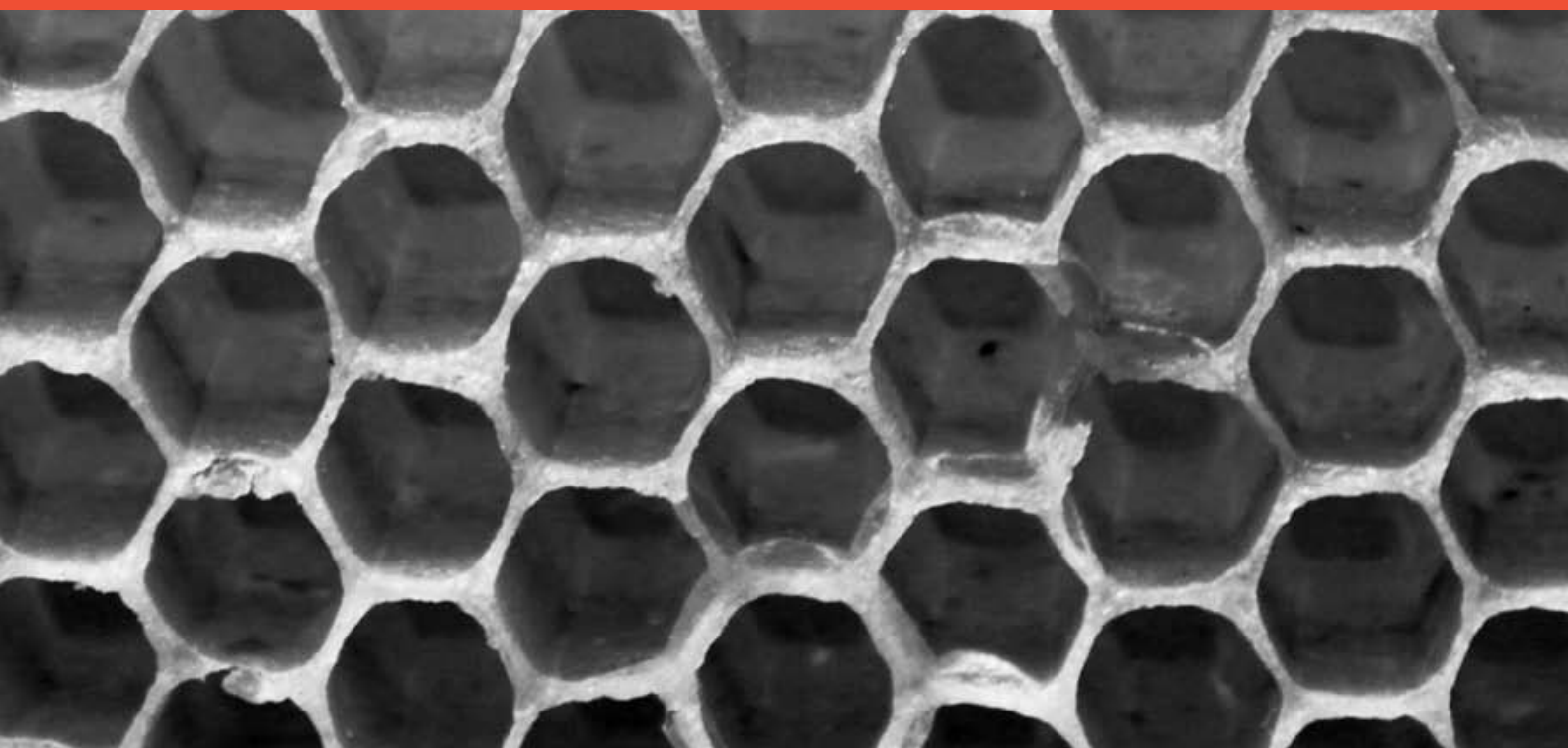


A grayscale, high-magnification photograph of a honeycomb structure, likely made of paper or cardboard. The cells are roughly hexagonal and arranged in a grid. The lighting creates a 3D effect, with the top surfaces of the cells appearing lighter and the bottom surfaces appearing darker.

Sustainability matters

ACCA POLICY PAPER



About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer 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.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 162,000 members and 428,000 students in 173 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of over 89 offices and centres and more than 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

ABOUT ACCA'S GLOBAL FORUMS

To further its work, ACCA developed an innovative programme of global forums which brings together respected thinkers from the wider profession and academia around the world.

Global Forum for Sustainability

In the context of increasing environmental regulation and the need for businesses to identify and manage a more diverse range of risks, the goal of the Global Forum for Sustainability is to articulate and communicate the relevance of sustainability issues for the business community and the accountancy profession. It monitors international trends and developments in sustainability and leads ACCA's contribution to policy development in this area.

www.accaglobal.com/sustainability

This paper sets out ACCA's key policies and statements around a series of six business and sustainability topics: sustainability reporting, integrated reporting, the assurance of non-financial information, climate change, natural capital, and the green economy.

