Sustainability and Financial Due Diligence podcast

SPEAKERS
Charlotte Evett, Teuta Oruci, Victoria Gillespie

Charlotte Evett 00:13
Hello everyone, I am Charlotte Evett. I am the general manager for New Zealand regions for Chartered Accountants Australia and New Zealand [CA ANZ].
A warm welcome to this joint CA ANZ and ACCA podcast today on the topic of sustainability and financial due diligence.
I'm honoured to be joined today by Victoria Gillespie, who is the head of ESG for Alter Domus in the United Kingdom. And joining us from Malta is Teuta Oruci, the founder and CEO of CleanTech360. So welcome to you both.
Hopefully, it's great to have you both here.
So today, Victoria, Teuta and I are going to have a conversation about the consideration given to sustainability related issues in the M&A transaction process, and the extent to which finance leaders need to consider this. So, this pod is part of a joint project by ACCA, and Chartered Accountants ANZ and it's linked to the launch of the accompanying report titled sustainability related issues, and transactional due diligence. Now, you can download that from either of our website. So that's from the ACCA website, a website or from the CA ANZ website, I encourage you to read it, it's got lots of really practical tools and tips on conducting sustainability related financial due diligence. So, depending on no matter which industry you're in, or which country you come from, there's something for everyone.
Just a bit of background before we do start our conversation, though, so I guess it's just worth highlighting for those that aren't already aware, but sustainability related risks, and a failure to address them represent a really, I would say one of the most significant challenges that organisations face in this decade. Many organizations have faced a series of really complex challenges in recent years. So, we've had the pandemic of course, which is, you know, a not so distant memory now. Supply chain issues, more recently, inflationary pressures, interest rate increases. So, for many organizations, this has really reduced the focus on a sustainable, just transition. So, this made, it's a very prescient topic. So when we did the investigation for this report and the research, we drew on insights of almost 50 finance professionals from around the globe, from New Zealand we were I am across to China over the to the UK, Malta, you name it, we spoke to them. And we explored the extent to which sustainability related issues are a factor in the M&A transaction cycle. For some organisations, it was a really integral consideration. It was incredibly important part of the transaction process. But it really varied between organisations, between industries and also between countries. And in the report, I think we refer to it is a variation between a subtle noise and a loud drumbeat, which I think is quite nice. But anyway, so and to our conversation today. So, with Victoria, Teuta and myself, and I guess I'd just like to kick off in Victoria, we'll start with you. Why does sustainability matter in a transaction cycle? Does it matter? And if so, why does it matter?

Victoria Gillespie 03:37
It does. I think typically, and predictably, I was going to say that anyway, it does matter in the transaction cycle specifically when you're looking at either from both viewpoints. So, whether you're looking at the whether you're the acquiree, or whether you are to be acquired, so or the acquirer. It matters because it, it looks at it impacts so many parts of your business. So, it looks at how you embed sustainability within your strategy. Is it part of your DNA? Is it separate? What's the control environment and therefore, the all of the trickle effects or the linked consequences as a result of that? So for example, if you don't embed it within your organisation, and it's retained separately, who manages that process? How out of kilter with your strategy is it? And then what's the impact on your valuation, or any other consequence of your business? So, it's really important for organisations to consider it regardless of the lens to which you are looking and considering sustainability because of all of the risks, the opportunities that that could present at some point within that cycle.

Charlotte Evett 04:42
That's I like the way that you refer not just to the risks, which quite often we hear, especially in relation to due diligence, but also the opportunity so I think that's a really good call out. And the same question to you Teuta why does sustainable I'm not even going to say doesn't matter. Of course it does. Why does it matter in transaction cycle.

