Climate action and the accountancy profession

Building a sustainable future: Asia Pacific summary

Foreword

Professional accountants have a fundamental role and purpose to be intergenerational value protectors and creators.

The science on climate change is clear – with compelling evidence and obvious signs. In 2021 alone, we have witnessed more severe and frequent extreme weather events. Dust storms in northern China and floods in central China after record downpours brought a year's worth of rain in just three days. In Indonesia, tropical cyclone Seroja turned small communities into wastelands of mud and uprooted trees, sending thousands escaping to shelters. Residents of Sydney and New South Wales were also forced to evacuate from their homes as heavy rains led to rivers and dams overflowing.

Asia Pacific is home to the largest population grouping on earth and serves as the world's largest manufacturing hub producing goods that are demanded and used in both advanced and emerging economies. We have much at stake.

The World Economic Forum's report in January 2020 highlighted that $44 trillion of economic value generation – over half the world's total GDP – is moderately or highly dependent on nature and its services and, as a result, exposed to risks from nature loss. This shows the huge reliance by industries on either the direct extraction of resources from forests and oceans or the provision of ecosystem services such as healthy soils, clean water, pollination, and a stable climate.

The big question then for us as a profession is are we responding to this climate emergency? How are we engaging our boards to better understand climate risks which threatens our entire value chain and eco-system? Are we measuring and reporting on climate in a way that supports the key decisions that need to be made? Are we moving at the right pace to get to net zero by 2050? What more should we do?

ACCA's global report on *Climate action and the accountancy profession: building a sustainable future* looks to answer these questions and more. This Asia Pacific summary highlights the unique findings from our region.

We sincerely hope our members, and the profession as a whole benefit from these insights and use them as a catalyst for action.

Let us take up the challenge to be protectors and creators of value not just for today's generations but for future generations to come.

Pulkit Abrol
Director, ASEAN ANZ

Ada Leung
Director, China

Climate action and the accountancy profession:

Asia Pacific key findings

TODAY

less than

10%

of the respondents are significantly involved in dealing with change.

ONLY

12%

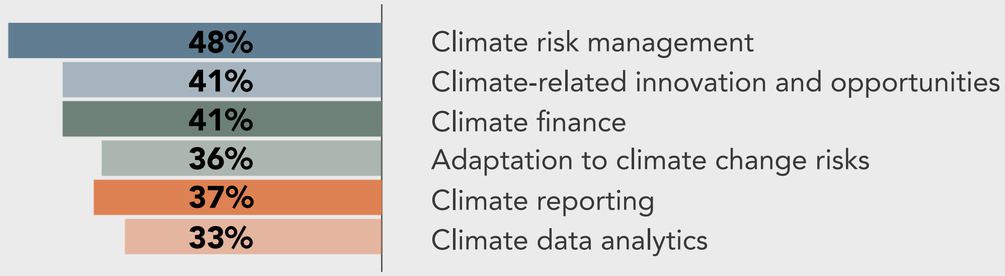
say that their companies have set Net Zero targets by 2050

BUT

67%

say it's important that their future careers involve taking action on climate change

Opportunities for finance in supporting organisations deal with climate change:



Need for the profession to expand these numbers in the coming years:

20% integrate climate KPIs into business strategies

36% considers climate-related matters and risks in due diligence on third parties

27% organisations willing to invest much more in addressing climate change

TOP

3

climate-related factors that respondents believe will impact their organisation in the next five years

Physical Impact

Financing Impact

Regulatory Impact

Executive Summary

This executive summary on the Asia Pacific region is part of the ACCA global report on Climate action and the accountancy profession: building a sustainable future. It highlights specific data points from Asia Pacific respondents as well as feedback from roundtables conducted with senior business and finance executives, regulators and climate policy advocates across this region.

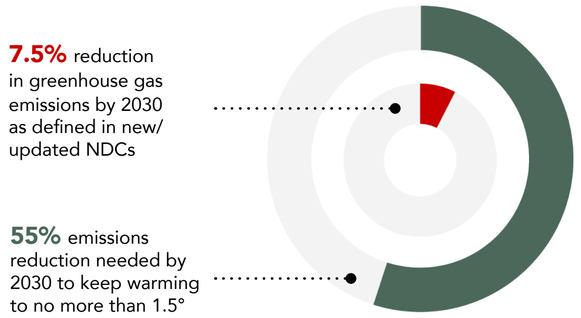
Today, the Asia Pacific region is viewed as a large greenhouse gas (GHG) emitter. According to UN data, China, Japan, and Indonesia contribute 31% of global emissions collectively[1]. Asia Pacific is home to the largest population of people on earth and human activities are a major driver of GHG emissions. Just as importantly, Asia Pacific serves as the world's manufacturing hub, producing goods that are demanded by the world over.

