# Financial and Sustainability Reporting – What is Hot and What is Not in 2024
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CCH Learning:

Hello everybody and welcome to today's webinar, Financial and Sustainability Reporting - What is Hot and What is Not in 2024? I'm Susannah Gynther from Wolters Kluwer CCH Learning and I will be your moderator for today.

A few quick pointers before we get started. If you are having sound problems and can actually hear me, please toggle between audio and phone. Hopefully, you can see that suggestion on the screen regardless. If you are looking for the PowerPoint for today's presentation, it is saved in the handout section on your go-to webinar panel. And just a reminder that shortly after the session, you will receive an email letting you know that e-learning recording is ready to be viewed.

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Your presenter today is Aletta Boshoff, partner and national leader IFRS and corporate reporting and national leader of ESG and sustainability. Aletta is an IFRS advisory specialist with over 25 years experience in financial reporting and accounting, including IFRS. Aletta's involvement in sustainability and environmental social and governance, ESG reporting, is a consequence of her focus on an organization's ability to create and sustain long-term value in a rapidly changing world, and managing the risks and opportunities associated with these changes. Aletta also puts a heavy emphasis on risk management because monitoring and mitigating risk across all three dimensions is an important priority for any company that is serious about sustainability and ESG. I will now hand you over to Aletta to commence today's presentation.

Aletta Boshoff:

Thank you very much Susannah and welcome everybody to the session. Now, I would like to begin by acknowledging the traditional owners of the land on which we meet today. And for me here in Melbourne, it's on the land of the Wurundjeri people of the Kulin nation, and we pay our respects to elders past and present, and we extend that respect to Aboriginal and Torres Strait Islander peoples here today.

So I would like to start this session on what's hot and what's not for 2024 by looking at some research. Now, our BDO firm in the US do research not just in the US but somewhat global as well, and they do this research every year. One part of the research is engaging with board members or directors and asking them what they will be focusing on in the upcoming reporting season or the next year. And then there's another piece of research where they speak to CFOs.

Now, this spring 2023 survey of the boards were conducted in the spring in the Northern Hemisphere, so it gives us some idea of what we can expect here as well.

So I've got a link to that survey if you want to read the whole document. And it's looking at the expanding roles, the risks and the opportunities for boards in another, what's expected to be a disruptive year. Now, what I found interesting here is they've asked these board members how and where could the board be more impactful in its oversight of management? And interestingly, if you go down that list, you will see that there's 68% looking at strategic innovation, proactive anticipation of disruption, human capital management, 58%, executive and employee compensation, 38%, transaction due diligence, et cetera, 38%, but right at the bottom of the list, but not an insignificant percentage is 18%, where could the board be more impactful? 18% indicated integration of sustainability into corporate reporting.

And I think that is something that we are seeing in Australia and actually I think that percentage might be higher in Australia. Over the last three months, I've done so many presentations to boards and audit and risk committees around sustainability, about mandatory sustainability and how it impacts financial reports and annual reports. So definitely we see a similar trajectory in Australia as well. So that's the one thing that's interesting.

The other thing is they've asked these boards, how have ESG or sustainability initiatives benefited your business so far? Now again, a lot of the times people are thinking they're doing this for compliance, but here are some other benefits and I think this was interesting, to reduce supply chain risk, 33%, create new or innovative revenue streams, 32%. And maybe the surprise for many today is it reduced costs by 22%. So sometimes people are saying, we want to do sustainability, we want to do all these great things, but it will be additional cost and time. And here we actually see the contrary to that, it reduced cost, reduced energy and transition risk, improved customer retention, attraction, improved your ESG writing and improved employee recruitment.

We often talk about sustainability as these three reasons you would do sustainability and it's all about access. So the first one is access to capital debt or equity. The second one is access to markets, so customers, and the third one, access to people to work in your business. And you can see these benefits listed here actually support that. And I really like the idea of the reduced cost because I think it's a myth breaker.

Then again, if you look at the board's view, some questions of what they see in the future. On the left-hand side, 27% of directors believe environmental issues will be top of shareholders' minds this proxy season. So if shareholders care about it, organisations have to care and be ready and will be asked questions. Then when asked, which ESG focus area will provide long-term sustainable value to the organisation? 31% of directors cite bolstering environmentally friendly policies, procedures and products, which is, I think, aligned to the first point that we believe shareholders will focus on environmental issues. And that's also where boards see the long-term value. And 27% cite reducing carbon footprint and satisfying Net Zero Emission commitments. So you can see the themes that we are seeing here is around climate, around environment, around carbon. That's the kind of risks and potential opportunities.