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Foreword

ACCA places sustainability at the heart of business and accounting. For over two decades we have been identifying the multiple roles the accountant will have in a more sustainable future.

Accountancy professionals are skilled and highly analytical, so are well placed to help organisations transform into more accountable entities. Accountants are adept at managing and interpreting data and translating this into strategies for change and continuous improvement. Using carefully analysed and measured data, accountants can make a significant difference to ensuring organisations develop better business models, internal processes and reporting methods to more effectively manage their impacts on society and the environment.

ACCA has undertaken extensive research, project work and collaborations for its members and students, to help them challenge the business world in which they work. Whether it be challenging the markets to be more climate-literate, or pushing companies to account for natural capital, whether it be investigating the intentions of stock exchanges to introduce ESG listing requirements or preparing for a green economy, ACCA is equipping its members and students for a more sustainable twenty first century. Recognising that ethical, social and environmental issues are of vital importance for tomorrow's finance professional, we have developed our syllabus to ensure they are included as part of our Qualification.

The policies in this document explain where ACCA stands on a number of sustainability-related issues: each is interconnected and has an impact on the accountancy profession, whether they work in business or the public sector. It has been created with and endorsed by ACCA's Global Forum for Sustainability, a think tank of experts in sustainability issues, chaired by Dr Andrea Coulson, senior lecturer in accounting at University of Strathclyde.

I hope you enjoy reading this document and in doing so, gain an understanding of why sustainability matters to you too.



A handwritten signature in black ink, appearing to read 'Helen Brand', written in a cursive style.

Helen Brand
ACCA chief executive

Sustainability policy update – overview

INTRODUCTION

Over the last two decades the number of organisations working to address their sustainability impacts has increased significantly. This increase can be attributed to a number of factors, including a broader understanding and acceptance of the links between economic activity and global sustainability issues; a recognition of the risk-management and economic benefits that organisations can gain from integrating sustainability into their strategies; and a growing demand from stakeholders, including investors, customers, employees and NGOs, for organisations to manage their operations in a more sustainable manner. A minority of governments and regulators have also driven this trend by requiring companies, especially listed companies, to address their environmental and social impacts and to report on their practices.

In light of the above, there is a growing need for organisations to be responsive to their stakeholders, to be responsible and accountable for their impacts on society and the environment, and to acknowledge that they have only a revocable social licence to operate. Considering the global nature of the world economy, it is becoming increasingly important for companies to assess and manage the sustainability impacts within their supply chains. This process can be highly complex, involving a large number of suppliers, often in many different countries, but it is necessary if organisations are to manage their sustainability impacts effectively.

Organisations tend to communicate their sustainability activities through sustainability reports and currently over 3,000 companies worldwide, including over two-thirds of the Fortune Global 500, issue annual reports on sustainability and corporate responsibility. The pool of companies reporting is global, and represents all sectors and industries. The quality of reporting varies significantly, but companies should aim to produce clear and credible reports that place the organisation's activity in the context of the wider societal and environmental systems within which the organisation operates. Although there has been a significant increase in the number of organisations addressing their sustainability impacts and reporting to this effect, the starting point was very low. These companies represent a minority but, owing to the drivers noted above, ACCA expects their number to increase in the future.

ROLE OF ACCOUNTANTS

ACCA believes that accountants, whether working in business, in public practice or the public sector, have an important role to play in making organisations more accountable in the pursuit of sustainable development. At the international and national levels, it will be necessary to develop new metrics and measurements of progress that look beyond economic output to factor in non-traditional measures such as human well-being and natural capital. Accountants working within both the public and private sectors will need to develop methodologies to address factors such as these, since their effective management is critical to the health of the planet, and society as well as to individual businesses.

The shift to a sustainable economy will require significant changes in the way in which goods are produced and consumed. Governments and regulators are increasingly using economic instruments, such as emissions trading schemes, environmental taxes and subsidies, to change individual and corporate behaviour. Accountants, with their experience in the design and operation of such mechanisms, have an important role to play here.

Companies that want to reduce their environmental and social impacts can only manage what they measure. It is therefore vital to ensure that organisations collect reliable data, so that performance can be monitored and targets for improvements set. Accountants have significant experience in the design of well-controlled information systems, so helping companies to assess and manage their impacts better is another area to which accountants can contribute.

The communication and verification of reliable information is key in monitoring solutions to global sustainability issues such as climate change. Given the profession's pivotal role in preparing corporate reports and providing external assurance, this aspect is arguably one where its expertise will be most demanded and valued. As a result, the profession has much to offer for building trust in corporate disclosures on sustainability matters.