While emissions in the region are high, when analyzed in terms of emissions per capita, only two out of the top 15 countries are located in Asia Pacific - Brunei (39.51 CO2e) and Australia (24.79 CO2e).

There is an urgent need for countries to step up their climate ambitions if the world is to become net zero by 2050, this in turn requires emissions to be more than halved by 2030. The latest UNEP Emissions Gap Report found that new and updated Nationally Determined Contributions (NDCs) only take 7.5% off predicted 2030 emissions, while 55% is needed to meet 1.5° Celcius Paris Goal[2].

This raises the question of how businesses are progressing in transitioning towards net zero by 2050, given of the potential impact of climate change risks.

Increasing ambition is urgent since current targets fall short

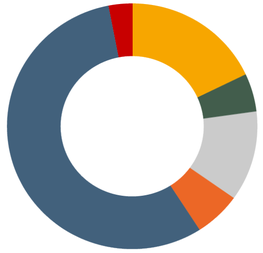


Source: UNEP Emissions Gap Report (October 2021)

Survey demographics

Total no.respondents: 690

- *Others 25.5%*
- *Malaysia 33.9%*
- *China (mainland) 18.7%*
- *Hong Kong SAR of China 11%*
- *Singapore 10.9%*



By sector (employed total: 506)

- *Public practice: 18%*
- *Public sector: 5%*
- *Financial services: 12%*
- *Not for profit: 6%*
- *Corporate sector: 56%*
- *Others: 3%*

By size of organisations (employed total: 506)

- *SME 52%*
- *Large 48%*

1 World's Top Emitters Interactive Chart I World Resources Institute (wri.org)
2 https://www.unep.org/news-and-stories/press-release/updated-climate-commitments-ahead-cop26-summit-fall-far-short-net

Are we taking bold steps in transitioning towards Net Zero?

Finance leaders have a role and responsibility to accelerate the transition of their businesses towards a low carbon future. Yet, only 12% of respondents have set targets to transition their business towards net zero by 2050. Mainland China respondents showed the strongest commitment to date at 21%, far higher than the global or regional average.

More disconcertingly, 43% of respondents have no plans to develop such a policy.

Have we set targets to be net zero?

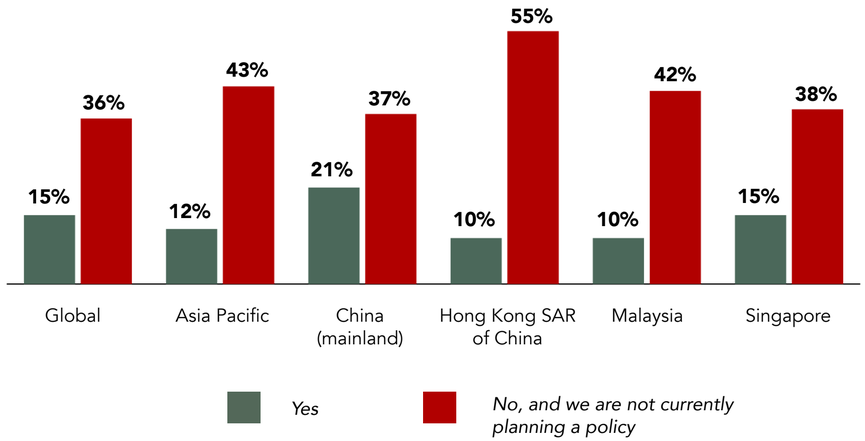


Diagram 1

These findings were corroborated by the roundtables we organized in Asia Pacific, where many participants felt that boards and C-suite executives still do not fully understand or appreciate the gravity of climate implications to their business. 'Management are struggling between surviving through the pandemic and being challenged by regulators over its environmental impact', added Horace Ma, FCCA, Independent Non-Executive Director of Ming Fai International Holdings Limited.

The use of science-based targets, aligned with a 1.5°C future was also regarded by several roundtable participants as fundamental towards mitigating the worst of climate impacts.