Teuta Oruci 05:01
Agree fully, obviously what Victoria said. So, the issue is that from the investor point of view, it's really important to look at the obviously the risks and opportunities, but it's about the unlocking of the value. So, I'm actually focusing more on the opportunities. Because during the due diligence process, actually, there's quite a big significant kind of number even over 50%, at least, the statistics show that the investors pull out of transactions, because they find obviously, gaps in their ESG strategy. And equally, it also gives you an opportunity to renegotiate the price. So, if I'm on the buy side, that obviously is a positive thing, because you want to find out where the opportunities are to renegotiate the price. But equally, really important in terms of the post implementation so that you know exactly what the lights are flashing, and where you will focus into strengthening the ESG strategy. And obviously, the operational risks.

Charlotte Evett 06:00
Yeah, so really pulling on that, that it's very clearly is a risk and an opportunity. But again, you both focus quite heavily on the opportunity side, which is fantastic. What would you say back to you, Victoria? What's the private equity lens on this from your point of view.

Victoria Gillespie 06:20
And again, being a provider and working very closely with lots of private equity houses, I can only talk to the experience there. For me is, it's really about the conversations that are more interesting, where we talk about the opportunity. So as much as Teuta just mentioned, from a private equity perspective, the private equity house might be looking at target acquisition to say, well, actually, they're quite new to the market, they don't have a really mature ESG, or sustainability strategy in the business, they might actually not be that big. But that gives us the opportunity and future over the seven-to-10-year cycle of which we're going to invest in support this company, it gives us that opportunity to really add value. And we know that there are value or there is value to be had. Because there are numerous reports now that have been released to market, which look at the contributing factors of ESG, or sustainability, and the subsequent valuation, or the premium that's

achieved upon exit. So, I think it becomes really, really interesting. Likewise, you know, as part of any due diligence when we're looking, not just sustainability, but if we look at this from just a risk or an opportunity perspective, we know what some of those factors are quite early, or we're considering already, you know, what's the risk of the exposure. So, we know sustainability, global standards are quite immature in their process and their application. But we know in 5-10 years time, they're going to be more mature, and we're going to have more colour, we're going to have more detail. So again, it allows us to think about how can we align what their company is doing today, versus what we feel they could achieve in the future? So, I think it's exciting from that perspective. Likewise, when we consider this from the risk lens we're looking at, okay, well, where's the demographic of the operations for this entity? Are they exposed to climate change? Are they even considering it? If it were in their supply chain, if their manufacturing business where in their supply chain are they going to be hindered if they are not considering sustainability or thinking about the regulatory environment? So, I think from a private equity perspective, and to your point, I think it's really interesting. And there are numerous different organization and industry due diligence questionnaires that lots of private equity houses have not only contributed to, but they utilize as part of that process now. So, it just becomes part of the due diligence process and part of their BAU part of their, their DNA in the way they operate.

Charlotte Evett 08:43
Yeah, no, that that's very interesting. So sort of looking from the opportunity to add value in the future, like you would sort of work any part of an organisation like you can see where they are, they may or may not be mature in a particular area, you can see opportunity for growth, and there's with private equity, exactly what the purpose of the investment is, but also looking at the risks from the other side. Teuta what are your thoughts on this?

Teuta Oruci 09:12
Obviously, fully with Victoria, and you capture quite a lot. Now I'm going to just compare and contrast this with the risk side, because although the opportunity is clear, and the early adopters are obviously going to gain for being sustainability driven due diligence, etc. But the risk is also important because if you think about identifying the reputational risk that obviously the potential inherit risk within the company that could have with cleaning up the old processes, for example, if it's a chemical company, etc. Again, there's quite a lot of examples of where the transaction did not go through because the risk of the of obviously legacy issues was much, much greater. So again, it's an opportunity because you can adjust the price and of course you can imbed the new practices, new strategy in order to get them to the green side. But equally, as I'm saying, it's really interesting to look at the transactions which are happening in the market, which are capturing both sides, the risk and the opportunity.