On the right-hand side, I've highlighted some aspects that I thought is particularly interesting. The one is that boards will be closely monitoring the implications of the SEC. So obviously that's the regulator in the US, for us, it would be ASIC. They will be monitoring the implications of the SEC's potential Scope one, Scope two, and Scope three emission disclosures and the attestation requirements. Now, I'll talk about that today because earlier in this year, we've seen that our regulator, ASIC... Sorry that not just our regulator but actually Australian government and the treasury came out with their views on who should be disclosing Scope one, Scope two, Scope three emissions, and they're also putting in place requirements for assurance and audit from 2030.

And then another point, even boards that don't recognise climate risk as salient to their business yet will likely need to procure and disclose data from their own carbon footprint as well as from supply chain sources or in a response to other company's requests in that supply chain. Now, that is something again that we see a lot in Australia. In order for you to calculate or measure your carbon footprint, you need the cooperation of customers and suppliers. And also, often the pressure to actually do this calculation and to make it available comes from customers and suppliers. So it's not just whether you are mandatorily forced to put it in a report, is actually whether your customers and your clients demand this information.

And then finally the third area that I've highlighted here is preparation for regulatory compliance will take significant time and effort. And again, in Australia we in the midst of that and that's true, significant time and effort to get ready for it, but as we've seen in the earlier slides, there could be opportunities as well.

So that's at a board perspective, what the boards think would be hot and not in 2024. And there's a link to the whole report. I've obviously zoomed in on sustainability matters, but there are other matters that you can look at as well.

Now, this CFO outlook survey was actually conducted earlier in 2024, so just last month, so quick turnaround. And the title of this publication is looking at middle market prioritises stability. And if you look at this survey, you'll see they talk about many CFOs expect revenue and profitability to remain flat in 2024 and they'll go on the offence to kickstart their growth, because last year, the big focus was growth and this year, they're expecting it to be flat, but they will try and do something about it.

The second one, how thriving companies see sustainability issues as an opportunity, not a constraint, and what's driving their sustainability investments. So CFOs absolutely highlighted that as one of the three things.

And then finally, and we hear a lot about this as well, how CFOs are embracing generative AI and their journey to explore its limitless potential to transform their business. So again, sustainability one of the top three items on the radar of CFOs.

Now, again, I can say in Australia this is exactly what we've seen. Previously, when we were talking about sustainability and sustainability issues, we were speaking to the wonderful sustainability people at various organisations. But now with all the treasury consultations, with draught legislation on the table, we are having a lot of conversations with CFOs, with CEOs, with audit and risk committees around how they get ready for the compliance around sustainability reporting but also to really embrace the opportunities.

If you look at that CFO outlook survey, and again there's a link to it, CFOs, what would be the greatest risk to your business in 2024? And you can see it's on this diagram, it's listed between 40% and 31%. So all fairly high. Economic volatility is the highest. Generative AI, data privacy breach, supply chain disruption, ESG risks, 37%, ESG risks, sustainability risks. Talent shortage, and remember, sustainability can help organisations to keep talent and attract talent. Tax legislation changes, tax is always there. We know we've got these new two pillar rules, tax rules and falling behind on technology, a huge risk for businesses. So this is what's CFOs are seeing and thinking as the greatest risk in 2024 and sustainability is there as well.

Then again, what they've said is ESG strategies are gaining momentum. 53% of CFOs say they have embedded ESG principles into their core business strategy or actively working on it. Now, I would argue that most of those will be actively working on it and not necessarily in the position where they've already embedded it in their business. Certainly in Australia, some entities have embedded it in their business, but many are actually now actively working on it. And that's an example of where sustainability reporting is actually driving strategy, because if we have to do it for compliance purposes, let's embed it in our strategy, let's think about it broader, let's make sure we explore all the opportunities.

And then another one, there was a question around anticipated CFO involvement in 2024, and here you can see that 75% said they will maintain or increase their involvement in ESG strategy and execution. So the area where there's the highest area for maintain or increase their involvement, top of the list, ESG strategy and execution, then economic resilience strategy, then supply chain strategy, which again, is linked to sustainability, M&A

strategy, product or services strategy, workforce strategy and digital transformation strategy. So again, you can see this kind of mirrors the risks that they flagged. So if they flagged a number of items as risks, that is also the area that they therefore think they should maintain or increase their involvement.

