



ESG as a key theme for Finance Function and the expected role of CAEs

May 2023



Agenda:

- 1 Growing importance of ESG : key trends and highlights
- 2 How is Finance Function impacted by ESG evolution
- 3 Relevance of Forensics and ESG

Presenters:



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ESG stands for Environmental, Social and Governance – set of parameters essential for long term business success

ESG is popular term amongst capital markets, ESG topics are used to identify matters that have a material financial impact on an organization's short and long-term value.



Deals with

- Climate risks
- Greenhouse gas emissions
- Energy efficiency
- Pollution and waste management
- Use of natural resources
- Clean energy and technologies
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Deals with

- Diversity, equity, and inclusion
- Employee health and safety
- Labor relations and working conditions
- Privacy and data security
- Human rights and child labor
-



Deals with

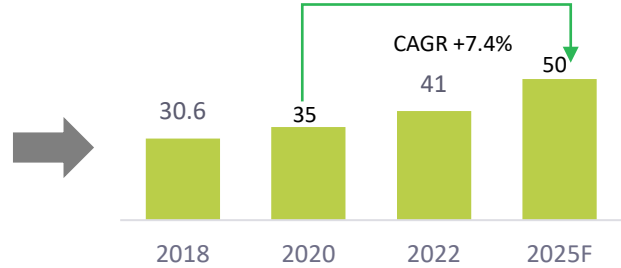
- Business ethics
- Corporate code of conduct
- Risk Management
- Transparency and disclosure
- Audit and compliance
-

ESG and sustainable finance is now a mainstream agenda for investors

1 ESG has become the fastest rising investment theme



Global ESG assets may hit \$53 trillion (1/3rd of global AUM) by 2025



75% of Sovereign Wealth Funds now have an ESG investment policy and 30% have set a carbon emissions target.



47% of Central Banks have an ESG policy in place in 2022, 400 times growth since 2017

74%*

Global Institutional Investors now scrutinize companies' ESG disclosures as a part of their investment decision-making,"

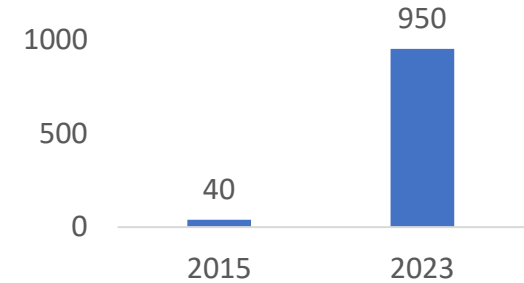
* EY Global Corporate Reporting and Institutional Investor Survey, 2022. Covers 1,040 chief financial officers (CFOs) and finance leaders, and 320 global institutional investors

2 Sustainable Finance is witnessing a rapid surge



Sustainable bond markets at all time high

\$1T Global issuance of Green, Social and Sustainability bonds expected in 2023




i.e. 15% market share of global bond market.

- 40% growth in Green and Social debt issuance in MENA from 2021 to 2022
- Upsurge triggered by Regional Banks and SWF
- COP28 is expected to provide a further boost to Green and Social debt financial instruments

Regulators are mandating ESG requirements across markets and sectors


Glimpse of Regulatory activities in global markets

Global  International Sustainability Standards Board

- Mandatory disclosure standards on ESG And Climate Change, kick in from Jan 2024

EU and UK 

- CSRD
- SFDR
- EU Green Taxonomy
- Carbon Tax
- UK FCA and FRC laws on ESG

United States 

- US SEC requirements on Climate Change Disclosures

APAC:
Multiple countries / ESG/ Climate Change



Where are the global regulations headed

- 1 IFRS Standards guides the disclosure of financially material sustainability topics for investors – close link with business accounting
- 2 Regulations focus on role of Board, Audit Committee and Risk function for ESG performance
- 3 Phased launch and adoption method, gradually to cover all sector and market participant
- 4 70% of these are in final draft stage and 2024 onwards full implementation kicks in
- 5 Clear expectations set for external verification / assurance of non-financial data to support credibility