Consistency of approach is also an important consideration, as it is important to make fair comparisons when assessing, comparing and consolidating the sustainability performance of organisations. The accountancy profession has worked hard to develop financial reporting and auditing standards that can be applied worldwide, so lessons can be learnt from the profession for the development of sustainability reporting standards and reporting frameworks that are also applicable at the global level.

ROLE OF ACCA

ACCA is able to influence global sustainability issues, and contribute to the development of solutions to them, in a number of different ways. Firstly, through the ACCA qualification, all of ACCA's students are taught about the sustainability risks and opportunities facing companies. The syllabus includes specific modules that include integrated reporting and sustainability in the context of business, corporate social responsibility and environmental issues affecting the strategic position of an organisation. As ACCA currently has 428,000 students in 173 countries, the potential impact of this training and knowledge is very significant.

Secondly, ACCA undertakes a wide variety of research into how accountants and finance professionals can assist in the shift to a sustainable economy. Recent research has focused on how accountants can give better consideration to natural capital in their risk and materiality assessments, the particular sustainability issues facing corporate China, and how reporting standards for extractive companies could be adapted to reflect more accurately the greenhouse gas emissions held in reserves. This research is produced to inform ACCA's stakeholders (including its students, members, key employers, NGOs and governments, among others) about sustainability issues and the role that accountants can play in addressing them. When conducting research, ACCA often works in partnership with the leading academics, practitioners, think tanks and companies. To support and promote this research, ACCA also holds regular sustainability events around the world.

Finally, ACCA works with standard setters, governments and regulatory bodies to ensure that standards and regulations concerned with corporate sustainability are fit for purpose. This is done in a range of ways, including through the submission of responses to public consultations, either individually or in collaboration with other organisations; through the publication of policy statements, which form the basis of ACCA's engagement activities at intergovernmental negotiations such as the 2012 Rio+20 Earth Summit; and through active participation in the technical working groups and governance boards of key standard setters, for example the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), the Climate Disclosure Standards Board (CDSB), the Sustainability Accounting Standards Board (SASB) and the Natural Capital Declaration (NCD).

OVERVIEW OF THE POLICY UPDATE

The purpose of this document is to set out ACCA's key policies and statements concerning a series of six business and sustainability topics, which are:

- sustainability reporting
- integrated reporting
- assurance of non-financial reporting and disclosure
- climate change
- natural capital
- green economy.

The topics have been selected on the basis of ACCA's sustainability research to date and although for these purposes have been separated out, we acknowledge that these topics are interrelated. As the scope of ACCA's research broadens over time, it is expected that additional topics will be added to the list above. This paper serves as a reference for our key stakeholders, as well as a means of summarising the outcomes and conclusions of ACCA's research activities.

Sustainability reporting

Over the past 20 years, there has been increasing pressure placed on organisations by various stakeholders to measure and manage their impacts on the environment and society, and communicate this publicly. This has usually been in the form of a separate sustainability report, distinct from a company's annual report and accounts.

INTRODUCTION

Greater levels of transparency on sustainability matters benefits both organisations and their stakeholders. The experience of early adopters has shown that the process of sustainability reporting can add value in a number of ways, including increased resource efficiency, reduced supply chain risks, higher levels of employee retention and reduced cost of capital.

Sustainability reporting is largely voluntary although this is set to change in the future. A few governments have introduced mandatory sustainability reporting. In France, the Grenelle Act II requires that companies' annual reports include information on their environmental and social performance. In Sweden, all state-owned companies are required to present a sustainability report using Global Reporting Initiative (GRI) guidelines on a 'comply or explain' basis. Certain stock exchanges, through their listing requirements, are also working to increase levels of corporate sustainability reporting. Leading exchanges include the BM&F Bovespa in Brazil and the Johannesburg Stock Exchange in South Africa.

To date, the vast majority of organisations producing sustainability reports have been large, listed companies, although these only represent a small fraction of companies globally. Though they collectively make up the overwhelming majority of businesses worldwide, very few small and medium-sized enterprises (SMEs) produce sustainability reports. The relevance of sustainability reporting at the SME level is something that needs to be addressed in the future.

Accountants are key stakeholders in reporting – as either the preparers of reports or the providers of assurance. The accountant's role has traditionally focused on financial reporting but as sustainability reporting develops and becomes more sophisticated, the skills and experience of accountants will become increasingly valuable.

PREVIOUS WORK AND KEY AFFILIATES

ACCA has appreciated the importance and impact of sustainability reporting for many years, having established the first sustainability reporting awards over 20 years ago. ACCA has promoted and championed sustainability-reporting practices through its awards scheme in many countries around the world. The awards have been a significant driver in improving both the quality of sustainability reporting and the number of reporting organisations.

Many research reports, seminars and workshops have been produced and run by ACCA over the years – addressing topics such as disclosures on supply chain sustainability; disclosures on managing human rights risks; and the state of risk and business-forecast information disclosure in narrative reporting. Sustainability reporting was a key theme of the 2012 global virtual conference, 'Accounting for the Future', with a day dedicated to global trends and developments in corporate disclosure.

