

Climate Change: Role of Accountants

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About CPA Canada

- National professional accounting body in Canada
- Over 210,000 members
- Involved in sustainability initiatives for over 25 years



Our Vision

The Canadian CPA is the pre-eminent, globally respected business and accounting designation.

Our Mission

CPA Canada enhances the influence, relevance and value of the Canadian CPA profession by:



acting in the
public interest

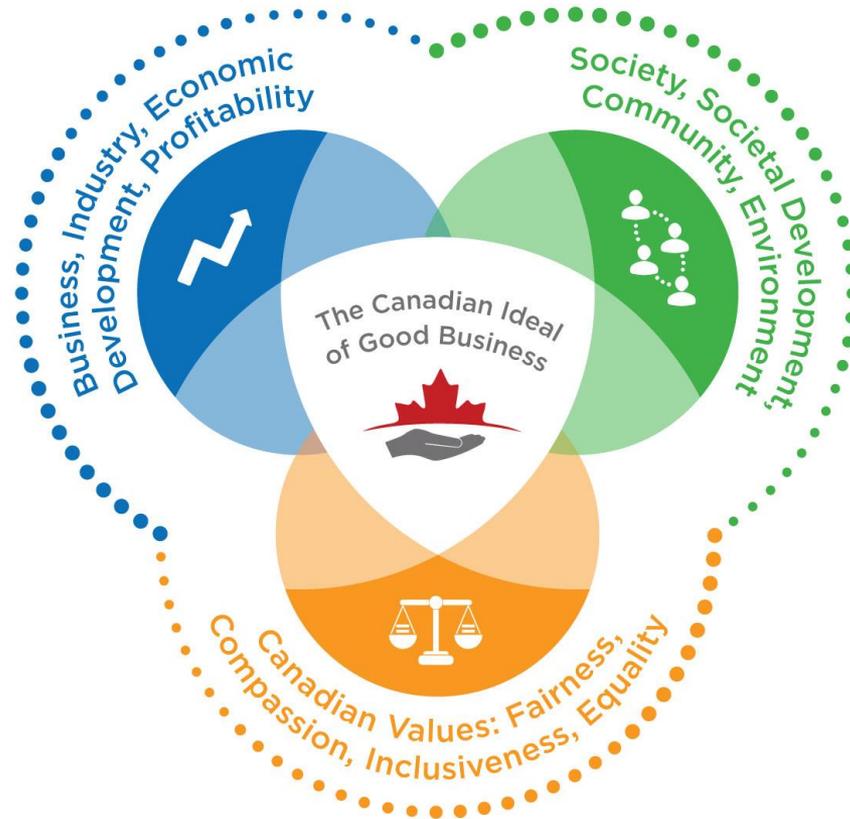


supporting
our members

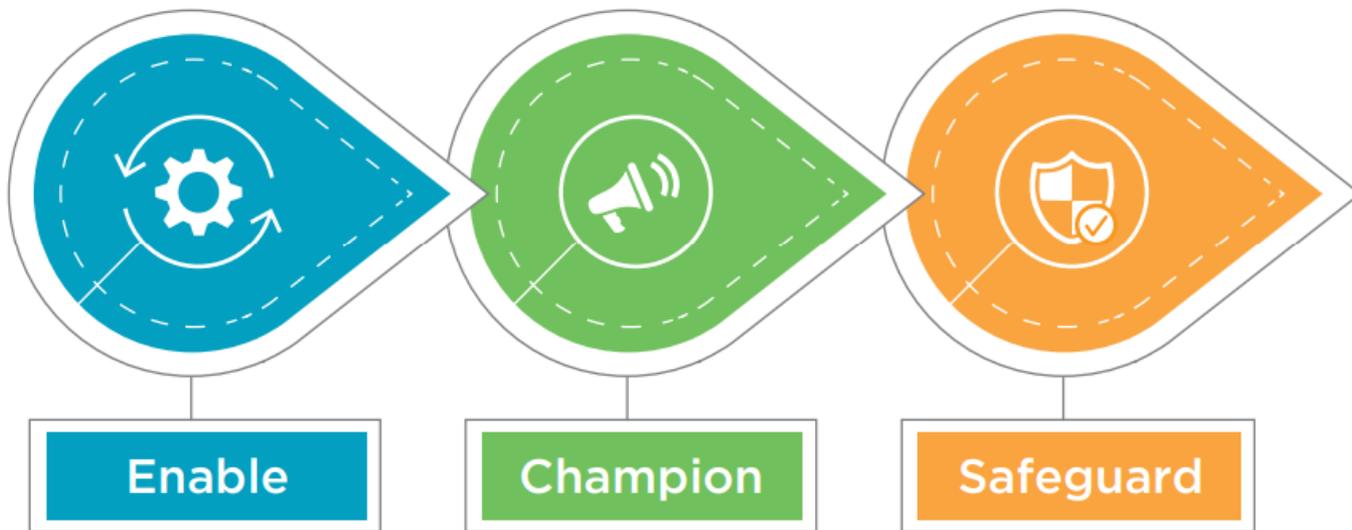


contributing to
economic and social
development

Canadian Ideal of Good Business



Canadian Ideal of Good Business



CPA Canada enables, champions and safeguards the Canadian Ideal of good business. Virtually everything CPA Canada does reflects one or more of these roles.

From Hindsight to Foresight

- Shifting beyond the historical perspective... we need to become more future-oriented and proactive in identifying and acting on opportunities

The capacity for transformation is in our DNA.



Drivers of Change



Drivers of Change



Economic



Geopolitical



Technological

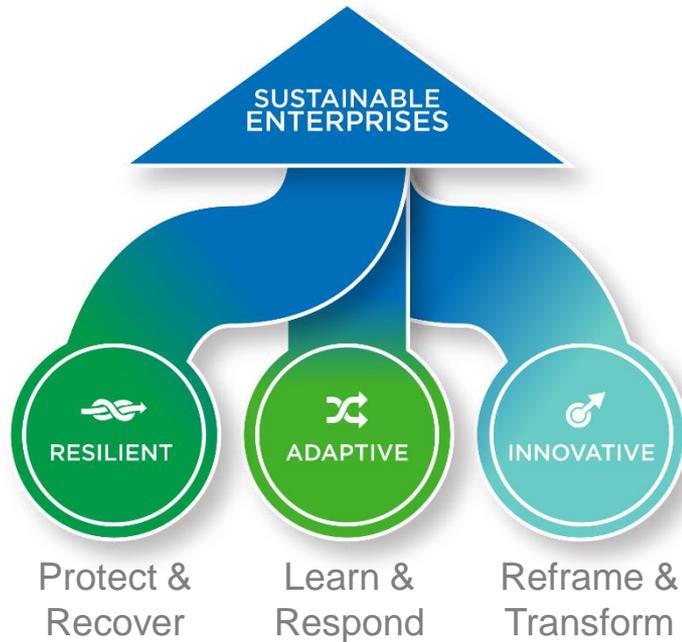


Environmental



Societal

Resilience, Adaptation, Innovation... for Sustainable Enterprises



While the accounting profession has demonstrated **resilience, adaptation and innovation** throughout history, the path forward requires these capabilities to become an integrated philosophy that fuels all our decision making in the creation of **sustainable enterprises**.

Adapting to Climate Change: Roles for Accountants



Climate Change Risks

- Physical risks
- Risks related to business model
- Reputational risks
- Legal and regulatory risks

Canadian Securities Administrators
(CSA) Staff Notice 51-333,
www.osc.gov.on.ca/documents/en/Securities-Category5/csa_20101027_51-333_environmental-reporting.pdf



Physical Risks

- Physical risks (e.g. increased extreme weather) may impact property, employee health and operations (including those of customers and suppliers)

Example: Agricultural yields are affected by drought or unseasonable storms



Risks Related to the Business Model

- Climate change can threaten business operations, e.g. through unavailable resources, increased or unpredictable costs and business closures

Example: The viability of an annual outdoor cultural festival is threatened by unpredictable changes to seasonal weather patterns



Reputational Risks

- How environmental matters are addressed can affect core intangible assets such as brand value, consumer confidence, employee loyalty, ability to attract financial capital and regulatory approval of projects