According to Faroze Nadar, Executive Director of UN Global Compact Network Malaysia & Brunei, science-based targets are driving corporate decarbonization. Between 2015 and 2020, companies with validated targets cut emissions by 25% compared with an increase of 3.4% in global energy and industrial emissions.[3]

Setting the right tone and ambition, and using science-based targets, represents a critical area for finance and accountancy executives in Asia Pacific to lead their organisations in making meaningful and timely progress in response to an ever-growing climate crisis.

What are 'science-based targets'?

Targets are considered 'science-based' if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement – limiting global warming to well-below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C.

https://sciencebasedtargets.org/

3 https://sciencebasedtargets.org/news/330-target-setting-firms-reduce-emissions-by-a-quarter-in-five-years-since-paris-agreement

.. yet the impact of climate risks are clearly recognized

Many of the Asia Pacific respondents believe climate change will impact their organisations or clients over the next five years across several key dimensions throughout its value chain.

These risks range across regulatory, physical, financing, changes in customer buying patterns, quality of products, supply chain, and impairment of assets. Against such a strong appreciation of and risks to businesses, the level of commitment of businesses in setting net zero targets and developing transition plans, as shown in diagram 1, is surprising.

How will climate change impact your organisation / your clients over the next five years?

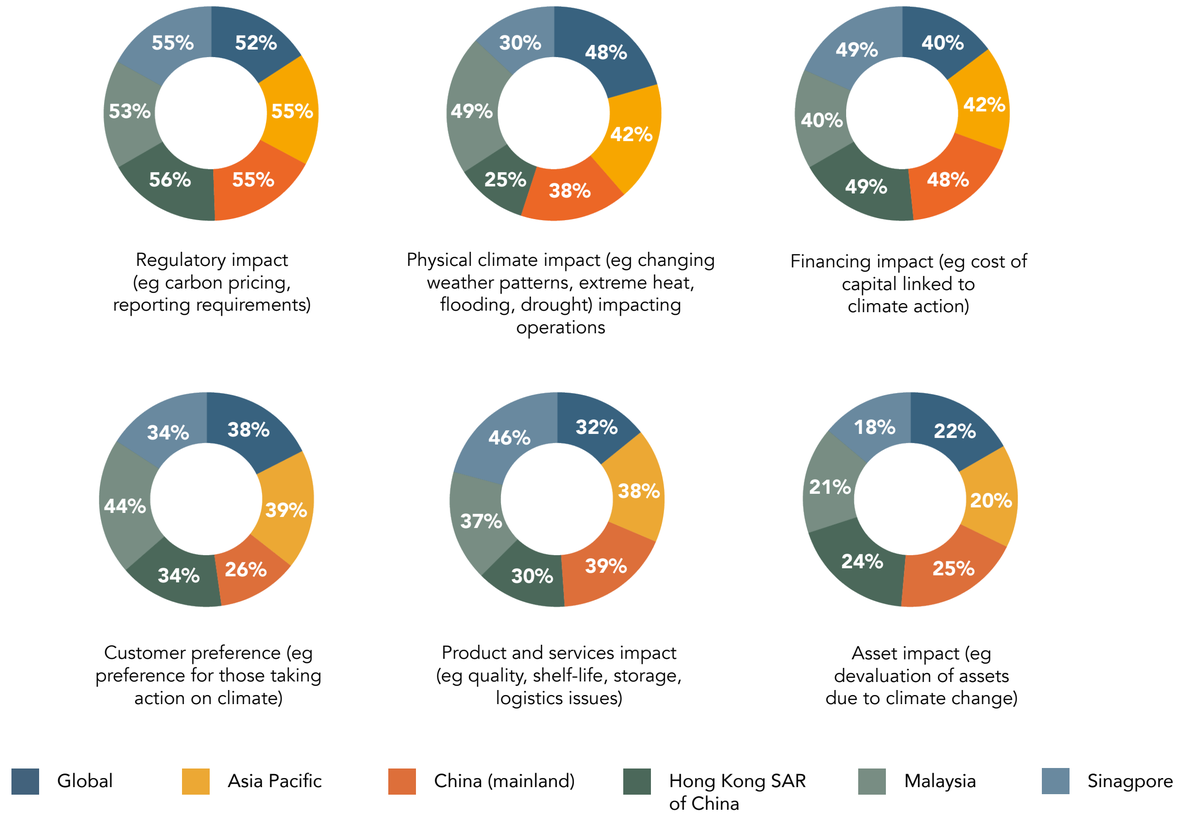


Diagram 2

Integrating Climate KPIs.. what doesn't get measured, doesn't get done

Only 20% of respondents in Asia Pacific report that their organisations use climate related key performance indicators (KPIs) in their business strategies and/or risk management frameworks (global: 23%). 44% of Asia Pacific respondents however do not use such climate-related KPIs and have no plans to do so. This is concerning, considering the adverse impacts climate change could bring to businesses (diagram 2).