The interesting thing for me, and it comes back to one of those three areas that was flagged in my very first slide from this CFO outlook survey, and that is thriving companies see sustainability issues as an opportunity not a constraint. And then some discussion around what's driving their sustainability investment.

So what I wanted to do in these two sections, and I remember I did it last year as well, is just give you a bit of a feeling of our research, our engagements with boards and CFOs, what they see in the future for 2024. So that's a bit of an introduction.

Bringing it back to more financial reporting and sustainability, so go from the big picture to more financial and sustainability reporting, I would say, the following things are not hot in 2024 and the reason you should already have it covered. We're still dealing with questions. We still provide advice on these topics, but largely, I would argue that entities should be across it by now and many entities are. Maybe we are dealing with some exceptions, some new arrangements, some new contracts, some new leases, or maybe clearing up some legacy aspects. But I wouldn't say this is the new hot item in 2024. This is more the business as usual. So here I'm thinking around IFRS nine financial instruments. I'm thinking around IFRS 15 revenue from contracts with customers, leases, good old leases.

IFRS 17 has been in place now for a couple of years. It's a small part of the economy or small number of entities in the insurance space, but still it's relatively new for them. AASB 1058, income of not-for-profit entities have been in place now for four or five years, believe it or not, and also AASB 1060, looking at simplified disclosures have been in place for two, three years already.

So all of these standards have been in place for a number of years, relatively new, let's say, over the last five years since 2018, 2019, but relatively new, hopefully well embedded, some issues still cropping up from time to time, so they not the hottest thing in town at the moment.

So what is hot in 2024? And at BDO, we picked three areas that we believe is hot in 2024 within financial reporting and sustainability. And absolute number one is carbon accounting or measurement of your carbon footprint as well as sustainability reporting, that is as hot as it gets. Definitely, a lot of action and we've already seen a lot of action just in the first four or five weeks of this year, and I'll give you some further information around that.

The second thing which we're really seeing a lot of and that is that your CFO is now emerging actually as the chief value officer. So although it's the chief financial officer, there's an increased emphasis on how value is generated by the organisation. So not just financial but value, value creation. And there we are thinking about corporate acquisitions, reorganisations to create value, impacts of global events, et cetera.

And then the third one, I think there's a lot of focus on finance teams and finance functions. A lot of organisations are saying, how can we be more efficient? How can we be more effective? How can we use technology to be more effective and efficient in our finance teams? So many clients are currently going through data and data strategy projects to get different systems to integrate easily, so absolutely a focus on finance teams, finance functions.

And then for finance teams, I would say, a lot of talk about the new IAS one amendments around how you classify liabilities as carbon or non-current. So again, a lot of talk about that as well. So this is what I would say are the hot items this year, but nothing is hotter than carbon accounting and sustainability reporting. So I'll spend most of today talking about carbon accounting, sustainability reporting.

If we look at carbon accounting and sustainability reporting, how did we start the year? On Friday the 12th of January this year the Australian Government Treasury released draught legislation for significant reforms around climate risk disclosures. So you would know that in December, 2022, treasury issued their first consultation paper around climate risk disclosure. Then last year in June, they published their second consultation paper, and that second consultation paper actually flipped the coin a little bit. Previously, in the first consultation that talks about listed entities having to meet these climate disclosure requirements, disclosure requirements, and then in June they said, no, it doesn't matter what type of entity you have, it's all about the size of the entity.

So if you are large and if you meet certain size criterias, you have to do mandatory climate risk reporting. This draught legislation was proposing changes to the ASIC Act and the Corporations Act. And what it's doing, it is creating a separate sustainability report in your annual report. So actually the financial report now has a sibling, you'll have a financial report and next to it, the sustainability report, equal prominence in your annual report. You'll also have a director's report and then obviously your audit report or assurance report.

The other thing that is new is the last bullet point, and that is entities will be required from day one to obtain assurance over the sustainability report, and it has to be from their financial auditors. So whichever company is the financial auditors for your financial report, will also have to provide assurance over your sustainability report. Now at this stage, we are not sure whether this will be the same entity or the same person. So if it's the same entity, if BDO is your auditors of your financial report, one person, a partner A could sign off on the financial report and potentially, another BDO partner can sign off on the assurance report, on the sustainability report. We are not sure whether the legislation is trying to capture the same firm, as in BDO, or the same person, Aletta Boshoff, for example. So we've put in a submission where we've asked treasury to clarify that aspect. So 2024 did start with a big bang.

