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Deloitte Forum 2022

A&A Session 1
Get Your Business Tomorrow Ready

22 November 2022, 13:00 – 15:00hrs.

MAKING AN IMPACT THAT MATTERS since 1845

Agenda

Get Your Business Ready Tomorrow

Timing	Speaker	Topics
01:00 p.m. – 01:30 p.m.	K. Vichai Suknaibaiboon	Overview of finance role in Enterprise Life Cycle Stage
01:30 p.m. – 02:00 p.m.	K. Bardin Laprangsirat	Accounting Operation Process Enhancement
02:00 p.m. – 02:30 p.m.	K. Wilasinee Krishnamra	How to raise fund for expanding your business – M&A/ Global Offering
02:30 p.m. – 03:00 p.m.	K. Kasiti Ketsuriyonk	The CFP as the Driver of Sustainability

Speakers

Vichai Suknaibaiboon
Partner |
Accounting Operations Advisory

Wilasinee Krishnamra
Partner |
Audit & Assurance

Bardin Laprangsirat
Partner |
Accounting Operations Advisory

Kasiti Ketsuriyonk
Partner |
Accounting & Reporting Advisory

Overview of finance role in Enterprise Life Cycle Stage

K. Vichai Suknaibaiboon

We look carefully at what finance leaders are doing and the technology that's available, and then we ask three questions:

- How would the work of Finance get done and who would do it?
- What would be possible if we combined different technologies to reimagine the future?
- How could Finance contribute even more to the success of the company?

What does the future look like as the digital transformation continues to accelerate?

Key Highlights for Finance in 2025

1 The finance factory

The finance factory will focus increasingly on using big data, analytics, and predictive modeling to inform business strategy and decisions

2 The role of Finance

Financial planners will need to bake operational components into financial models to assess potential top and bottom-line impacts—even as the goalposts keep moving

3 Finance cycles

There is no close. You're not forecasting once a month or quarterly. It's all happening in real time

4 Workforce and workplace

People are the key enabler, and critical skill sets in Finance have evolved to include robotics, communications, process management, and other disciplines

5 Self-service

Self-service will become the norm, as activities ranging from budget queries to report production are automated.

6 Operating models

New models look to expand Finance's core capabilities and what it can deliver in partnership with other functions.

7 Enterprise resource planning

Today's big players will continue to swallow up cutting-edge capabilities and grow market share as one-stop providers.

8 Data

Finance will double down on massive data cleanup efforts, led by a data czar empowered to ensure data integrity and set the right governance strategy.

The finance factory

'The finance factory will focus increasingly on using big data, analytics, and predictive modeling to inform business strategy and decisions'

The finance factory is progressing from automating basic responsibilities to redesigning processes end-to-end, resulting in better business insights. Still, cost effectiveness remains critical. If you're not continually lowering your cost to serve while simultaneously introducing new capabilities, ***you risk becoming a target***.

Call to action

- Standardize 100% of nonstrategic finance processes, ideally through non customizable functions of your ERP or finance application.
- Identify use cases to prove automation's value and show how it will work. Think big, but start small.