Example: When customers lose power after an extreme weather event, perceived lack of preparedness by a utility can threaten its reputation



Legal and Regulatory Risks

- There are potential regulatory risks associated with climate change within:
 - Statutory law
 - Common law/Private law (i.e. focus on tort: negligence and nuisance)
 - Fiduciary and other duties of directors and officers

Example: A mining company identifies risk around regulation (e.g. by increasing the design standard for storm water management on retention ponds)

NBS, <http://nbs.net/wp-content/uploads/Adaptation-to-Climate-Change-Primer.pdf>



Climate Change Opportunities

Subtitle Goes Here



New product opportunities / revenue streams



Cost savings / efficiencies (e.g. via innovation)



New Product Opportunities/Revenue Streams

- As climate conditions change, organizations may be able to engage in new activities and meet new needs

Example: In the medium term, a longer growing season will allow higher value, warmer weather crops to be grown further north

Warren and Lemmen,
www.nrcan.gc.ca/sites/www.nrcan.gc.ca/files/earthsciences/pdf/assess/2014/pdf/Synthesis_Eng.pdf



Cost Savings/Efficiencies

- Actions taken to adapt to climate change can benefit an organization more broadly, e.g. by improving processes and infrastructure

Example: Water scarcity, in part related to climate change, drives the creation of less water-intensive technologies and processes, e.g. by Coca Cola

NRTEE, <http://collectionscanada.gc.ca/webarchive/s2/20130322185440/http://nrtee-trnee.ca/coca-cola-canada-case-study>



Responses to Climate Change

Mitigation

- Taking action to slow climate change by reducing greenhouse gas emissions
- For organizations, this means taking actions to reduce the greenhouse gas emissions attributable to operations, products and services

Adaptation

- Taking action to respond to the effects of changes in climate
- For organizations, this means taking actions to minimize and respond to the effects of climate change on the organization



mitigate...

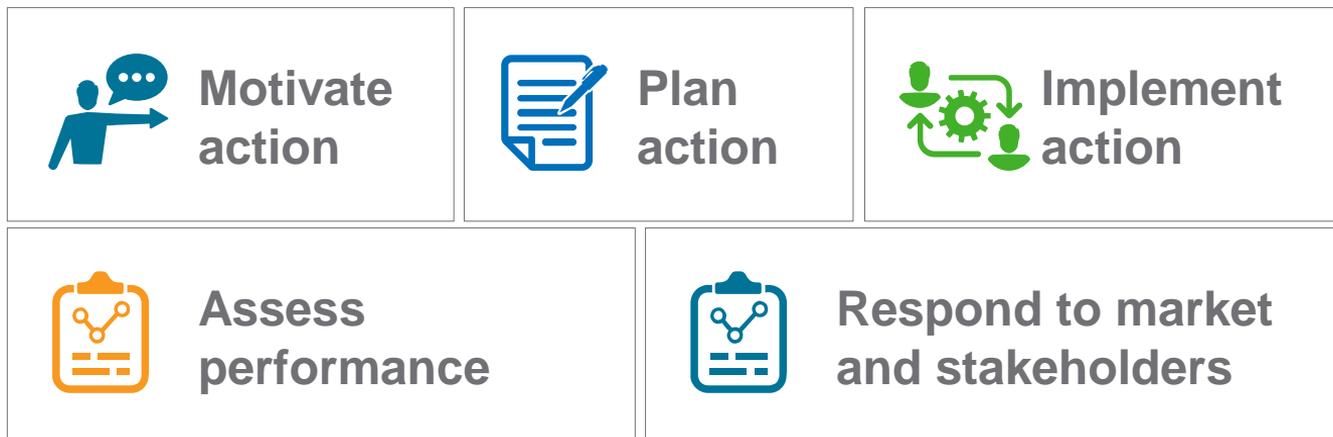
.. and adapt!