These KPIs should include the measurement and monitoring of carbon emissions, using widely adopted protocols. This should cover not just direct emissions from owned or controlled sources (scope 1) and indirect emissions from the generation of purchased energy (scope 2) but also all other indirect emissions throughout the value chain, including both upstream and downstream emissions (scope 3). Roundtable participants from Asia Pacific recognized that scope 3 emissions are harder to tackle as it involves the entire value chain, particularly as they deal with smaller-sized suppliers. However, getting to net zero demands a whole of value chain implementation.

The adoption of climate-related KPIs is a strategic enabler to sustainable business performance. Finance and accountancy leaders can lend their expertise in analytics and insights to develop climate-related KPIs that will monitor progress in reducing carbon emissions and achieving sustainable business outcomes.

Does your organisation integrate climate KPIs into its business strategy and/risk frameworks?

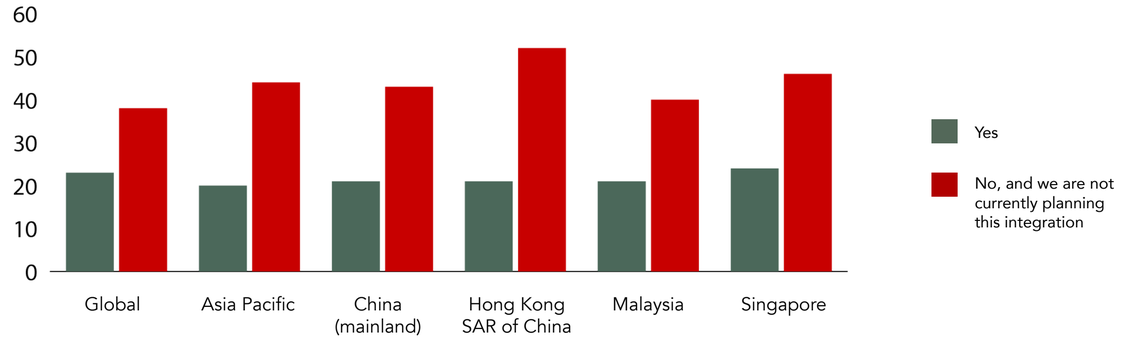


Diagram 3

Consideration of climate risks is a little more advanced

36% of respondents in Asia Pacific currently integrate climate risks into the evaluation of business relationships in their supply chain – from suppliers to customers. This is slightly higher than the global average of 31%, indicating that finance and accountancy leaders in Asia Pacific are slightly more vigilant about the impact of climate risks on their supply chain, reflective of this region's dominant role as the world's manufacturing hub. However, the level of responses indicating that this is not being done currently nor are there plans to do so at 32% for the region is alarming and needs to change if we are to make meaningful progress in addressing the climate emergency.

Do you consider climate related matters and risks in your due diligence on third-parties, suppliers, clients, and other stakeholders?