Glimpse of regulatory landscape in MENA

- Countries are setting net zero targets, soon to have policy implications



- GCC wide unified ESG metrics agreed upon and stock exchanges are mandating disclosure



- Regional ESG ratings are being established



- Regional ESG taxonomy is being developed

THE UAE SUSTAINABLE FINANCE WORKING GROUP

ESG rating agencies are also becoming a strong driver for change

What's propelling interest in ESG and the importance of rating agency scores?



70% of global investors now consider ESG rating scores



Sustainable companies perform better over the long-term and have a lower investment risk profile (MSCI)



Better ESG Rating Scores help unlock access to growing pool of ESG ETFs (e.g. >300+ on NASDAQ)



The new generation of consumers are more vocal on sustainability and higher ESG score is a way to influence decisions



Meeting ESG rating requirements is a year round process, requires clear identification of ESG priorities and periodic performance disclosure across multiple channels

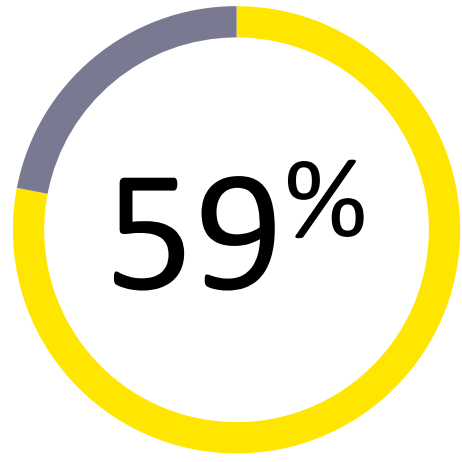
In light of these triggers, the leaders in MENA are also responding on a positive note...



ESG is now moving from Value Protection to Value Creation

We have surveyed the 120 MENA Finance Leaders to understand their pulse

74% of MENA finance leaders are involved in the Environmental, Social and Governance (ESG) agenda.



believe that advancing data and analytics capabilities is a high priority to meet growing investor and regulatory requirements

Source: "EY MENA Financial Accounting Advisory Services CFO survey report, 2022"

Surveys:

1. How finance professionals are helping to advance ESG reporting Ernst & Young LLP and the Financial Education & Research Foundation, 2022
2. From value protection to long-term value creation, how can CFOs reframe finance?, EY MENA Financial Accounting Advisory Services, 2022
3. How can effective governance unlock value from sustainability?, EY EMEA Public Policy, 2023

Finance and Audit Function have a critical role to play on ESG

Finance and Audit function are the custodian of ESG data and risk management

5 transformation areas for Finance and Internal Audit Function to cater to ESG



Regulatory Compliance

How to align the existing compliance processes to include ESG and climate data



Investor Relations

Are you aware of what ESG information your investors need and how to provide him in desired quality



Board Oversight

How do you ensure that the Board has complete oversight on ESG KPI performance and Targets



Ensure Data Consistency and Reliability

Redefine systems and assign new owners to ensure consistent ESG data of high quality is produced and reported



Avoid the risk of greenwashing

Implement robust process controls to ensure data is reliable and can be assured



The G



ES G

— Governance —



G = Integrity?

Is it a result of Governance?