ACCA has been involved with the Global Reporting Initiative (GRI) since its inception, with representation on the GRI Steering Committee, the GRI Board, the GRI Technical Advisory Committee and the GRI Stakeholder Council. The GRI promotes reporting on economic, environmental, social impacts and has developed guidance that is widely used around the world.

ACCA has collaborated with a large number of organisations and academic institutions to conduct research into sustainability reporting, including KPMG, Net Balance, the University of Strathclyde and St Andrews University. Following the Rio+20 conference, ACCA has worked with the Corporate Sustainability Reporting Coalition to promote and enhance sustainability reporting.

ACCA POLICY

- ACCA believes that organisations should be more accountable for their impacts on the environment and society and be more transparent on their material non-financial issues.
- ACCA believes that an organisation's sustainability report should reflect the organisational systems and processes in place, centre on its core strategy and material items, and cover elements such as governance, performance, risk and context.
- ACCA believes that reporters should use generally accepted reporting guidelines when producing sustainability reports. If reporters use such tools and disclose to this effect, the comparability of reports will be enhanced.
- ACCA believes that the standards and guidance that organisations use to report on their sustainability impacts should be harmonised. There are currently a number of different sustainability reporting frameworks at the international, national and industry levels, a situation which leads to comparability issues between organisations operating in different countries and sectors.
- ACCA believes that regulatory bodies around the world, leveraging the experience of existing reporting standards and guidance, should introduce sustainability reporting obligations for listed and large companies on a 'comply or explain' basis. Although voluntary reporting initiatives have been successful in getting many companies to report, there are still a large number of laggard companies. Some form of regulatory or legislative requirement would 'kick start' a wider adoption of sustainability reporting which would, arguably, act as a catalyst for companies to understand the reputational, commercial and performance benefits of doing so.
- ACCA believes that smaller companies and third-sector organisations not covered by either legislation or reporting guidance should adopt some modified form of sustainability reporting.
- ACCA believes that sustainability reporting should be integral to the integrated reporting process and that specific guidance from the GRI and IIRC should be provided to achieve this.
- ACCA believes that greater levels of high-quality sustainability reporting from all types of organisation will help local, national and global efforts to address environmental and social issues.

Integrated reporting

Integrated reporting is a new approach to corporate reporting that provides users with information on how a company is creating value over the short, medium and long term. It pulls together both financial and non-financial data, bringing them together in a meaningful and coherent way.

INTRODUCTION

Regulators and investors are recognising the constraints of traditional financial reporting as the sole measure of a company's performance and financial standing. Financial reports tend to be largely historical in nature, providing little information on the future potential of a company. Corporate sustainability reports go some way to filling this gap, but are not often linked to a company's strategy or financial performance, and provide insufficient information on value creation.

By broadening the lens through which corporate performance is assessed to consider six different types of 'capital' (natural, human, social and relationship, intellectual, manufactured, and financial) many of the market failures and externalities that are not considered by traditional financial reports can be addressed.

Recent years have seen an increase in interest in integrated reporting, driven largely by the Johannesburg Stock Exchange (JSE), the International Integrated Reporting Council (IIRC) and by companies that have taken the initiative in this area. The JSE has mandated integrated reporting through its listing requirements via compliance with the King III Report, which was issued in 2009. This is the first national attempt to enforce integrated reporting across all listed companies. The IIRC has developed the first international integrated reporting framework; as part of the development process of the framework it has run a pilot programme involving over 100 businesses and 35 institutional investors, including ACCA.

PREVIOUS WORK AND KEY AFFILIATES

Accountants, as key stakeholders in the corporate reporting process, have played an important role in the development of integrated reporting. ACCA has contributed to this development in a number of ways, including the publication of research into the adoption of integrated reporting around the world. Following on from the Johannesburg Stock Exchange's decision to mandate integrated reporting through its listing requirements, ACCA analysed the annual reports of 10 major listed South African companies to assess the impact of the required introduction of integrated reporting on social, environmental and ethical reporting. ACCA has also produced research into the adoption of integrated reporting among Australia's 50 largest listed companies (ASX 50), assessing the extent to which companies have integrated non-financial matters into core business.

ACCA is participating in the IIRC pilot programme, and published its first integrated report in 2012. The report aims to tell a clear and coherent story about our strategic performance and future prospects.

Beyond this participation in IIRC's pilot programme, ACCA has supported the IIRC in a number of ways. ACCA has representation on the IIRC Council and Working Group. As such, we provide guidance and input into the development of the IIRC framework, which was launched in December 2013. ACCA has also responded to IIRC consultation documents, and has held numerous workshops and seminars around the world to promote the understanding and adoption of integrated reporting.