Charlotte Evett 10:15
And if you go back to that subtle note, you know, the difference across industries, countries, you know, even within organisations, to which sustainability is considered in the due diligence process, and I use that subtle noise to a loud drumbeat sort of range. Those that the subtle, noise end when you come to the risks, I mean, that there are significant risks that they could miss you talk about the chemical company and clean up, for example. So, it's very important to have that focus so that you're really aware of the risks when you're entering into a transaction. So, I guess, the natural next question that flows from that, Victoria, and we've already touched on it, so how significantly would you say sustainability related issues impact evaluation and of an entity?

Victoria Gillespie 11:05
Again, it's, for me, it's, it's, you know, it has to be there. Because, you know, like Teuta, I'm aware of deals that people have walked away from where the valuation actually things have come to light as part of the natural due diligence process. And actually, the valuation has been tweaked, or there's been specific clawbacks that have been entered into the agreement. So, ie they have to implement certain measures in order to achieve the price are allowed, allow it to go through. So I think it's really interesting, because it has, like with the many, I mean, valuation in its own right is so complicated in terms of how you come up with the correct price, or the true price or the appropriate price for the entity that you're acquiring. So, I think that's really interesting. I think sustainability now plays a significant part of that, because by its own nature, it's very subjective in its application, as well. So, you have, it becomes even more of a more complex layer upon a lens that you're already looking at that entity. So, when you look at valuation, we all know that valuation is subjective itself, and how you determine that price, what measure you use, and then there's different elements that feed into that, that themselves are subjective. And then you have this quite subjective overlay as well regarding sustainability and how far it's embedded and what the risks and what the opportunities are. And I think from a valuation perspective, you might go so far as to have a look at not only the detail of the sustainability strategy, the stakeholder mapping, but you might also look at all of the other things that feed into that. So, the ownership of sustainability, you know, how it's rolled out, the investments put behind it? Is it just lip service? Is it embedded? Yeah, how far are these risks really been picked up? Because you might want to consider, again, when you're looking at your investment cycle, you might want to consider in five years' time, are we going to have an issue because they've not picked up something now that they need to start implementing, because we know that there's a particular regulation coming down the line a couple of years. And I don't mean that as general sustainability standards. I mean, they're specifically as the organisation, how it operates. So, if it's a manufacturing company or a chemical company, we know that there might be some very harsh or restrictive requirements and regulations pending. So how far are they picking up? And is it being considered. And I think when we talked about the valuation, again, we think about everyone that's involved in that process. So, it shouldn't just sit with the partner or the persons looking to sign off that valuation or that agreement. It should be something that's in the mind of everyone that plays a role in coming up with the valuation, again, both sides discussing and considering how that impacts what they all deemed to be a fair price with the acquisition.

Charlotte Evett 13:48
I know that's very interesting. And I'm just thinking back to the findings of the report, then we found quite a range in terms of maturity, and appetite for considering various areas of sustainability and financial due diligence. And so, what the report actually does that makes it very accessible to those that might be early on in their journey. It covers areas to consider in sustainability and breaks it down. Sustainability related due diligence, breaks it down into environmental, social, and governance, as you'd expect with ESG also looks at economic and strategic. And there's quite a checklist there that enables organisations that are less mature in the journey, if you'd like to, you know, give them things to think about that are very important to body. Teuta, do you have anything to add to Victoria's comments on valuation?

Teuta Oruci 14:36
On valuation fully agree, obviously, because we kind of discussed it at length, but what I want to also focus everybody's mind on is that it's not really easy to do sustainability, due diligence. So, I really want to focus also on the challenges during that because we expect that it's just a checklist and we can actually go through the given kind of parameters, but the challenge is very different

because there is lack of data, there is lack of understanding by all the stakeholders, what does it really mean? Then lack of knowledge in house, then also not being challenged. So, early adopters, ideally should start planning on this ahead of a transaction because you cannot be transaction ready overnight. So, I'm going to try to urge everyone that they need to look into this to be investor ready to understand and in house kind of parameters of how do you?