Framework for Climate Change Adaptation

Climate adaptation stage	Stage 1: Motivate action	Stage 2: Plan action	Stage 3: Implement action	Stage 4: Assess performance	Stage 5: Respond to market and stakeholders
Roles for CPAs in leadership positions	Examples: <ul style="list-style-type: none"> • Integrate climate change in organizational strategy • Establish accountability • Embed adaptation into business functions and processes 				
Roles for CPAs at all levels	Examples: <ul style="list-style-type: none"> • Support business case • Support ID of risk and opportunity 	Examples: <ul style="list-style-type: none"> • Advise on budget planning • Estimate solution cost-benefit 	Examples: <ul style="list-style-type: none"> • Support project management • Support creation of new products/ services 	Examples: <ul style="list-style-type: none"> • Support development of indicators and targets • Perform internal audit 	Examples: <ul style="list-style-type: none"> • Comply with mandatory disclosures & reporting • Contribute to voluntary disclosures & reports

Source: Eyzaguirre et al., 2014

5 Stages of Climate Change Adaptation



Each stage has multiple roles for CPAs at all levels

Stage 1: Motivate Action

An organization assesses the importance of adaptation, by identifying how climate change could affect it

CPA Role(s)

Support identification of risks and opportunities of future climate change impacts

Example: Frontiers North Adventures
The finance team, led by a CPA, used scenario planning to understand how possible changes in the polar bear population would affect their offerings



Stage 2: Plan Action

An organization decides how to adapt, determining which actions are most appropriate

CPA Role(s)

Estimate the cost and benefits of alternative solutions

Example: City of Montréal

CPAs perform cost-benefit analysis on a host of adaptation efforts, such as installing pipes that withstand greater water flows



Stage 3: Implement Action

The organization puts adaptation efforts into practice, often drawing on teams of specialists

CPA Role(s)

Support creation of new products and services

Example: The Co-operators

A CPA was a key participant in development of a new flood insurance product: “Comprehensive Water”



Stage 4: Assess Performance

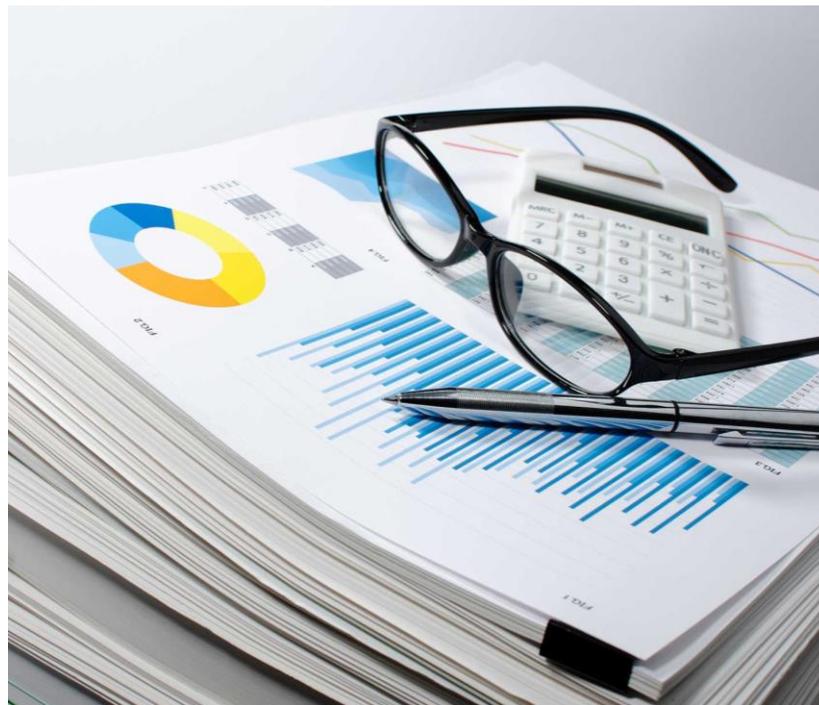
The organization determines the effectiveness of adaptation efforts

CPA Role(s)

Develop indicators and targets

Example: Horizon Utilities Corporation

Horizon is monitoring and collecting data in order to develop adaptation Key Performance Indicators (KPIs); CPAs are core to the data control and analysis



Stage 5: Respond to Market and Stakeholders

Organizations must determine what the market and other stakeholders need to know and provide that information

CPA Role(s)

Meet regulatory disclosure requirements (if listed public company); Contribute to voluntary sustainability reports and climate change disclosures