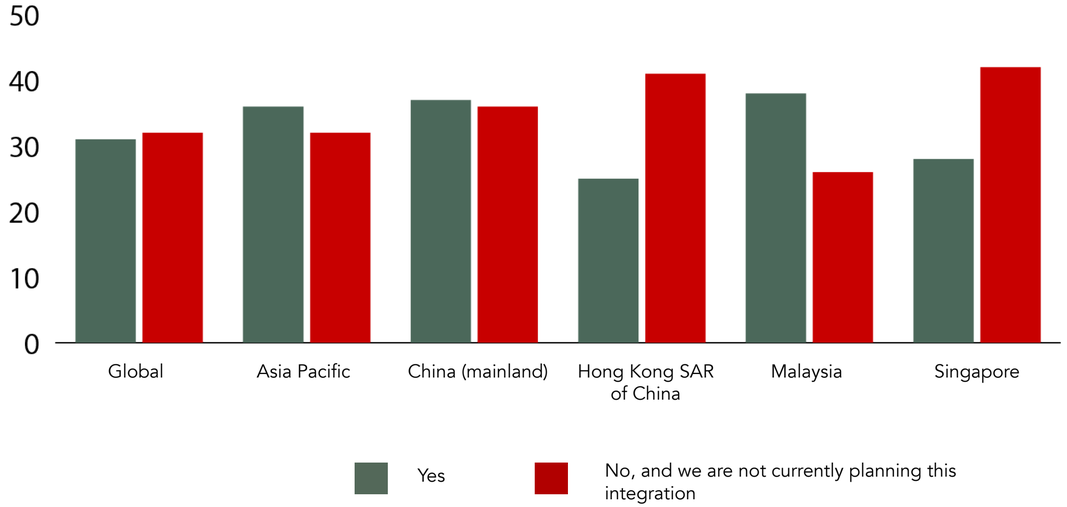


Diagram 4

Are we investing enough to address climate risks?

Only 27% of respondents in Asia Pacific report that their organisations are willing to invest much more in the next three to five years in addressing climate change, much lower than the global average of 38%. In mainland China, this falls even lower to just 18% of respondents.

'Businesses are driven by short-term thinking - quarterly results at one end, and the five-year timescale at the other. This short-term results orientation does not add up to the long-term vision we need to tackle this problem.' said Lavanya Rama Iyer, Head of Policy and Climate Change, WWF-Malaysia.

> "Imagine, as a CEO or CFO.. going up to your board in three to five years' time and explaining why your bank will either no longer extend your company new loans or will raise the cost of borrowing by XX basis points because you have not done enough to mitigate environmental impacts"
>
> *Amarjit Chhina, Chief Corporate Officer, Malaysian Resources Corporation Berhad*

Organisation is willing to invest much more in addressing climate change over the next three to five years, compared to today?

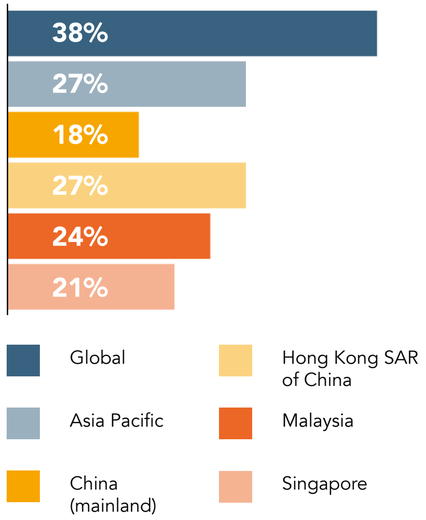


Diagram 5

The level of investments that are needed today needs to reflect the looming climate emergency on the horizon. Boards and senior executives need to be aware of the increasing focus of banks, asset owners and managers in ensuring that their lending and investment portfolio align with a 1.5°C, net zero by 2050 future. This is evident from the increasing number of signatories to the Principles of Responsible Banking, Principles of Responsible Investment, Net Zero Alliance of Banks, and Net Zero Alliance of Asset Owners and Managers.

Finance and accountancy leaders have to play a strategic role to shape and influence the level and quality of investments to reduce carbon footprint as well as to seek out opportunities in green technologies and business models.

The ‘cost’ of transitioning towards net zero

Many of the roundtable participants had concerns that investors were being unrealistic. As one roundtable participant commented, ‘Investors have to accept the ‘cost’ of investing in net zero. It is a fallacy that if you embark on ESG-friendly business strategies, your company will perform better and produce better financial returns. In reducing your emissions, you may have to do things that will not earn you a return in the short term, so we have to be realistic about the incentives to do this because they are not immediately financial.’

Another participant added, ‘In many of the markets we operate in, governments are a huge investor and rely on dividends for its fiscal and redistributive policies – are they prepared to accept lower financial returns at least for several years as their investees pivot towards net zero?’

Longer performance horizons needed - the art of taking the ‘long view’

Roundtable participants also raised that making climate positive decisions requires taking a longer view in terms of business planning and investment horizons. As one participant commented, ‘Is three to five years enough? We might need to take a view over horizons of 10, 20 years, or longer. Otherwise, how will we know where we will be in 2030, if emissions need to be halved by then? How will we know when we will achieve net zero? Doing so will not be straightforward... it is not just a case of simple extrapolation!’

How engaged are finance teams in tackling climate change?