Charlotte Evett 15:31
Well, that's really, yes. Go ahead and play with breaking up a bit on my end that, so I didn't hear the end of your comment. But what something that you did say that really resonated with me was, it's not easy sustainability, due diligence is not easy plan early, which is great advice, but also about a lack of knowledge and skills. And I think that's something if we sort of turn our minds now away from the sort of the general sustainability due diligence, have a look at maybe what a CFOs, and the finance teams should think about. And one of them is having appropriate, appropriately skilled team that does build up that knowledge and that experience. So, what are your thoughts on that? And what have you seen?

Teuta Oruci 16:21
So again, maybe this was for Victoria, because you are seeing live transactions going on, but I just wanted to highlight kind of the downside, and obviously, the maturity of the market as well to kind of

Charlotte Evett 16:32
perform. And that's what we found in our research as well. So, Victoria, what have you seen in terms of knowledge and skills and experience amongst finance teams, especially?

Victoria Gillespie 16:44
It really varies to be honest, so I think, again, coming back to the point Teuta raised. It's not easy, and I think the reason for it not being easy is because what do we mean by sustainability? What do we mean by ESG? Every person that has uses those words, they've got their own agenda, or they've got their own interpretation and I think that causes additional challenge for the finance teams or the CFOs that are being asked to roll out or to do or to deliver upon these sustainability packages or sustainability strategies. How do you embed it? How do you record it? It can be so complicated. But then when we take a moment to pause the good conversations that I have with, and it's not just CFOs, it's not just finance teams, it can often be a CSO, Chief Sustainability Officer, or even the COO. Yeah, it's not unusual either to have a conversation with a COO about it, it can really be, well, this is what we're going to focus on. So, I think to the point that originally raised, it can be too much for one person to take on. And again, it's very proportionate, it depends on the organisation depends on the demographic depends on how they operate. But it also depends on what the interpretation to that business and those key stakeholders of sustainability are of ESG are, because you cannot be all things to all people and deliver that really, really well. So, I think we need to also really fine tune and define what that sustainability strategy for that organisation means. And I think that can be really important if we come full circle to the, to the purpose of this podcast about M&A, knowing what you are focusing on is really appealing from an acquirer perspective. Because, you know, well, that's their interpretation of sustainability. And they're being very, in simple terms, this is what they mean. So aren't we know that that's not what we mean. So again, it gives you the opportunity to not only manage and address and highlight the risk and look at okay, well, that therefore means they could have a lack of understanding or they could have, if they focused on climate, it means that they might not have someone's looking at supply chain analysis. So again, to your point on skills, it allows once you determine and you define what that means to you as an

organisation, you can then pull out the people that best place to help you because it's, again, very controversial, I guess, there is a limited skill set, because by nature, sustainability itself, and what we're looking to address and do within this space is quite immature in a process. So you know, accountants, us accountants, now we kind of know what the IFRS is because it's been around for a while, it's given us enough time to train people to get people, you know, to allow them to have the experience and really learn, you know, what that means, and, you know, within their career and their own cycle, but with sustainability, I think, unfortunately, we go, 'Oh, we've got a sustainability need. There's someone that might have an interest in sustainability, and kindness, if they enjoy climate or nature, right, we'll move them into that role'. And it's really unfair because it doesn't give them the skill set and the support they need to deliver on their roadmap. So, I know that this work that ACCA and other accountancy bodies are doing to try and upskill try and encourage people, not just early careers but also within their if they are mid-career or late-career, to start to consider a case sustainability. How does that complement what you already know as the accountant, or actually the only I've done some of the modules myself that could be done in isolation by someone that's not a finance person. And there's still value to be hard there, because there's a lot to think about, or allows you to then use that as a baseline to go off and specialise in something else. So, I think from a career perspective, it's really exciting. From a company perspective, again, it's exciting because you can train people, you can move people, you can upskill them. But also, I think what we can't do is we can't expect to move people into these roles, expect them to deliver, because I think that that's without that support, without that training and without that clarity of what their objectives are, because I think you'll then set up to fail. And I think, if I was looking at a business and looking at, okay, well, they've got one person that's doing this part time, but they're a multi organisation and they operate in lots of jurisdictions, straightaway, I'd be looking at okay, well, what's the risk with the actual support? So, I think, when we come back to the original question, I think it's really exciting because we start to look really interesting, because we start to look at it becomes a bit of a rabbit hole. Teuta , I have taken quite a lot there but I know that you're working,