Example: CP Rail

CP Rail includes climate change risk as material in its 2014 MD&As. They detail physical risks and identify their response: *“Potential physical risks associated with climate change include damage to railway infrastructure due to extreme weather effects...The Company maintains flood plans, winter operating plans...and geotechnical monitoring of slope stability.”*



Roles for CPAs in Leadership Positions

A role for CPAs

Establish accountability structures

Example: TransLink

The finance department has responsibility for sustainability. The CFO is responsible for seeing that climate change risks are part of TransLink's capital review process



Roles for CPAs in Leadership Positions

A role for CPAs

Integrate climate change considerations into organizational strategy

Example: The City of Montreal

Montreal included climate change adaptation in its Sustainable Development Plan (development of which was led by a CPA)



Additional CPA Canada Climate Change Resources

Overview: Climate Change Adaptation Project



Guidance for CPAs on Climate Change

Case studies and videos

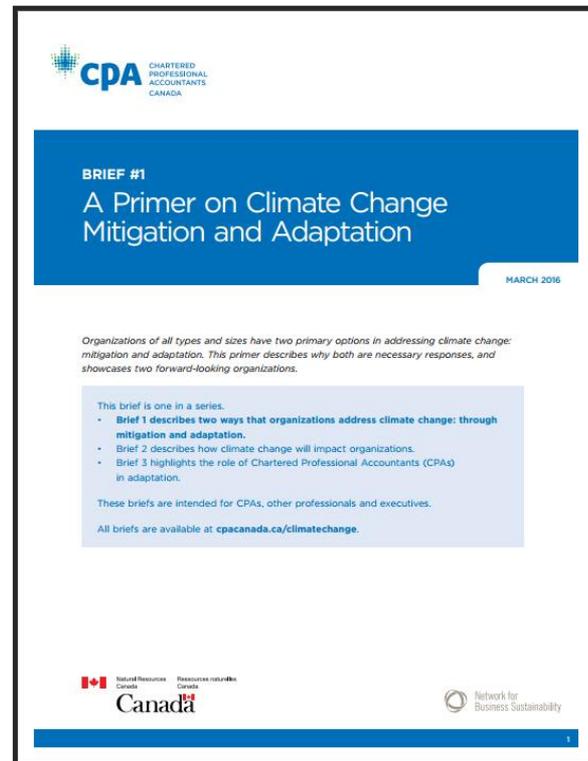
- Frontiers North Adventures
- Mountain Equipment Co-op
- TransLink
- The Co-operators
- Horizon Utilities
- City of Montreal

Briefs

- Brief #1: A primer on climate change mitigation and adaptation
- Brief #2: How organizations can adapt to climate change
- Brief #3: How Chartered Professional Accountants can help organizations adapt to climate change

Professional Development

Resources available at: www.cpacanada.ca/climatechange



Sustainable Development Goals

SDG 13: Climate Action

- Enable organizations to respond to climate change mitigation and adaptation issues and highlight the roles CPAs in business can play:
 - Build the business case for climate action
 - Establishing systems, controls, processes over climate-related information
 - Internal performance reporting on climate change goals and targets
 - External reporting to stakeholders on progress (enhanced climate-related disclosure in alignment with TCFD)



TAKE URGENT ACTION TO COMBAT CLIMATE CHANGE AND ITS IMPACTS



The 2030 targets for this Goal most relevant to the profession include:

- **13.1:** Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.
- **13.2:** Integrate climate change measures into national policies, strategies, and planning.
- **13.3:** Improve education, awareness raising, and human and institutional capacity on climate change mitigation, adaptation, impact reduction, and early warning.

