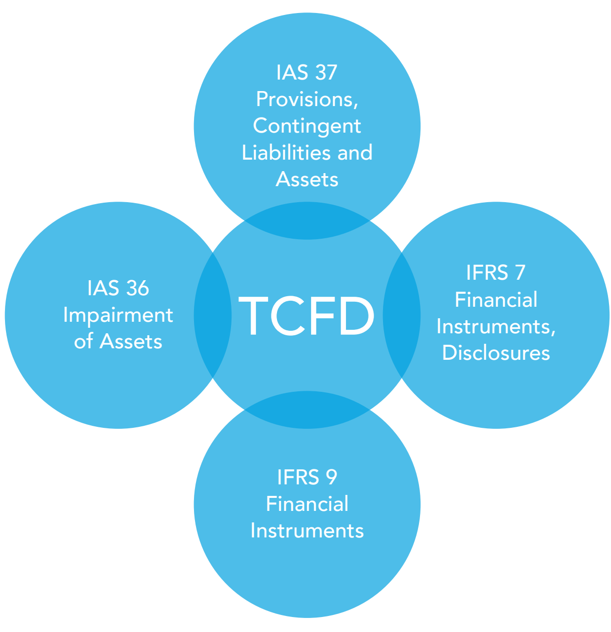
Alongside reporting on a set of criteria that are closely aligned to other reporting frameworks, such as the <IR> Framework, the TCFD recommendations also ask companies to prepare 2°C scenarios for their business. This is to report on a scenario in which the world average temperature increases by a 2˚C (TCFDb, 2017).

Risks to be factored in include direct physical impacts on a company. For example, rising water levels could flood a factory, or operating facility or wildfires could destroy a food producer's crops. But other risks arise from new laws and taxes. For instance, suppose a fleet of trucks, running on diesel, are banned from city centres – or owners of an existing shipping fleet, running on petrol, are charged extra taxes in order to approach certain harbours. How do such issues affect the market value of such assets and the profitability of a business as a whole?

But even if a company suffers no direct impacts, it may be affected indirectly. How will climate change affect the transportation of goods, access to clean water or access to certain raw materials? Increased migration, illness, riots and social unrest in certain areas could affect a company's operations. On the other hand, change can also lead to new opportunities, with new products, innovative ways of working, new transportation routes, new fuels, new laws, and changes in consumer preferences.

The overall conclusion is that change will happen and will affect a company whatever sector it is in. Due to the interconnected nature of environmental issues, many of the 17 SDGs will be impacted by the TCFD recommendations (not just Goal 13 – *Take urgent action to combat climate change*). The TCFD recommendations demonstrate the interconnections between environmental issues and businesses' financial position and performance. In this way, it is a useful tool to get boards and finance teams to think about why and how the 17 SDGs are relevant for their business (Figure 6.2). For where today climate risk is under consideration, tomorrow, other impact areas, driven by the financial community and more precise modelling and forecasting, may take a similar approach to disclosure.

Figure 6.2: TCFD connections with IFRS



> **If the environmental risks and opportunities affect the recoverable amount of the asset compared with its book value, then this will influence the balance sheet value.**

TCFD AND IFRS

The impact of varying degrees of climate change on a business will affect financial data. These insights, which scenario analysis will bring to the attention of a company's management, will interact with with International Financial Reporting Standards (IFRS) and will affect the impairment of assets, the provisions in the accounts, the contingent assets and liabilities, and the impairment to financial instruments (CDSB, 2017).

For example, if 2°C scenario analysis reveals that the future value of the company's activities in certain areas or sectors are threatened or that new opportunities exist, this will affect the value of the assets involved and this has implications for compliance with IAS 36 Impairment of Assets (IFRS, 2013).

In other words, if the environmental risks and opportunities affect the recoverable amount of the asset compared with its book value, then this will influence the balance sheet value.

This is also the case for the connection with IAS 37 for Provisions, Contingent Liabilities and Assets (IFRS, 1998). If scenario analysis reveals a potential future outflow of resources, for example, damages and legal costs as a result of an oil spill, then IAS 37 can assist in determining whether that future cost should be recognised as a provision, and thus also affect the income statement, or whether it should be part of the contingent liabilities or assets – or whether it should not be recognised at all. What is important here is that IAS 37 demands management to be fully transparent about the risk evaluation, even though the risks may be evaluated as low.

Logically, the same need for transparency follows from IFRS 7 Financial Instruments Disclosures (IFRS, 2014) and IFRS 9 Financial Instruments (IFRS, 2016). IFRS 7 demands that qualitative and quantitative information must be provided about the risks involved with any financial instruments used and how the company plans to manage these; this is required for both recognised and unrecognised financial instruments. If this logic is extended to cover environmental risks, then management cannot avoid dealing with these risks simply by stating that they are not part of the company's recognised financial accounts, since any implication that these risks will have for the value of recognised assets and liabilities must be disclosed. IFRS 9 further states that the risks must be considered, even when they are low; this corresponds with IAS 37. Finally, IFRS 9 demands that impairment tests of the assets must cover the entire life of the financial instrument. Correspondingly, impairment tests of assets related to environmental risks should cover the entire economic life of the whole asset.

7. Recommendations for professional accountants and SDGs engagement

Professional accountants can use their skills to help businesses align how they create value with the SDGs.

The SDGs provide a framework for understanding risk and the external environment in a way that is in line with the new nature of the global economy and the future of global growth. The profession can take a leadership role in connecting the private sector, government and finance with the 2030 Agenda.

Collaboration will be key for delivery of the SDGs. At a company level, professional accountants must engage non-financial colleagues. They must also become more involved in wider understanding of the external environment. They must look to participate in broader networks to achieve results.

At present, the new contours of the external environment – which make up the operating system in which the SDGs are to be delivered – are poorly understood and addressed by business. For this to change it requires a reappraisal of the metrics used to define business success.

Using financial reporting skills to better understand and communicate on risks that are non-financial will be increasingly important. The TCFD recommendations point to a future where ever more precise non-financial information will be demanded from financial markets and from regulators as social and environmental impacts become internalised into business.

Technology will be a driving force of future engagement around the SDGs. New data sources will emerge to meet the demands of measurement. There is a clear role for the profession in ensuring data is reliable and that it is communicated effectively so that it can be used to aid delivery of the SDGs. Better data will be a critical driver of the SDGs. Professional accountants will be the custodians of this data.

The 2030 Agenda provides a common language for a range of participants. Growing understanding by a range of participants of this language is gathering momentum. Becoming conversant in this language will become increasingly essential for professional accountants. The opportunities the SDGs present will enable them to meaningfully contribute to shaping the future of business and play their part in building prosperous societies.

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