So these are the sizes. So this comes from the policy position statement. So if you look at the draught legislation it is saying, if you look at the blue blocks, if you meet two of the three criteria, it will force you into different groups, group one, group two or group three. So for group one, if your consolidated revenue is 500 million or more, or if your end of financial year consolidated gross assets are 1 billion or more, and the third one, you've got more than 500 employees at the end of the financial year. If you tick two of those three, you are in group one. Or another way to be in group one is if you are above the NGER publication threshold. So NGER is a greenhouse and energy reporting act.

And then finally for asset owners, there's a group two where if asset owners have more than $5 billion of assets under management, they'll be group two. So you can see there's different ways you could be caught or classified within group one, two, and three. The interesting one is group three are all the entities that would currently be preparing and lodging audited financial statements with ASIC. So these mandatory climate disclosures will impact all general purpose financial statements being lodged with ASIC.

Important again is to think about the timing. So they're proposing that for group one entities, it was for a periods beginning on or after 1 July, 2024, this year, in a few months time, so FY 25. For group two entities, they give those entities another two years to get ready. So it's for reporting period starting on or after 1 July, 2026.

And then for group three entities, we are talking years starting on or after 1 July, 2027. So they're proposing a four year phasing in period over these three groups of entities. They did ask in the draught legislation or the request for comment whether group one entities would benefit from an additional year to get ready. And of course the answer is yes, and that's what a BDO submission articulated, not sure where they're going to land. So that's just a bit of the legislation.

So who will be excluded from mandatory climate related reporting? So small and medium businesses that are below the relevant size thresholds will be exempt and entities that are exempt from lodging financial reports under Chapter two-M of the Cops Act, including entities that's got class orders through ASIC or if you're registered with the Australian Charities and Not-for-profits Commission, the ACNC, you would be exempt. Please note, it's not exempting all not-for-profit entities. It is not exempting all not-for-profit entities. So not-for-profit entities that are not registered with the ACNC but instead registered with other regulators, for example, ASIC, will still be caught by this regulation.

The other thing is the group three materiality exemption. So if you've got group three entities, they would only be required to make climate related disclosures in line with these climate disclosure standards if they face material climate related risks or opportunities for the financial reporting period. So there's a serious materiality overlay. So if you don't think you face material climate related risk or opportunities, what you can then do in that situation is make a statement that you don't face these risks and opportunities. Now, obviously you have to have an assessment, so there's a lot of work to be done in order to justify why you get to that position.

I think it would be really hard to argue that you're not faced by material climate related risk, because remember, climate related risk are not just physical risk around floods and fires, et cetera, there's also transition risks, and transition risk would be transitioning to a low carbon economy. So are you in a position that your carbon footprint is already very low so that this transition to low carbon economy is not a risk or an opportunity for you because it could also be an opportunity, the fact that you already low carbon, we use low carbon technology. So I think this will be a difficult hurdle and in practise, difficult to prove and for auditors difficult to assess.

So what will be disclosed? Now, at the same time as having this draught legislation on who has to do mandatory reporting, the AASB has also issued an ED where they are proposing certain changes to the global standards. So globally, we have IFRS S1, the general requirements, and then there's IFRS S2 focusing on climate related disclosures.

Now, government says they would like to have alignment in Australia to global standards. I think the AASB might be interpreting alignment slightly different to me because from an alignment perspective, they're making quite a bit of changes to IFRS S2, for example, saying that in Australia we look at NGER legislation for Scope one and two and not greenhouse gas protocol, which will be used globally. And also, and I think this is a big one, at this stage, the AASB is just focusing on climate and focusing on IFRS S2 and IFRS S1, not sure when that will be on their radar.

So what will this look like? So in your annual report, you will have an annual financial report, an annual sustainability report, a director's report and an auditor's report. So there will be four reports sitting side by side in your annual report, equal prominence. Previously, the suggestion was that the sustainability information be included in the director's report as part of the operating financial review, and they've now moved away from that in creating an annual sustainability report that's very separate.

So if you look at the two together, the two siblings, on the left-hand side, I've got the current requirements for a financial report. You need financial statements, you need notes to the financial statements and you need a director's declaration about that statement and notes. Now, for the sustainability report, they've come up with similar requirements. You've got a climate statement, you've got notes to the climate statements, and you've got a director's declaration about those statements. So you can see the directors need two very specific declarations, one with a financial report, one with a sustainability report. And obviously, it does in the same annual report, so it will have to be published, lodged with ASIC, ASX at the same time.