ACCA POLICY

- ACCA believes that it is in the interests of society as a whole that investment decisions and related performance evaluations should not be driven solely by the short-term demands of the stock market. By taking a longer-term view, both organisations and investors can more fully appreciate the diversity of issues (environmental, social and economic) that drive performance and affect value.
- ACCA believes that, owing to the need for a focus on the long term, the process of integrated reporting (and the resultant report itself) will provide benefits for report preparers, including having a better understanding of risk and developing wider insights into how corporate value is created.
- ACCA believes that the development of the integrated reporting concept offers a significant opportunity for the quality of corporate reporting to be improved by giving investors and other stakeholders a more complete and interconnected view of the entity and its prospects over a longer time frame than is usually covered in traditional corporate reporting.
- ACCA believes that educating the investment community away from a dependency on short-term earnings as the principle determinant of corporate performance is a major task requiring cooperation between all the affected parties – corporates, investors, civil society and regulators.
- ACCA recognises that the principal audience of an integrated report is likely to be the investment community, but believes that integrated reports should be produced with the needs of other stakeholders (eg employees, customers, suppliers, governments and civil society) in mind.

Assurance of non-financial reporting and disclosure

The emergence and subsequent growth in non-financial reporting has created a demand for non-financial assurance methodologies and standards. The principles and techniques of audit and assurance work are embedded in the training of accountants, and so the profession has much to offer to the development of non-financial assurance.

INTRODUCTION

Currently, both accounting firms and specialist consultancies offer assurance services. Although it is not generally mandatory to assure non-financial information, many companies choose to do so because the assurance process can increase the credibility of the information presented, and identify issues and inefficiencies in a company's data management systems and processes.

In order to increase the consistency of assurance engagements with non-financial information a number of audit standards have been produced. The International Auditing and Assurance Standards Board (IAASB) produced the ISAE 3000 (Revised) standard Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. This is a principles-based standard that can be applied to a broad range of underlying subject matters. IAASB also produced the ISAE 3410 standard, Assurance Engagements on Greenhouse Gas Statements. This standard addresses practitioners' responsibilities in identifying, assessing and responding to risks of material misstatement when engaged to assure greenhouse gas statements. AccountAbility, a sustainability think tank and advisory services firm, has produced the AA1000 Assurance Standard. This is a principles-based standard that provides assurance practitioners with a methodology for evaluating the nature and extent to which an organisation adheres to the AccountAbility principles, which themselves provide organisations with a framework for identifying, prioritising and responding to sustainability challenges.

PREVIOUS WORK AND KEY AFFILIATES

In order to ensure that ACCA students and members are informed of the latest developments in assurance and sustainability, ACCA has run various research projects and held a number of seminars in recent years. These included a series of round-table discussions that explored how to reshape assurance for the new global economy; a review of the sustainability reports of the top 100 listed companies in Australia (ASX 100) to determine what proportion had some form of assurance; and a series of events across the Caribbean that looked at the role of auditing in enhancing sustainability and competitiveness.

ACCA has worked with a number of organisations that are developing assurance standards for non-financial reports, including the IAASB and AccountAbility.

ACCA POLICY

- ACCA believes that non-financial reports should be assured, as assurance enhances stakeholder confidence in the reliability of the data presented by an organisation and drives improvement in data capture, management and interpretation.
- ACCA believes that an assurance engagement should also encompass an organisation's materiality assessment to ensure that all material issues have been addressed. While the data presented in non-financial reports is important, it is equally important for any assurance engagement to consider the broader context of that data.
- ACCA believes that the audit skills and experience of accountants are of great value in performing robust sustainability-assurance engagements. Their training and experience in assurance can be applied to non-financial disclosures, especially those concerned with obtaining sufficient evidence to support disclosures.
- The above notwithstanding, ACCA believes that assurance teams should be multidisciplinary where necessary. The scope of topics addressed by non-financial reports can be wide and the topics technical in nature, which may require subject specialists. Depending on the nature of the engagement, accountants should be working with sustainability professionals, engineers, academics, pollution management experts and ecologists, among others.
- ACCA believes in the use and development of generally accepted, non-financial assurance standards, frameworks and guidelines. If assurance practitioners use such tools and disclose to this effect within their assurance statements, the users of reports will have a better idea of the extent of the assurance procedures undertaken.
- ACCA believes that when any sustainability reporting framework is revised or initiated, the reporting requirements should be assurable.

Climate change

Climate change is arguably the greatest challenge faced by humankind today. The effects of climate change are being experienced around the world with increasing frequency and intensity, and both governments and corporations are responding to this.

INTRODUCTION

Climate change presents a number of risks to companies, including resource scarcity, reduced output or productivity, and disruptions to business operations and their supply chains. Leading companies have responded to this challenge by identifying strategic opportunities for adapting to climate change. By incorporating the issue of climate change within their corporate strategy and implementing programmes to reduce greenhouse gas emissions, companies can create value through enhanced reputation, better stakeholder relations, reduced costs of business and more accurate raw material projections.