Teuta Oruci 21:12
Absolutely agree Victoria, keep nodding because I fully agree with you. But I just want you to actually be a devil's advocate and take it a step further, because this cannot be CFO, and just the finance exercise, I really want to highlight the fact that the boards and sometimes CEOs sign up to commitments without fully understanding on the long-term financial commitment. So really, this is a, has to be embedded full way in the organisation. Because if this becomes your finance, then we know it's going to be just a checklist. So, the upskilling starts from the top. And yeah…

Charlotte Evett 21:47
Absolutely. And that shows how serious an organisation is about the sustainability journey. Like Victoria said earlier if you have one person that enjoys nature walk, so that put them in as the sustainability person part time. Perhaps, you know, there's a way to go in the maturity journey there. Excellent point. So I guess, talking with, we have been talking about skills, and if we look from the CFO point of view, and in terms of what the CFO should think about, starting with the CFO, because we have to start somewhere, but acknowledging it's not only the finance team and CFOs journey, what steps might a CFO take to ensure that sustainability related issues are considered apart from a focus on talent and upskilling? What else comes to mind for either of you, Teuta if we start with you, perhaps?

Teuta Oruci 22:37

Again, for me CFO always, it's kind of the steward. So, it's the bridge between all the stakeholders. So, we hold the pen, for sure. The technical ability and the technical training, etc. It's really about storytelling. It's about having the narrative, right, to engage all the stakeholders. So, as I say, to get the boards engaged to get external stakeholders engaged, including internal departments, so this is across departments. So, it's really within the operations and your treasury and your procurement, etc. So really, in the full value chain of the organisation. So, what I see CFOs then I guess on a separate report, we discussed this previously with ACCA CFOs role is evolving into a value creation officer, so CFO in a traditional way, it's now far beyond just doing financial reporting. So, this is really something absolutely kind of took off on and appreciate the role is much, much wider than it used to.

Charlotte Evett 23:42
And that's very exciting. I mean, for you think about future people coming into the accounting and finance profession, all the opportunities and all the different areas they can take the career because you're right, the CFO role now is so much broader, and it will continue to evolve over time. So very, very exciting. Victoria, do you have anything to add there about sustainability? What do you have to add? Of course, you have something to add on, on sustainability. What other sustainability? What steps other steps might a CFO take as a start to ensure that sustainability related issues are considered?

Victoria Gillespie 24:21
Again, I would again, I think Teuta already raised this point, but it's about the stakeholder you know, where does it where the supply chain is within the business? So, is it embedded? Does everyone know what role they play and what the impact is? Because I think that, can be able to communicate is really important and being able to articulate how crucial someone's job is to a particular aim. So and what I mean by that, for example, PAs are in the business if they're helping to book travel, is that being recorded properly on the reconciliation system or a recording system, so they can pull off things like the carbon footprint analysis. Does the PA know how crucial that information is to, to the sustainability reporting that ultimately, they're looking to gather and deliver? And you know, are they going to be able to collect the substance and support that's needed, because that's going to come under scrutiny and future. So, it's been able to identify who are the key people that need to know what how crucial their jobs are within the organisation. Even if it doesn't naturally look like they would play a role in helping with sustainability reporting. I think everyone within an organisation has a role to play. I think it's sometimes it can be the CFOs job to help communicate that and help say, you know, your job is important, because actually, this is the reporting that we need to get to and this is how you can contribute. Because it's not just about the cost of the flights, or the cost of the travel or the expense policy. It's about the other stuff that we need to be able to document we need to be able to communicate, collect, gather evidence, because actually, we're going to have to come to you and future to look at the detail or the breakdown of that information. So yeah, are people aware of that? So, communication, taking a holistic view across the organisation? Embedding, again, naturally, I think it comes with the having a CFO hat. But are you documenting potential risks in future? Have you recorded that? Are you working with the Risk Officer? Are you collaborating on the ESG or sustainability strategy? Are you part of a member of the strategic group, and therefore having the opportunity to say,' we need to document that as a risk, we might need to make a provisional future', or we know that this is coming up, we need to resource accordingly. It might not be in my team, it might be in another team. But have we documented that are we considering it. So, it's also been able to bring it all together. And I think the role of the CFO and the role of the finance team, sometimes is overlooked, because I've worked in finance, myself and the finance team. I think