The assurance requirements we've talked about earlier, and that's really just saying we're not going to phase in assurance from the very first year. There will be mandatory assurance required. It will have to be from your financial auditors. So if your financial auditors are BDO, it will have to be BDO. We are not sure whether it's the same person. And those auditors will have to be supported by technical climate and sustainability experts. So again, that's where it's heading.

If you look at directors, there's a proposal to have modified liability for directors for a period of three years. The modified liability does not relate to everything in the climate statements. It is limited to two things, to Scope three emissions and certain climate related forward-looking statements. So in respect of those two aspects, limited or modified liability, sorry, modified liability for directors for a fixed period of time, from 1 July '25 to 30 June '28, so for covering three reporting periods. And then outside those two areas, there's no modification of liability, and after the three years, no modification of liability. Please note that ASIC, the regulator, can still take action against entities as a whole.

So how does this all fit together? What are we on about here? So just a little bit of take a step back, if we talk about sustainability, I think sustainability can be explained by looking at environmental factors, social factors, governance factors, and if you look at the eight environmental factors that I've listed here, the number one item is climate change or carbon emissions. And the whole focus within Australia at the moment is on that one aspect, climate change, carbon emissions, IFRS S2 as amended for Australia.

But there's eight environmental factors. If you look at social, there are eight factors there. If you look at governance, eight factors there. So at the moment, IFRS S1 is saying, speak to stakeholders, do stakeholder engagement, which we call a materiality assessment, and identify which of these factors would be material important to your stakeholders and your business and then report on those. However, as I've said earlier, in Australia, we are not pushing that. In Australia, we are just pushing climate change, carbon emissions, the equivalent or aligned document to IFRS S2. Over time, we expect an IFRS S3, S4 up to, let's say, S30 over the next 5 to 10 years, and therefore over time, we expect those to also become mandatory.

So this gives you a little bit of the linking. It is really important to link sustainability information, at this stage, climate information with financial statements. So this is a diagram from the International Accounting Standards Board and the International Sustainability Standards Board. We know they both sit within the IFRS foundation. They've had a joint article where they're talking about this linking and correlation and interconnectivity, where they're saying you have the blue block, your normal financial statements in accordance with IFRS subject to audit, that is now supplemented by the light blue block, which would be your climate disclosures in Australia, IFRS S2 together that will be your general purpose financial report. And then the grey block that we have outside, they are all those other topics that I've just shown you on the previous slide, diversity, equity, inclusion, health and safety, employee engagement, privacy, modern slavery, all those other aspects, all those topics where we expect S3 to S-30 to be published. They are currently sitting outside the annual report in this grey block.

In a separate report, you can prepare them using any framework or no framework, but over time, that grey block will become very small and over time, the light blue block will get bigger and bigger and bigger, because over time, everything will transition from the grey block to the annual report, the blue blocks. So that's just how they put together.

The other thing to look at is this is just the draught legislation on the left-hand side that was published on the 12th of January. A lot of documents there draught legislation as some kind of explanatory document around it, an impact assessment as well as a four-page summary. And then the other thing to notice that the AASB in October issued an exposure draught of sustainability reporting one, which is looking at just climate. So they're not looking at IFRS one at this stage.

Now, a lot of group one entities have asked us, what do we do? What would be a best practise roadmap? How do we get ready for this? So this is if you are a group one entity and you've got a 30 June year-end, this is how you could potentially get ready for this new mandatory reporting. Obviously, if you're a group two or group three entity, the white activities or the activities in the white blocks, you can spread out over one or two or three years. If group one get an extension, again, that would help because then we don't have to do everything 30 June, 2024, in the next four and a half months. We could potentially do it over 16 and a half months. So that would be good news.

But you can see here, I've developed three project streams. There's a carbon footprint measurement stream, the first stream, which is the most important stream, which you should start with first. The second stream is around climate related disclosures, which includes carbon footprint disclosures, but also other things like climate risk assessment, like resilience assessment, like scenario analysis. And then finally, the third stream is circling back to IFRS S1, where we are saying ultimately, it will become mandatory in Australia, how do we get ready for that?