This relationship between climate change and long-term value creation has led to a rise in voluntary and mandatory reporting schemes on greenhouse gas emissions and climate change. Although regulations such as the UK's Mandatory Carbon Reporting Framework are being implemented in certain markets, the greatest global challenge is the creation of an international agreement on climate change and a coherent international reporting framework.

The core skills and experience of accountants make them well suited to assisting organisations to mitigate and adapt to climate change. These include:

- helping to identify and quantify the various risks associated with climate change
- measuring an organisation's greenhouse gas emissions – an essential part of better management
- developing market mechanisms, such as carbon markets or taxes, to control and reduce greenhouse gas emissions
- providing assurance over greenhouse gas emissions statements.

PREVIOUS WORK AND KEY AFFILIATES

ACCA has long sought to demonstrate the importance of climate change as a business issue through its research programme. Recent reports have explored how companies operating under the EU Emissions trading scheme are accounting for emission allowances; the various different ways in which the carbon crisis will affect businesses globally; the different approaches to Scope 3 emissions accounting; the UN Framework Convention on Climate Change (UNFCCC) process and how accountants can make a positive contribution to the development of a global policy response to climate change; and the role of carbon taxation in mitigating climate change and its value when compared with other market mechanisms.

ACCA works with a number of the leading climate change think tanks and policy groups. This includes the Carbon Tracker Initiative, which produced the seminal report *Unburnable Carbon* and the 2014 paper, *Carbon Avoidance*; and the Climate Disclosure Standards Board, which has developed a reporting framework designed to elicit climate-change-related information of value to investors. ACCA has participated in the development of the UK government's Greenhouse Gas (GHG) reporting draft regulations, and is a signatory of *The Carbon Price Communiqué* that is produced by The Prince of Wales's Corporate Leaders Group on Climate Change.

ACCA POLICY

- ACCA believes that climate change is taking place, and that humankind's use of fossil fuels is the primary cause. Although in the past there has been debate over the existence and causes of climate change, there is growing consensus on the causes of, and need for urgent action on, climate change.
- ACCA believes that the global problem of stabilising climate change will require a global solution. Accordingly, ACCA is supporter of the UNFCCC process for developing a global framework for addressing climate change, and urges swifter action on the part of governments around the world.
- ACCA believes that business has a pivotal role to play in addressing climate change. While government-led action on climate change is essential, so is action by companies operating in the private sector.
- ACCA believes that organisations should report on their GHG emissions. By measuring their emissions, organisations are able to set annual reduction targets and track progress in meeting those targets over time. Greater levels of reporting will also help national governments measure their progress against GHG targets.
- ACCA believes that any corporate-focused initiatives should incorporate small and medium-sized enterprises (SMEs). SMEs make up the vast majority of companies, so they are key stakeholders to engage when attempting to address corporate impacts on climate change.
- ACCA believes that accountants have much to contribute to the development of climate change adaptation and mitigation policies, within both the private and public sectors. Accountants have extensive knowledge and experience of measuring, reporting and validation mechanisms and should apply this knowledge to help organisations to understand and manage their climate change impacts.
- ACCA believes that climate change statements should be assured. The skills of accountants will be important when planning and executing assurance work over company climate change statements, but accountants should also work with experts where necessary.
- ACCA believes that accountants should work in partnership with scientists, NGOs, research bodies and policymakers to fill the existing knowledge gaps about the impacts of climate change. Such work will give decision makers within the public and private sectors more complete and reliable information on which to base their decisions.
- ACCA believes that climate change reporting frameworks should be harmonised, as this will lead to much greater comparability between different organisations and regions.

Natural capital

The benefits derived from nature, known as ecosystem services, which flow from the stock of natural capital, have long been overlooked by decision makers in both the public and private sectors. This is a significant issue as, for most organisations, nature contributes directly or indirectly to the bottom line.

INTRODUCTION

Recognising that the declining trends in natural capital are significantly altering their landscape of risks and opportunities, leading businesses are starting to assess their impacts and dependencies on natural capital. Unfortunately such companies are in the minority.

The risks associated with declining natural capital are not only being recognised by companies, but also by their stakeholders. A number of leading financial institutions have signed the *Natural Capital Declaration*, initiated in 2012, which is a commitment to incorporate natural capital risks and opportunities in their financial products and services.

The topic has also been a focus of government attention in recent years. With increasing scientific understanding of how heavily dependent the economic system is on the natural system, policymakers see the need to measure and account for natural capital within national accounting mechanisms. This point is of particular relevance to the many developing countries that are heavily reliant on natural capital as a source of national income.