sometimes you can be seen as the, you know, you start on the side, you're not doing anything until it comes to year-end or you know, the monthly processes of equity.

Charlotte Evett 27:10
Backward looking number cruncher.

Victoria Gillespie 27:17
Yeah, exactly. And I think sometimes a stereo type is unfortunate, because we know, it's you mentioned, the role of the CFO, there's so much more dynamic, and arguably so much more important than just the person that sits there and says 'no' to spending money, or, you know, how is the port into account of all of those stereotypical type of things that we tend to associate CFOs? I think it's, there's so much more to it than that. And I know that there's been a checklist that was published recently around what are we asking sustainability professionals and also CFO to have and the list of all of these additional skills, there was a peacemaker, diplomat, there's all of these additional things in there. And I think you are asking quite a lot of people, but they need good teams to be able to support them.

Charlotte Evett 27:53
Yeah, for sure.

Teuta Oruci 27:56
So, it just ultimately, it really is a behavioural change. It's really about the culture of the company to understand that this is everyone. This is not just one role, responsibility of a CFO or whatever. And even in the past, when we used to appoint chief risk officers, then all of a sudden, everything became risk officers' responsibility. And now we need to really be mindful that we don't just appoint a chief sustainability officer, they will fix everything. So really, it's about the culture and embedding the whole culture of the company, behavioural change that this impacts everyone.

Charlotte Evett 28:30
I think that's just such a fantastic point. And I liked how you used risk as an example, because you're right for some. But the beginning when it was a thing, there was the chief risk officer, and it was all about them. And then you know, that saying came along risk is everybody's business that becomes embedded across every business unit in the organisation. And I see sustainability being exactly the same. That starts as a standalone, and then now has to be embedded across every part of the organization, and all of it's systems as well. And

Teuta Oruci 28:59
ultimately, again, I'm probably being devil's advocate, but ultimately, it's no different to when you look at Enterprise Risk Management, climate risk is just one of the top 10 risks.

Charlotte Evett 29:12
So Oh, absolutely. Yeah, I don't think that's devil's advocate at all. I mean, it is it is absolutely a risk to be considered alongside other risks. It's just a pretty sort of big scary risk at the moment. Is the problem or the challenge or the opportunity, as we've discussed? So sorry, yeah,

Teuta Oruci 29:33

Always an opportunity. Because knowing your, you can mitigate the risk and obviously unlock the value creation.

Charlotte Evett 29:42
I love the positive angle, but that's so true. So, if I'm thinking about financing transaction, Victoria, what are the implications? You know, from a CFOs point of view?