Only 8% of respondents in Asia Pacific are currently significantly involved in dealing with climate change. Over the next five years, the step-up is hardly significant – moving to just 14%. While mainland China’s current level of involvement is on par with the global average, the step-up over the next five years isn’t. ‘China could play a bigger role to support international climate collaborations. This is an opportunity for China to showcase its commitment in leading the low-carbon transition.’ said an FCCA in mainland China through an online community forum.

There is a need for finance and accountancy professionals to play a much bigger role. From top-level strategic deliberations and actions to interventions in day-to-day operational issues, as well as providing the necessary reporting and measurements to monitor progress objectively and holistically.

Significantly involved in dealing with climate change

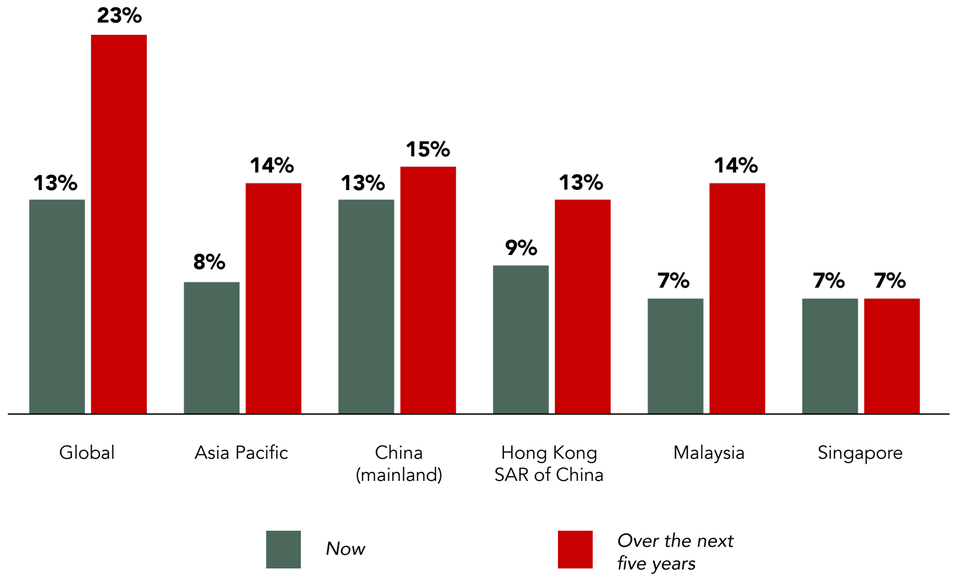


Diagram 6

What's stopping us now?

The most significant barrier to finance teams in Asia Pacific in addressing climate change is that it is not seen as their responsibility, with 50% of respondents reporting this (global: 54%). Lack of commercial incentives and support from leadership as well as their own lack of skills were factors that were rated higher by Asia Pacific respondents compared to the global average. Indeed, the significance of each of these barriers in markets across Asia Pacific differs, eg in Hong Kong SAR, the lack of commercial incentive was the overriding factor while in markets like mainland China and Singapore, the lack of support from leadership was more significant than commercial incentives.