The measurement and management of natural capital will benefit hugely from the skills and expertise of accountants. Accountants can contribute a lot to initiatives for developing natural capital accounting methodologies, which will lead to a better understanding of how reliant organisations are on natural capital and ultimately to better risk management and decision making.

PREVIOUS WORK AND KEY AFFILIATES

In order to evaluate the relevance of natural capital to accountancy professionals and the private sector, ACCA (along with professional services firm KPMG and NGO Fauna & Flora International (FFI)) produced the report *Is Natural Capital a Material Issue?*¹ The report investigates the concept of materiality and how it is used to identify issues for management and disclosure, as well as the extent to which materiality definitions currently reflect natural capital as a business issue. As part of the research, ACCA conducted a survey of its membership, which has been summarised into the paper *Natural Capital – What Do Accountants Think?*² and has produced a set of briefing papers expanding on the recommendations of the joint ACCA, KPMG and FFI report.

Natural capital has become increasingly politically and organisationally important in the past few years, with a number of high profile natural capital initiatives being launched at the 2012 Rio+20 Earth Summit. Among these is the *Natural Capital Declaration* (NCD), which ACCA supports. ACCA is participating in an NCD technical working group that is investigating how companies can account for natural capital. In the UK, ACCA is involved with the Industry working group of the Natural Capital Committee (NCC). ACCA, KPMG and FFI continue to work in partnership on research in this area.

ACCA POLICY

- ACCA believes that natural capital has a discernible value, which should be considered within the decisions of organisations operating in both the public and private sectors. At present, many vital ecosystem services provided by the natural environment are not prescribed an economic value, thus leading to their exploitation and overuse, which threatens economic development in the future.
- ACCA believes that natural capital is being eroded around the world. The scale and scope of human activity has altered much of the natural environment and has led to a number of global problems including climate change, widespread biodiversity loss, a depletion of global fish stocks and fresh water scarcity, to name a few. These changes are having, and will increasingly have, an impact on corporate profits.
- ACCA believes that natural capital is not being measured sufficiently accurately, leading to the depletion of resources and services critical to the planet's function. At present, the level of knowledge and understanding of the links between natural capital and economic activity is nascent. There is a growing recognition that the various ecosystem services provided by the earth's natural systems and cycles are key to the future prospects of humanity, although this has not yet translated into widespread action on the subject.
- ACCA believes that the skills and experience of accountants will be crucial in creating natural capital accounting methodologies for governments and companies – a crucial step in the drive to have a net positive impact on natural capital.
- ACCA believes that accountants should engage with experts to understand the level to which organisations depend on natural capital. By doing so, key decision makers within organisations will be able to include natural capital more accurately within risk and materiality assessments, which would ultimately allow them to determine the various risks to value creation posed by declining natural capital.
- ACCA believes that organisations in both the private and public sectors should report on their material impacts and dependencies on natural capital. This includes those affecting governance, risk, management systems, policies and KPIs. Such comprehensive reporting can lead to better resource management, and greater levels of transparency will facilitate global efforts to protect and restore natural capital.
- ACCA believes that any corporate-focused initiatives should encompass small and medium-sized enterprises (SMEs).

Green economy

Initiatives at the global, national and corporate levels are aimed at catalysing the shift to a green economy and broadening the criteria through which progress is assessed. At the international level, the post-2015 Development Agenda is aimed at addressing the problems associated with global patterns of unsustainable production and consumption, among other things.

INTRODUCTION

Events in recent history have shown how vulnerable the economy can be to shocks, and that globalisation has meant that the impacts of such shocks can spread swiftly around the world through a series of complex linkages. The pursuit of unsustainable economic growth has led to a multitude of environmental and social problems, including climate change, widespread biodiversity loss and growing levels of inequality at the national and international scales. It is clear that the current economic system is in need of reform, and that policymakers within government need to work with experts from the scientific and academic communities to formulate policy solutions that address environmental and social problems, mitigate the risk of future shocks and avoid contagion. The term used for the reformed economic system is a 'green economy'.

At the national level, many countries want to go 'beyond GDP' to find new indicators of national progress that incorporate social and environmental considerations. At the corporate level, more and more companies are looking to measure, manage and disclose their environmental and social impacts through sustainability and/or integrated reports, which provide their stakeholders with a more holistic view of corporate value creation.

Accountants have a lot to contribute in the shift to a green economy. Working within both the public and private sectors, accountants are closely involved in design and management of information systems. As a result, accountants will be key stakeholders in any initiatives to broaden how progress is defined, which will ultimately lead to better stewardship at the international, national and corporate levels.

PREVIOUS WORK AND KEY AFFILIATES

ACCA has played an active role in promoting the need for governments and companies to adopt green economic thinking as a means of addressing sustainability issues. Much of this stemmed from the 2012 Rio+20 Earth Summit, as the green economy was one of two key themes addressed at the conference. ACCA's policy paper, *Making a Difference at Rio*,³ called for an international framework for integrating sustainability information into the corporate reporting. Although the conference outcomes fell short of this mark, the lobbying efforts of ACCA and others helped ensure that corporate sustainability reporting remained on the political agenda.