Victoria Gillespie 29:56
If you're looking at and again, this is sort of if you looking at financing it, and you are the CFO that's ultimately responsible for unlocking that equity and be able to help facilitate that acquisition, then I think it's interesting because you need to look at where are you sourcing that revenue for? Where are you sourcing that finance from yourself? So where does it come from? Is it part of your own equity? Or have you asked your stakeholders to contribute more? Are you taking the bank now on their covenants? Are you within that? Are there restrictions? Are there things that you need to be mindful of? And then we'll links back to the point we raised earlier about the valuation, are you paying a fair price? Have you considered all of the factors that determine the value of that that acquisition that you're making? So, I think it's, the source of finance is really important. The covenants within that are equally important. And then the returns and what the requirements are, as a result of that acquisition you also need to consider. So, are there additional reporting requirements? So for example, are you taking a bank loan and receiving favourable returns because as a result of the acquisition, you're now able to give feedback to the bank? Say, actually, it's a green type investment, and therefore you've received a favourable interest rate? How are you going to document and substantiate that? So? Yeah, again, everything that we do here needs to be no different to the financial reporting that we do. It needs to be open to challenge, you've got to have the substance, you've got to have everything documented, and you know, the rationale written down and be assurable. And when you are, when you are making a subjective decision, you know how you've come up with that financing strategy and plan, you need to be able to articulate why. And being challenged isn't a bad thing. I think sometimes people think, well, I might be challenged on that. That's, that can be awkward. But I think actually, it's an opportunity to pre-empt what some of the questions are. And, you know, we will go back in time when we forget why we've done something. So how we come up with that financing plan is and what the covenants are, and what the restrictions are, what you can do with it, what you need to be mindful of, I think all of that is really important.

Charlotte Evett 32:04
But they're all the things that you would, should and could have been doing prior to considering sustainability as part of the due diligence process anyway, you're just extending it out to cover them, as well. You know.

Victoria Gillespie 32:17
It's no different. I think the only thing that we've seen recently is the in again, it depends on it depends on the organisation, I feel like I just spend my life at moments it depends. So if you're looking to do an acquisition, because it's part of your portfolio, so say, for example, you're in private equity, and actually you've got a fund that will be you're looking to, to launch this, you've identified it as being something called an Article Eight, or an Article Nine find under the Sustainable Finance Regulation, then you need to be mindful of how you're financing that and whether it meets the criteria, because you need to report. So, again, there are additional reporting requirements and consequences as a result of that, because the whole purpose of some of these regulations really in

this space, are to inject capital to try and facilitate, you know, to put them in the right places that actually you can unlock climate change, you can help develop solutions. So, you're putting that finance in the right places. And with that does come additional reporting, you know additional expectation. So again, it might seem like okay, well, we finance this to make that acquisition, there are no additional consequences to consider. Actually, there might be because it depends on why you're making that acquisition to begin with. So, it needs to really align to your strategy as well.

Charlotte Evett 33:29
I think, sorry, go ahead.

Teuta Oruci 33:32
Just really, I'm also just being mindful that, although we are focusing on the large transactions, and we will be focusing on the listed companies, because obviously, that's what the regulatory environment and the reporting environment is focused on. From the transaction point of view, I just want to mention that even startups are not immune to this requirement, what we finding out more and more that the term sheets, even at the seed level investment, immediately have the requirement that within six months, even a startup has to be fully ESG compliant and have the regular reporting capability, which again, they don't really have the in house capability to do that they don't have the funds to do that. However, it's the really the mindset of, in terms of securing capital, debt, equity, even public funding. It really, we need to understand that nobody is immune, it's not about this size. And with ACCA, knowing that predominantly we're looking at the SME market, we really need to be able to educate everyone that this is something which is not going away.

Charlotte Evett 34:41
That's really interesting. And I guess, something that's great about the research report that Chartered Accountants ANZ and ACCA have done together, the fact that it's global and its reach and that it's looked at organisations and CFOs leading organizations from very small, right up to large so, there's something in the for everyone in terms of that report.
And now, you have both touched on something that I think it's good to sort of close out this conversation with before I come to you for your, your key takeaways. And that's about regulatory implications. And I know it's an evolving landscape, certainly, you know, you compared to where we were five years ago, even three or two years ago to where we are now. But Victoria, if we start with you just about the various regulatory implications that should be sort of considered, that we know about now. And we know that it's going to change over time.