So if you look at that first stream, the carbon footprint measurement, I've distinguished between Scope one and two emissions and Scope three emissions. Scope one and two, the easier one, but in order to do that, you need a boundary document. How do you establish which entities are in and out? How do you establish what all the activities are, whether they're Scope one, two or three, and are you ready for assurance? So if you're group one, you have to get onto that very quickly. Scope three, we have an extra year, so I would've said for 30 June, 2024, focus on Scope one and two. And then in 30 June, 2025, focus on Scope three because that will give you time to be ready for the next year.

Climate related disclosures, the best thing to do in 2024 is actually to look at the TCFD recommendations. Include that in your annual report because it's an amazing first step to IFRS S2. TCFD disclosures have been embedded in IFRS S2, so it's a very good stepping stone. I would do a gap analysis of IFRS S2 and/or the Australian equivalent, and we know there will be gaps. We know you'll need to do climate risk assessment. We know you'll have to do scenario analysis, but I think that gap analysis is very important, critical.

The third stream, I would put on the back burner for the moment, unless this is really important for you from a strategic perspective. So entities that look at sustainability through a strategic length, they do it because there's opportunities, they see the benefits and they want to embed it in their strategy. They would start at the bottom and they will look at stream three first. Entities that's only doing this because they're looking at from a compliance perspective, a reporting compliance perspective, they will start with stream one and then stream two.

You might ask, what does this mandatory sustainability reporting mean for smaller businesses? So I think it's important for a smaller business that's one below these mandatory reporting thresholds, or even if you're a group two or group three entity, you should think about this, where do you fit into the economic system? Because we know that drivers are access to capital, access to markets, customers, access to people, if your customers are looking at you to provide certain information as a supplier to them in order for them to do mandatory reporting, in order for them to achieve their net-zero targets, then you have to get ready.

So it's important where do you sit in the system? Do you receive pressure from banks, from shareholders, from people, from customers, from supplier? Where's the pressure coming from? Why are they putting pressure on you for this information? Or why do we expect them to put pressure on you for this information? Are you ready to do it? It's really a call to action. I don't think small businesses can escape this. You might not have to do all the mandatory reporting, but measuring your carbon footprint will become a deal-breaker very soon, the same way there's a lot of pressure on entities to have a modern slavery statement, and our entities are pushing into their supply chain in order to make sure everybody complies with modern slavery legislation, will see the same happen around carbon accounting.

So how BDO can help, so we do carbon accounting, which is just fancy way for talking about measuring your carbon footprint using NGER or greenhouse gas protocol.

We also do sustainability reporting. So it's not just the measurement of the footprint, how do we report it, how do we do the climate risk assessment, and how does that link with your financial statements? We also have people who do sustainability strategy, develop a roadmap, how do you embed it in your strategy, how do you identify opportunities and risks? And finally, our audit partners also provide sustainability assurance. So that's all explained on our website.

Now, I do want to circle back and talk about the chief value officer. Now, as I said earlier, I believe that the chief financial officer is really going through a transition phase to become a chief value officer, because there's been some research done by the ACCA where they've looked at what is value, what is a model to measure and achieve value, and who drives this value in an organisation? So really important to consider what is value and who drives that value.

So I've got an article, a link there to an article published by BDO where we are looking at that chief value officer and the important evolution of the CFO, a very interesting report. So we are talking about, we've got the enablers, the facets of the organisation that represent the assets used to create value. So if you look right at the bottom here, these are the assets that are used to create value. So we talk about financial assets, manufactured assets, intellectual assets, human assets, social and relationship assets, and natural assets. All these assets are the enablers.

Then we talk about the converters, that middle layer, the process by which the organisation combines all these assets, all these inputs and creates products and services. So we've got all these enablers, assets at the bottom, and then we bring it together, we convert it. So there are operations and processes, there's data, very important, there's technology. So these converters bring all of these assets together and then we look at the recipients, who receive the value from the organisation? And these days, it's not just investors and other financial stakeholders, it's also customers, it's employees, it's the community, it's regulators.

So what you see on the screen working from the bottom up, talking about what is the assets of an organisation, how do we convert it into value, not just for shareholders. This is so similar to what we try and do in sustainability, because in sustainability, it's not just about who are the stakeholders and the investors, it is who are all your stakeholders? It's your employees, it's your customers, it's government, it's regulators, yes, it's investors too. And reaching out to them and asking, what do you expect of our business? How can we add value to employees, to the community? And then we report on that. So this is a really interesting conversation to have at the moment, sustainability and this chief value officer.