Overview of Task Force on Climate-related Financial Disclosures (TCFD)

- Established by Mark Carney at request of G20 as Head of Financial Stability Board
- Chaired by Michael Bloomberg
- International representation by providers of capital, insurers, large non-financial public companies, accounting and consulting firms, and credit rating agencies
- Mandate is to develop **voluntary, consistent climate-related financial risk disclosures** for use by companies in providing information to investors, lenders, insurers, and other stakeholders
- Final recommendations released in June 2017



Involvement with TCFD

CPA Canada has been actively involved with climate-related financial disclosures and the TCFD recommendations:

- Participated in Phase I and Phase II TCFD consultations
- Hosted information sessions and roundtables in Canada
- Convened TCFD panel sessions at conferences
- Relationships with federal government
- Publishing thought leadership and guidance resources
- Signed Statement of Support for TCFD recommendations
- Launched TCFD landing page with resources



www.cpacanada.ca/tcfd

Overview of TCFD Recommendations

Core Elements of Recommended Climate-Related Financial Disclosures



Governance

The organization's governance around climate-related risks and opportunities

Strategy

The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management

The processes used by the organization to identify, assess, and manage climate-related risks

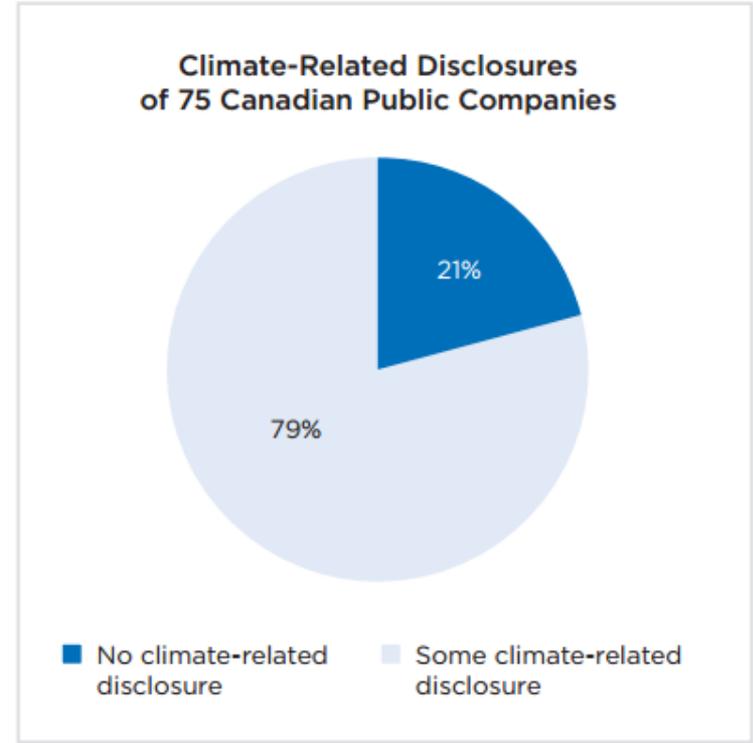
Metrics and Targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Climate Disclosure Study

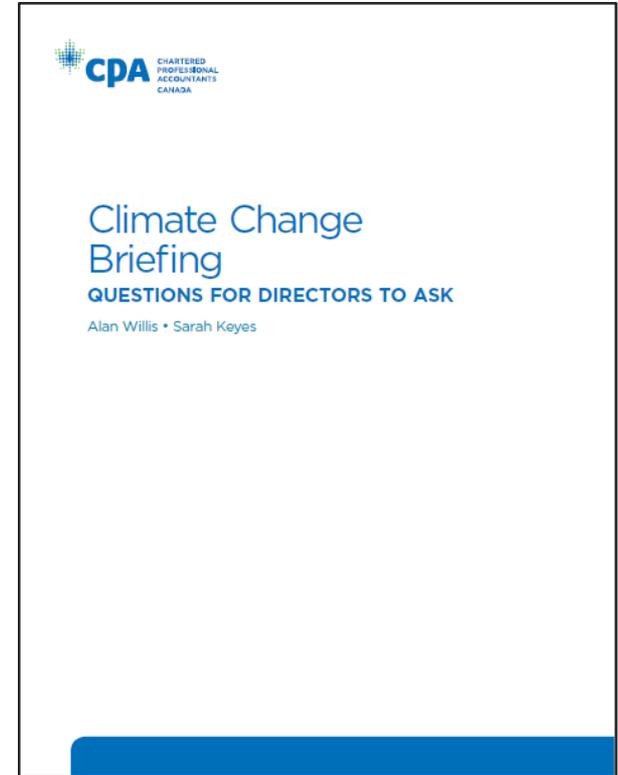
The majority of companies are making climate-related disclosures, but the nature and extent varies:

- Climate-related disclosures did not provide sufficient context
- Disclosures were not comparable across or within industries
- Inconsistent use of terminology
- Users are challenged to locate relevant information



Climate Change Briefing

- Outlines 20 questions for boards of directors to ask in overseeing organizational risk management, business strategy and performance in the context of climate change
- Released in April 2017
- Updated version of 2009 legacy CICA publication



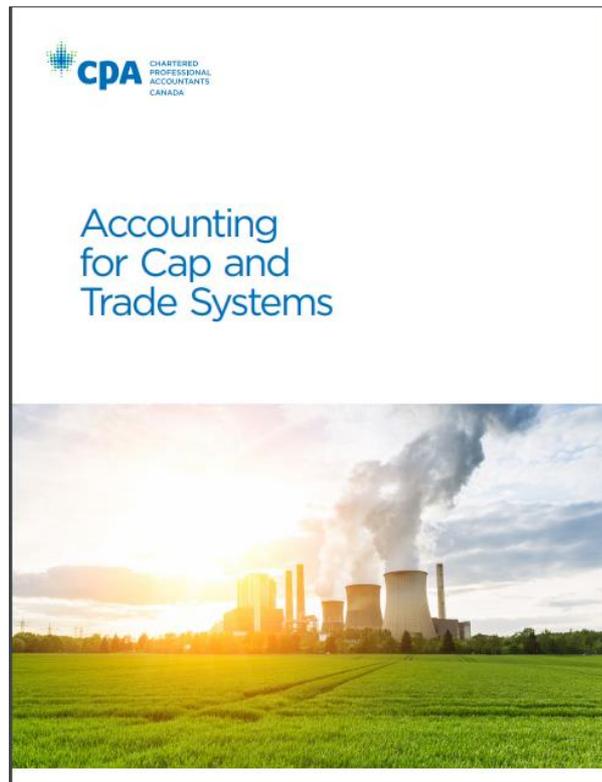
Accounting for Cap and Trade

Financial accounting implications:

- Assets
- Liabilities
- Revenues
- Expenses

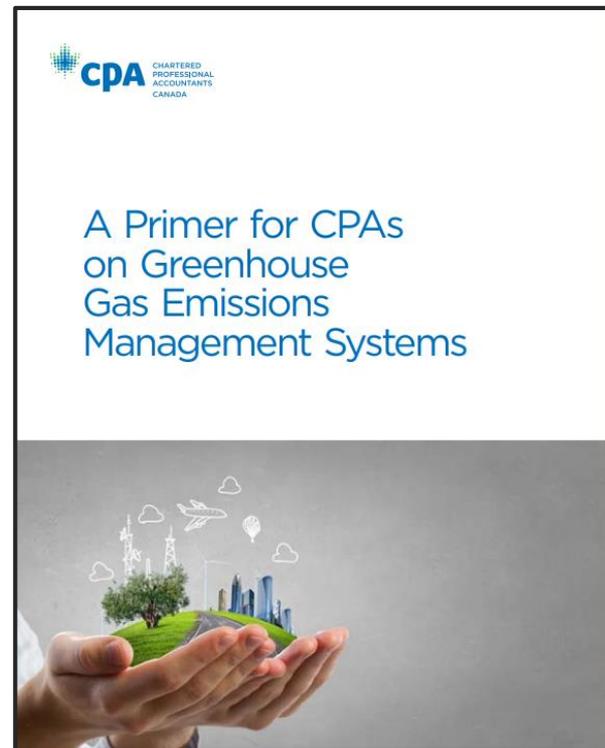
Accounting approaches:

- IFRIC 3 (withdrawn)
- Government grant
- Net liability



Primer on GHG Emissions Management

- Published in June 2018
- Focuses on the need for organizations to reduce GHG emissions and provides guidance for CPAs
- Includes 10 questions for establishing a GHG Emissions Management System and roles for CPAs



Why I Became a CPA

“Accountants will save the world”

– Peter Bakker, President & CEO of World Business Council for Sustainable Development (WBCSD)





Questions?

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Thank you!