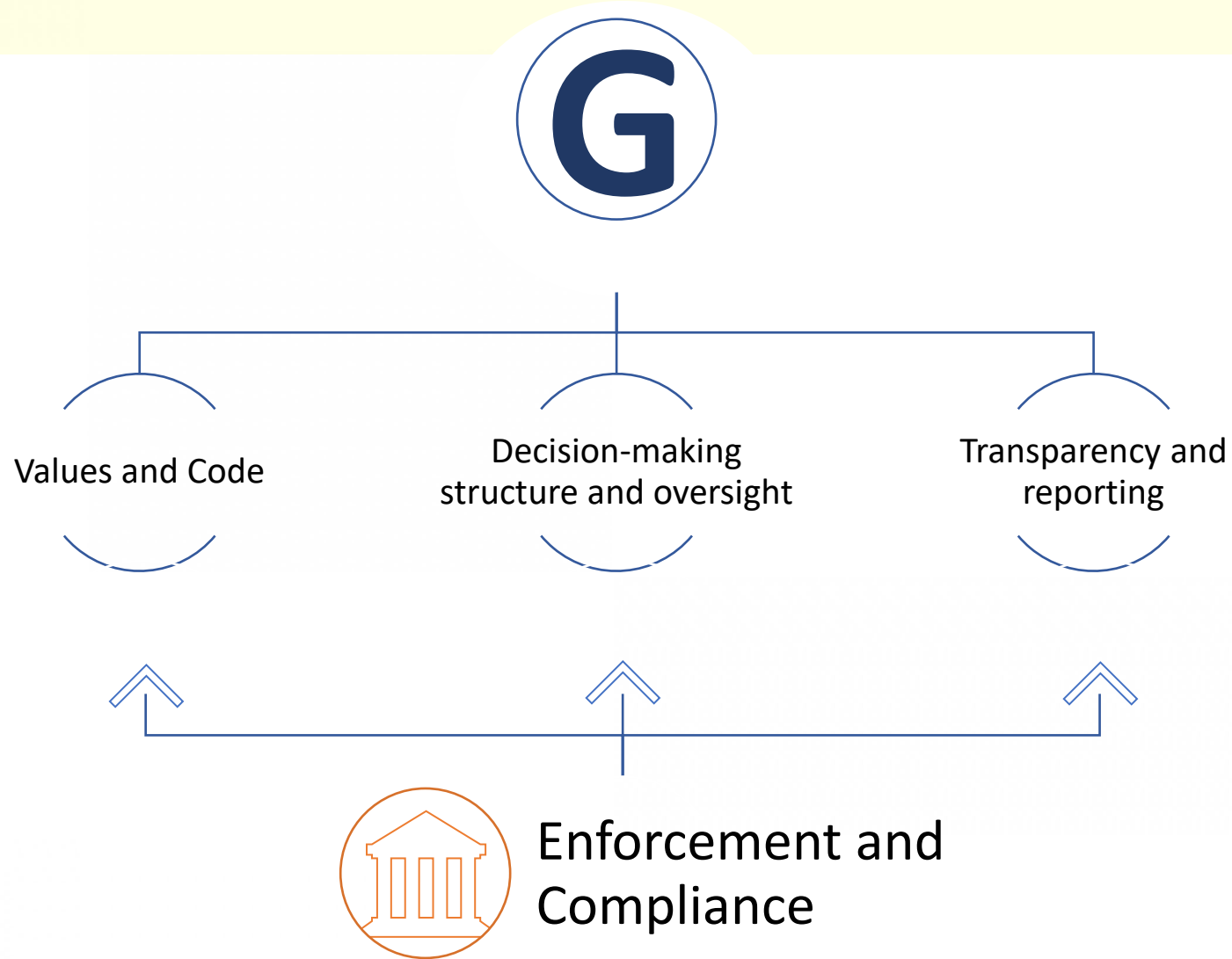


theranos

– Pressure –



— G Components —



WHO?

— Values —

- Diversity
- Integrity
- Collaboration
- Equality
- Fairness
- Recognition
- Transparency



- Age
- Gender
- Race
- Education



- No Bias
- Equal Opportunity
- Meritocracy

— For Consideration —

- Who owns G in the organization?
- What are key risks for the integrity of an organization?
How is it linked to ERM and FRM?
- What is the role of Internal Audit?
- How to leverage technology?
- What is the next challenge?