So again, in this report, we look at this evolution of a CFO, and we see the CFO really as a change agent. The CFO could be seen as the guardian of risks, the steward of assets, a strategic advisor and a reporter of performance. So the CFO's role is not just the reporter of performance. There's a number of aspects included in the role of the CFO, which actually makes the CFO a chief value officer. So there were three key messages from this report. One, the concept value is fundamental to the management of performance in organisations and its adoption is a key element in their path to a sustainable future. The second one, chief financial officers are increasingly adopting a value-centric approach in their work, and this represents an evolution towards a chief value officer away from just the traditional financially focused person.

This morning, had a meeting with the CFO talking about some accounting matters and he said, "I'm more a commercial CFO. I'm not that embedded into the accounting standards, but I look at this commercially how we add value." And I thought, wow, this aligns to the webinar today.

And then there's the development path for those aspiring to be chief financial officers. And that development path requires an increasingly broad range of experience which embraces both formal and informal learning with professional bodies and practises that they need to engage with. And I think that that broad learning is learning across data, technology, sustainability. It's not just accounting standards and financial aspects because CFO is not just responsible to report performance, it's strategic advisor, steward of assets, guardian of risks.

Again, if you look at the reality of a CFO as a chief value officer, obviously ethics has to surround all of this, but if you look at the bottom, if you start from the bottom and work afterwards, there's that change management piece, project management piece, and then like the four core cornerstones, financial acumen, business acumen, value acumen and data acumen. Again, data, you see data a lot, the importance of data. So many clients currently working on data projects, then you need consulting skills and very importantly, the cherry on top of all of that, stakeholder management.

So I find this particularly interesting that sustainability is very high, if not highest on the list of CFOs because they said that's the highest or the area where they really need to maintain and increase their involvement. But at the same time, if you look at this diagram, it's about stakeholder management. It's about engaging with stakeholders, doing a materiality assessment, understanding what stakeholders want, not just shareholders or investors.

If we look at linking a sustainability with this concept, I think there are four ways sustainability reporting is driving value, it's delivering cost savings. So through reporting, it drives identification of targets, et cetera. It reduced portfolio vulnerabilities. There's investor information, reporting drives access to capital, as we've talked about earlier, and collaboration across the, business because when you look at all the matters that have to be disclosed to stakeholders, it's not just financial in nature, so collaboration across the business.

So how the CFO and the finance teams are positioning themselves to add value, so what is really hot right now? Number one, to be a subject matter expert across these reporting frameworks. There's a responsibility to position sustainability reporting within the finance team. This reporting in the annual report should not be left to people outside the finance team. We need assurance, we need systems, we need processes.

The third one, data integrity and systems and process is very important. So to support the measurement of targets, so that's more a more traditional finance function, and integrating financial and sustainability reporting into your annual report. But I think it's really important to position that sustainability reporting is the responsibility and the domain of the finance team in order to drive all these value creation initiatives.

If we then finally have a look at the third area that I believe is hot, it's finance teams and finance functions. And I think it flows on from what we've just discussed, because the role of the CFO is changing to achieve value officer, it has an impact on the whole finance team. One thing that I thought I'll put out specifically is around financing and covenants. The international accounting standards have changed. IAS one has been amended to have new rules around classification of liabilities between current and non-current.

And there's a very specific expansion around loans that have covenants associated with them, which would be every loan or most loans, new rules, new examples. But I think there's also a practical aspect around it. If you are looking at, you think you're going to breach a covenant, what can you do proactively to avoid that situation? So there's a practical commercial overlay, but there's also a financial reporting overlay that I wanted to flag. So I think from a covenant perspective, there should be a strategic approach. On the left-hand side, determine the landscape of a pending breach and how serious is the covenants, what has or will lead to the breach? How should the agreement be amended? What are the alternatives? So that's a strategic lens.

Some of the other things, key considerations when you start to amend the facility agreement, who should handle the process? What are the initial steps to amending? And just a few things to think about. There are multiple priorities. So it could be achieving a default rate of interest where appropriate to price in the increased cost of capital. It could be resetting governance to a level that is achievable without being too lenient. It could be setting appropriate reporting requirements and milestones to ensure the lender has adequate protection. So a number of things coming into play there as well.