Primary barriers to finance supporting its organisations tackle climate change

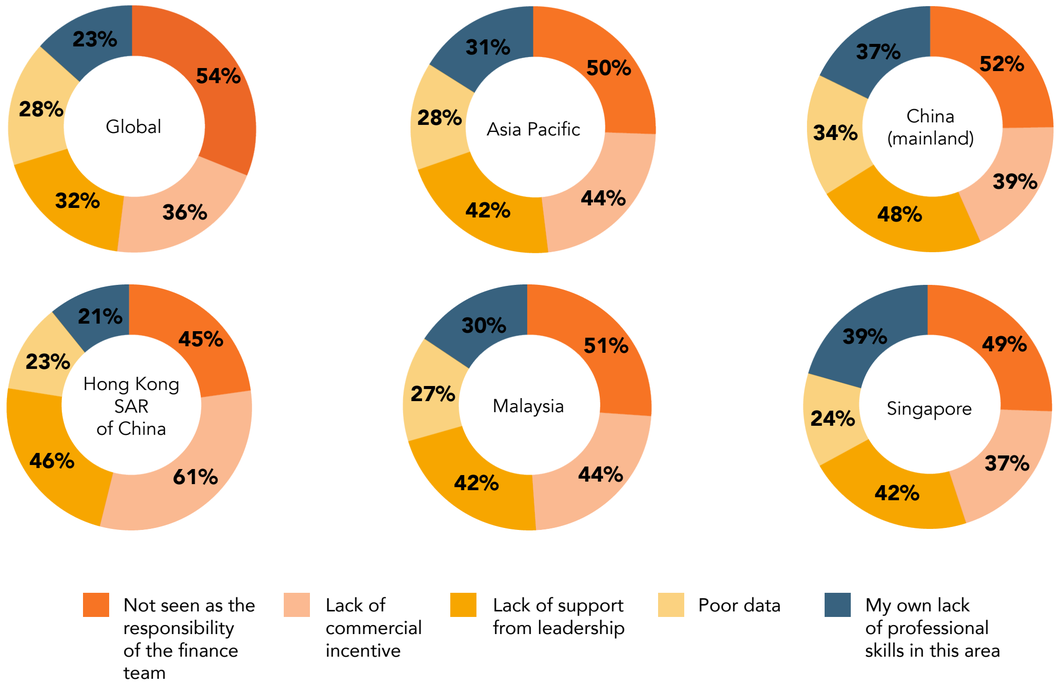


Diagram 7

Opportunities for professional accountants to support their organisations' transition to net zero

The opportunities for finance and accountancy professionals to get involved and support their organisations in dealing with climate change are vast. The top three areas are climate risk management (48%), green innovation and commercial opportunities (41%), and climate finance (41%). In mainland China, the focus seems to be on supporting the business front-end through innovation and commercial opportunities (49%). Malaysian respondents believe that climate reporting provides a unique opportunity to demonstrate value to their organisations in tackling climate change.

In addressing climate reporting, participants in the roundtables were almost unanimous on raising the issue of reporting fatigue and confusion over the plethora of different climate reporting standards, frameworks and tools. As one participant added, 'This is a huge area for the accounting profession, standard-setters, and regulators to resolve .. and quickly. Global alignment of such standards is key'. Another participant raised the issue of just transition, 'The Taskforce on Climate-related Financial Disclosure (TCFD) standards are popular with multinational corporations, but it's unfamiliar in, for example, Vietnam, because it's principles-based. Adoption of complex climate-related reporting standards is too challenging for some markets and they won't make the progress needed.'