Leveraging ACCA's international network, a series of green economy round-table events were held across Asia and in Canada during 2012. The Asian events took place in Singapore, Jakarta, Hong Kong and Beijing – the results of these have been summarised in the paper, *Is Corporate Asia Ready for the Green Economy?*⁴ Events in Canada took place in Vancouver and Toronto – the results of these were similarly summarised in *Canada and the Green Economy*.⁵ A more in-depth study focusing on China's efforts to make the transition to a green economy, and the impact of this transition on the corporate sector, was also published in 2012.

ACCA has worked with a number of the leading organisations and NGOs at the forefront of the green economy movement, including WWF, the Green Economy Coalition and the Sustainable Stock Exchanges Initiative.

ACCA POLICY

- ACCA supports the UNEP definition of a green economy as one that 'results in improved human wellbeing and social equity, whilst significantly reducing environmental risks and ecological scarcities. In its simplest expression, a green economy can be thought of as one which is low carbon, resource efficient and socially inclusive'.
- ACCA believes that economic reform is necessary to reduce levels of systemic risk. Economic policies should be developed that recognise that the economic, societal and ecological systems are closely interlinked. Such policies would help create an economy that is far more resource efficient, socially inclusive and environmentally resilient.
- ACCA believes that the accountancy profession should contribute to global, national and corporate initiatives to develop new metrics to measure progress. There is a risk that these three processes will run in isolation from each other, thus resulting in different reporting outcomes at each level. By influencing policy development at all three levels, the accountancy profession would be able to ensure that international and national policy agreements are relevant to the corporate sector and vice versa.
- ACCA believes that the current economic system has contributed to high levels of inequality around the world, both between and within nations. A shift to the green economy will lead to higher levels of social inclusion and lower levels of inequality, both of which will facilitate greater poverty alleviation around the world.
- ACCA believes that it is critical that corporate-focused initiatives should encompass small and medium-sized enterprises (SMEs).

Afterword

As we face the increasing challenges of climate adaptation, social inequality, protecting human rights and a natural balance, the engagement of accountants in addressing these challenges is critical. We have reached a point in time when the stability of financial, economic, social and environmental systems requires recognition and measurement of a plurality of values and multiple 'capitals'.

ACCA's sustainability policies, as set out in this document, reflect what we see as being the material issues that are confronting business and the profession and how we believe the profession can and should be responding to them. Extending beyond the duality of considering financial and non-financial information, it is important that accountants face up to the challenges that are presenting themselves and continue to develop new skills to enable them, for example, to recognise assets potentially stranded by efforts to manage carbon, or equally important, to play their part in maintaining shared natural resources such as trans-boundary aquifers.

This sustainability policy document builds upon over two decades of work on Sustainability by ACCA and provides a strong foundation for our engagement with the contemporary, cross-cutting issues of sustainability reporting, integrated reporting and assurance on non-financial reporting of different kinds. Highlighted within this document is the invaluable involvement in what we do of ACCA's global membership, as well as the consultation and partnership arrangements we have with our diverse range of stakeholders. A prime example of this is the work of the Global Forum for Sustainability, which comprises representatives from nine countries. Many of the Forum's members have global responsibilities, and collectively they bring a very wide range of expertise on social, environmental and economic issues from academia, the profession and public practice. Together these resources support ACCA in facing up to our current sustainability challenges and developing sustainability policies and ideas which can have a global, regional and local impact.



Dr Andrea B Coulson
**Senior Lecturer in Accounting at
University of Strathclyde
Chairman, Global Forum for
Sustainability**

Sustainability team contacts

RACHEL JACKSON, HEAD OF SUSTAINABILITY



Rachel is a technical expert at ACCA specialising in reporting and disclosure with specific reference to environmental, economic and social issues. She has given many presentations on reporting developments and frameworks and worked on many projects with a national, regional and international focus. For over fifteen years, Rachel has initiated and

managed projects covering diverse issues such as the green economy, natural capital, carbon accounting, the role of stock exchanges and stakeholder engagement. She holds an MSc in environmental technology from Imperial College London.

email: rachel.jackson@accaglobal.com

GORDON HEWITT, SUSTAINABILITY ADVISER



Gordon supports ACCA's global research and insights work that focuses on how the corporate sector in general, and the accountancy profession as a whole can specifically contribute to global sustainability efforts. His experience includes working with global accounting firm PricewaterhouseCoopers and the United Nations World Food

Programme. Gordon is a qualified accountant and holds an MSc in environmental technology from Imperial College London.

email: gordon.hewitt@accaglobal.com

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