Victoria Gillespie 35:35
Oh, gosh, again, there's so many. So working with working from a global perspective with different client types, so private equity houses, real assets, again, that could be infrastructure, and in capital markets, as well as corporates. There's the regulatory environment in which they operate really varies. So, you could have Europe as we know, we will know because it's been spoken about so much, that the European footprint of in sustainability and ESG reporting is bigger than say APAC. But as Teuta touched on, I think, sometimes within that different organisations are different sizes, and therefore, we need to be considerate around this regulation is appropriate and proportionate to a large organisation that might have billion pound revenue. But is it to a new startup that doesn't have that yet. So being able to apply some of these regulations, and I think some of them are quite good in being proportionate, so many of them are staggered. So, they will look at, okay, the growth of the organisation isn't quite there, but in the future, this will come down the line. But the intent and

the direction of travel is all the same. So regardless of size, we know we've got to do something, therefore we need to make sure that we're constantly looking at that regulatory landscape. And being mindful of and trying to pre-empt what's coming up and what the intention is of all of them. And it's to just make sure that people are being aware of where they're operating. Are they considering these factors? Are they going to fall foul of any regulations intentionally or unintentionally, are they're going to be captured by accident, because, again, some European legislation does actually impact some North American companies because of how they operate where their clients are. So, it's been mindful of where those touch points are, as well. So, rise is really important.

Charlotte Evett 37:22
Keep your finger on the pulse as in other words, clients.

Teuta Oruci 37:26
And we know I think the statistic again, showing USD4 billion in fines in the US for ESG non-compliant. So again, this is no longer cost of doing business, the cost of the fines, it's not the cost of doing business, it's reputational risk as well. So

Victoria Gillespie 37:49
Yeah, and we know that regulation has gone up. I think there was a stat the other day that was released that said in the last 18 months regulation in this sphere has gone up 155%. It's like how can you keep pace with that? It's really difficult. So many people have been quite practical. And again, their work of legal teams they work with legal houses, and there is quite a lot of resources out there, including ACCA, and others that will help look at the assessment of those regulatory requirements.

Charlotte Evett 38:17
Yeah, so if we're thinking of CFOs and finance teams, but recognising that its broader regulatory implications are broader than the finance teams, but the purpose of this podcast. So you're right, there are your professional accounting organisations like CA ANZ, ACCA, and many others that, you know, help to upskill the members, but it's certainly important to stay up to date to seek advice, where you're unsure, and you're out of your depth, which is very, very important. Right? Well, this has been a fascinating conversation. And I think we could go on for hours. But unfortunately, we only have a short amount of time. So, can I just bring it to a close by asking each of you starting with Victoria on just for one message that you'd like to leave our audience listening to this pod with? So, if we start with you, Victoria and go on to Teuta, a key message or a key takeaway, a key thought, just when you're ready. And

Victoria Gillespie 39:17
Thank you so much. And key thoughts. Again, we've spoken about this so much. And we've emphasised we could spend so much more time looking at this space. But I think with that comes an element of overwhelm. And my key takeaway to anyone would be just define what you're trying to achieve. And start from there. Even if it's really simple, define it, start it and then allow it to grow. So do always look at this dynamically, to regular review. But start simple, and then the rest will follow.

Charlotte Evett 39:48

Baby step,s I like yet. Yeah, bite sized chunks. Okay, thank you, Victoria. That's brilliant. Teuta over to you and

Teuta Oruci 39:56
Say I'm really keen on this Start your ESG due diligence today. It's an investment worth making. You don't have to be today, raising capital, but you need to be ready today to get the funding required. So, it's really unlocking your advantage to be sustainable, compliant. So, it’s really urging everyone to make that investment now.

Charlotte Evett 40:22
Well, that's brilliant. Thank you both. And this has been a very interesting and insightful conversation. I feel really honoured to be speaking with you both today. So, I thank you both for taking the time to join me today on this podcast about sustainability and financial due diligence. So, you can download the report, the ACCA and CA ANZ joint report on the subject from either website. And thank you everyone for joining us and enjoy the rest of your day.