Opportunities for accountants to support their organisations

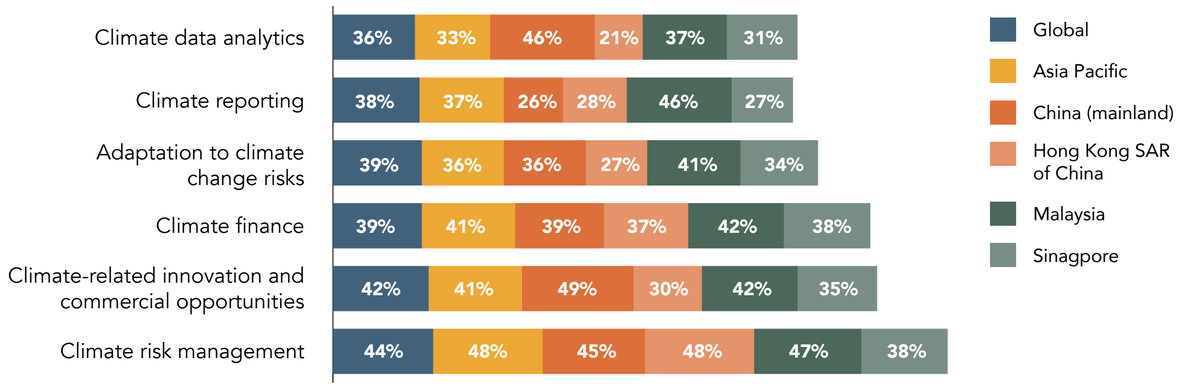


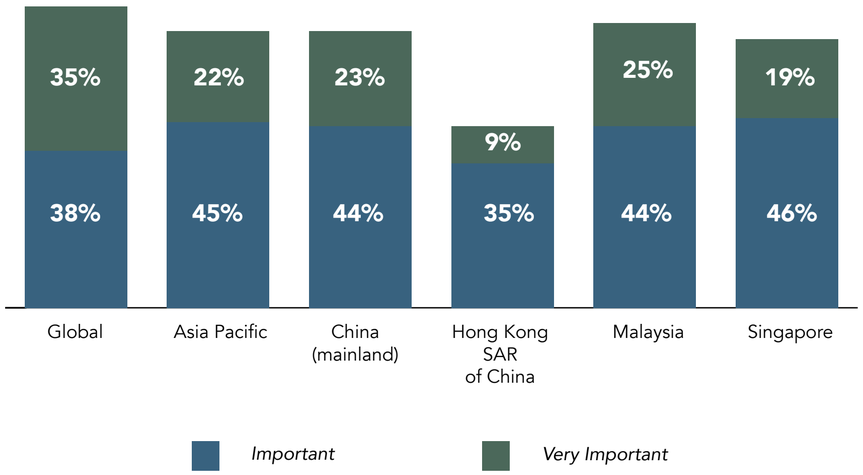
Diagram 8

The role of climate change in shaping future careers of professional accountants

More than two-thirds of respondents in Asia Pacific believe that taking action on climate change will be important to their future careers. This calls for finance and accountancy professionals to build their knowledge on climate science by engaging with relevant experts and grasping key issues that their organisations, industries and markets are facing.

Climate change does not lend to the redundancy of core finance and accountancy skills. Rather, the enhanced knowledge and increasing need to accelerate climate action when combined with their core expertise in finance and accountancy – be that in strategy, risk management, analytics and performance management, financial reporting, tax, assurance, advisory - will create even greater demand professional accountants.

How important is climate action to your future career?



Next steps for accountancy and finance professionals

The Climate Agenda

- Get executive level buy-in for climate action
- Play a lead role in supporting boards and executive leadership in net zero transition plans
- Place climate risk, environmental, social and governance (ESG) and net zero at the heart of organisational strategy
- Take a holistic approach to decision making and play a lead role in identifying and sourcing what constitutes ‘decision relevant’ data.
- Report meaningfully on non-financial information to ensure that financial and non-financial reporting are connected and integrated within a clear narrative
- Foster integrity and trust
- Increase awareness and education

10 questions your organisation should be asking right now

1. Are climate and natural capital risks a specific board agenda item? If not, why not?
2. Does the executive board include a member with direct responsibility for climate and natural capital action?
3. Does the organisation understand the full cost of climate risk to it?
4. Does the organisation understand the new business opportunities that may arise from climate and nature-related business strategies?
5. Is climate action integrated into the organisation's end-to-end activities – strategy; investment plans; governance including organisation culture; reporting; decision making and assurance?
6. Is the organisation using climate based science targets in management and performance evaluation frameworks?
7. Is the organisation integrating financial and non-financial reporting (including climate and natural capital risks) so that it is making better decisions?
8. Does the organisation have the right talent, and is it attracting future talent who understand climate science in order to make necessary interventions – in business models, supply chains, etc?
9. Do our employees and colleagues have access to the right tools and education for this new business environment?
10. Is the organisation communicating effectively with all of its stakeholders on how it is addressing climate risks – at pace?

Call to action for governments

Governments must raise their efforts in not just setting net zero targets by a specified year, **but also intermittent targets for the end of each decade leading up to 2050.** More importantly, they need to outline strategies and plans to realise the achievement of those targets. This should cover key industries, energy sources, mandates for business and society – as well as including policy interventions that both incentivise and disincentivise required outcomes for the wellbeing of future generations.

Governments must help organisations gain access to the expertise required to meet net zero, whether that is through up/re-skilling employees, or providing free or cost-effective external support. Governments must step in to provide organisations of all sizes access to this guidance, support, and the tools they will need to meet carbon reduction and net zero. Here, there is a role for **knowledge hubs** where governments and those organisations leading the way in carbon reduction and net zero can provide expertise and support tools, which can be adopted by the wider business community.

Governments need to work together. The climate crisis does not recognise borders and many businesses and organisations operate internationally, if not directly then often indirectly via supply chains. It is therefore vital that governments work together to create a collaborative and symbiotic approach to supporting businesses and organisations, particularly SMEs, in preparing for and delivering carbon reduction and net zero targets.

Most organisations are being reactive by awaiting government direction. As a result many, especially those without the necessary human or financial resource, are woefully unprepared to meet net zero targets. Governments must help business through practical guidance and support if net zero goals are to be achieved, including through the involvement of **local and regional authorities**. This includes supporting them to:

- transform to more environmentally friendly ways of operating.
- deliver business changes that reduce carbon emissions.
- design ways of tracking progress on carbon reduction and net zero targets.

Acknowledgements

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