Oh, finally, before I hand it back to Susannah, Susannah, I think for the first time ever I've kept to my time and I've left five minutes for questions. So I'm going to say this is a good first webinar for me for 2024. But if you need some assistance, we've got a number of IFRS and corporate reporting partners at BDO that you can reach out to. We've got a really big team and that puts us in a really good position to be able to assist you around IFRS and reporting matters. And we also look at sustainability reporting. We also look at carbon accounting. It's a big part of what we do. As I said, these are all the areas we cover at BDO, carbon accounting, sustainability reporting, sustainability strategy, sustainability assurance, so four core areas just within sustainability. And then obviously we do all the other services as well.

Susannah, five minutes I'll hand back to you.

CCH Learning:

Thank you very much for that, Aletta. We will be spending the next few minutes taking questions. So to give you some time to type those up and put them into the questions pane, I will mention our upcoming webinars. So coming up, we have our first tax technical update for the year. That'll cover both January and February. Then we'll be looking at the FBT for 2024 and getting the reporting right for mobile employees. We'll be taking a dip into the seven strategies to build emotional resilience and we'll also be looking at the ATO private wealth strategy, what you and your clients need to know. We'll be having a bit of a look at the future of business development before heading back to FBT 2024 and looking at motor vehicles including electric vehicles. Now, if you are interested in these or any of these topics or actually any of the topics available, please head to our website, have a look and see what is right for you.

So let's have a little look at our questions. Okay, sorry, apologies. Okay, so let's have a quick look at our questions. So I have a question here from Jane, and Jane is asking, when do you expect the treasury to finalise the final legislation?

Aletta Boshoff:

Susannah, that's a really good question and an impossible question to answer. I would say, based on past experience, they usually have a consultation paper and then it's about six months and then there's another consultation paper and then another six months and we've got draught legislation. We are hoping that they're nearly there and that they can finalise it as soon as possible. Personally, I would love for them to finalise it before 30 June because if they don't change the mandatory application date, we have to comply with this from 1 July. So I would imagine we need final legislation before 1 July, which is roughly within that six month timeframe if you think they've published the draught legislation on the 12th of January. But you know, with these things it depends on how many comment letters they receive and how extensive the feedback are, et cetera. But impossible question to answer, but I've given it my best shot.

CCH Learning:

Thank you very much for that, Aletta, so I hope that helps you there, Jane. So fingers crossed we are not quite sure, but we hopeful it's soon.

I also have a question from Michael. Michael was asking what should entities include in their 30 June, 2024, financial statements in relation to sustainability?

Aletta Boshoff:

Again, I like your thinking, Michael, because you're thinking short term, what do we have to do? There won't be a need for any mandatory reporting 30 June, '24. However, ASIC the ASX, APRA, most regulators in Australia are saying please include or try and include as many as possible of the TCFD recommendations. Now, there's only a revenue recommendations, it's fairly high level. Why are they asking that is the TCFD puts you in a good place to adopt IFRS S2 a year later because it's a stepping stone. But also, they want some idea of, are you thinking about this? Who's responsible at a board level? So do you have a subcommittee for this or is the audit and risk committee doing it? Who is responsible at a management level? Is it the CFO? Was it the chief sustainability officer? Who is it? Have you started to think about embedding it in your strategy? Are you starting to think about risk management? Maybe you disclose, we are currently busy measuring our Scope one and Scope two emissions.

So I think they just want a little bit of a status update just to know it's not as if you completely doing nothing. And we know that ASIC is actually already asking some entities, why are you saying nothing about this, because others in your industry are saying something? So it's nothing mandatory, but it's more kind of communicating with stakeholders that it's on your radar. That's, I think, the best way to describe.

CCH Learning:

Thank you very much for that, Aletta. I hope that helps you there with your financial statements at the end of this financial year, Michael.

Well, that does seem to bring us to the end of our questions for today, but Aletta's details are there. So if you do have any further questions, please reach out and I'm sure that Aletta will be able to help you or direct you to somebody who can.

So in terms of next steps, I would like to remind you all to please take a moment to provide your feedback when exiting. We've asked you a couple of questions about today's webinar, so it's really important for us to hear your opinions. It's also our reminder that shortly after today's session, you will be emailed when enrolled into the e-learning recording, which can be watched multiple times, and you have access to the PowerPoint transcript and of course your CPD certificate.

I would very much like to thank Aletta for the session today and to you, the audience, for joining us. We do hope to see you back online for another CCH Learning webinar very soon. Please enjoy the rest of your day. Thank you very much.

Aletta Boshoff:

Thank you, Susannah. Goodbye.