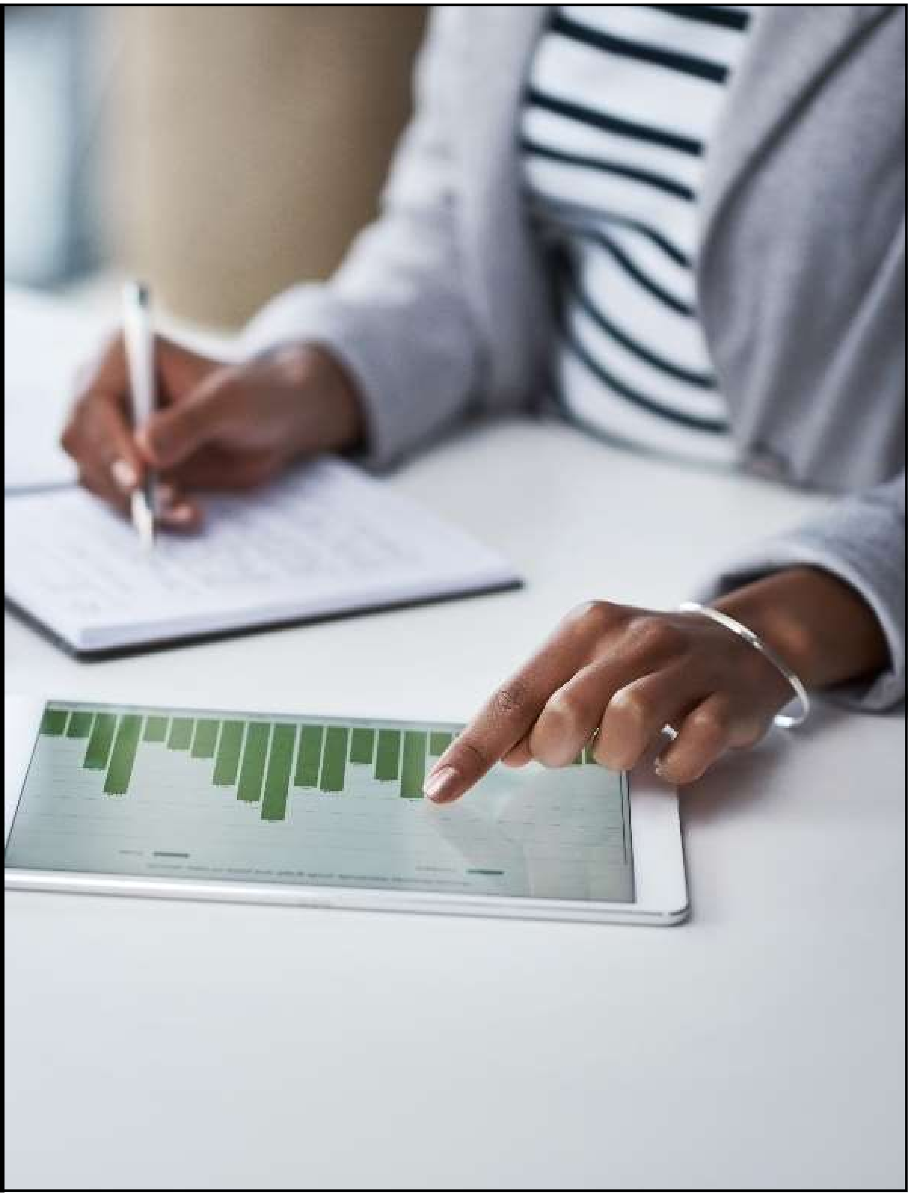
The role of Finance

'Financial planners will need to bake operational components into financial models to assess potential top and bottom-line impacts—even as the goalposts keep moving'

Finance must remain agile, be tightly integrated with other functions, and know what drives the business, or CEOs will look elsewhere for advice. Automation gains spurred through COVID-19 generally helped a remote workforce keep the lights on, not produce predictive analytics. Technology can help Finance in this regard, **but much work remains to be done.**

Call to action

- Ensure Finance has the right data foundation, technology, and talent to take on an expanded role.
- Create dynamic partner networks that can help boost your company's resilience by mitigating delivery issues, handling demand surges, and adding specialized expertise.



Finance cycles

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Call to action

- Identify and track the metrics that drive business performance, many of which likely exist in upstream nonfinancial data systems. Then make the case for why Finance needs this information.
- Don't neglect environmental, social, and governance disclosures in your reporting strategy. They can influence your stock price and don't need to be reported in real time.

Workforce and workplace

'People are the key enabler, and critical skill sets in Finance have evolved to include robotics, communications, process management, and other disciplines'

Implementing new technologies is relatively easy compared to changing your talent model. They're obviously connected, but cultural and organizational shifts related to your workforce may take much more time and care to get right. Your finance organization should be ***looking at every new hire through the 2025 lens.***

Call to action

- Appoint a "chief people officer" in Finance charged with sourcing and developing talent with deep financial knowledge and the ability to optimize innovative.
- Consider the type of experience created by the finance organization's purpose and values. Then, measure and work to close gaps between the experience top talent desires and current reality.

Self-Service

Self-service will become the norm, as activities ranging from budget queries to report production are automated.

Self-service can help reduce non-value-added work, but it can also cause issues with data interpretation and sources of truth, making Finance reluctant to release nonvalidated data to the masses. For self-service to prevail, CFOs need to determine where strong data governance and standardized reporting is required—and get comfortable letting go of financial data that doesn't meet those criteria.

Call to action

- Focus on productivity and business insight. Where are you producing reports of limited value? What are you unable to report on today that you wish you could?
- Pilot self-service capabilities to prove their worth and generate a few wins. This will help you build confidence in the technology and bring other leaders on board.

Finance Operating Model

New models look to expand Finance's core capabilities and what it can deliver in partnership with other functions.

What few CFOs had thought possible, such as closing the books 100% virtually, was road-tested and largely proven in 2020. Finance leaders will now look to lock in remote work's cost efficiencies while accommodating employees' desires for mobility. The floor of the building that had housed 150 finance people might become a ghost town as employees are scattered worldwide.

Call to action

- Don't reflexively snap back to your old operating model post pandemic. Use this opportunity to consider new ways of working, such as managed services, and different talent models.
- Implement cross-functional collaboration tools and processes, which can help Finance and its support partners make fast, well-informed decisions in a crisis.

Enterprise Resource Planning

Today's big players will continue to swallow up cutting-edge capabilities and grow market share as one-stop providers.

ERPs will continue to drive finance automation and digital transformation. When new capabilities are available as part of an ERP upgrade, organizations are apt to adopt them. But fewer are willing to build such capabilities from scratch, not wanting to invest in something unproven that might fail.

Call to action

- Take a hard look at your finance technology and decide what you truly need to customize. Prepackaged solutions exist for most any need.
- Accelerate your move to a cloud-based ERP, if you haven't done so already.

  The cloud not only offers continuous technological improvements, but also provides opportunities to standardize end-to-end processes, automate key activities, and enhance data security.

Data

Finance will double down on massive data cleanup efforts, led by a data czar empowered to ensure data integrity and set the right governance strategy.

Being able to tell the business what it can do to increase profit margins, gain leverage with suppliers, and meet customer demands—while there's still time to do it—makes Finance a true strategist that drives business decisions. Without good data, that won't happen. And data issues won't be solved by technology alone. Fixing them requires a Finance-led discussion on the right data foundation.

Call to action

- Define the finance data model that supports both transactional processes and reporting requirements. Be sure to include operational data to support analytics.
- Think of your data as an asset and invest time and resources to improve it. This may require filling a key role in Finance; aligning incentives between Finance and other functions; and assigning responsibility for data quality to a C-level executive who isn't the CIO.

Crunch time series

Finance 2025 revisited

(What we know now)

Eight interconnected trends reshaping Finance

Change in the business world is nothing new, but today's realities do indeed feel different. With so many potential investment opportunities—and so much in the market still left uncertain—you're probably scrambling to make sense of it all. If so, check out our new *Crunch time* report, which takes a fresh look at the future we envision for Finance in 2025.

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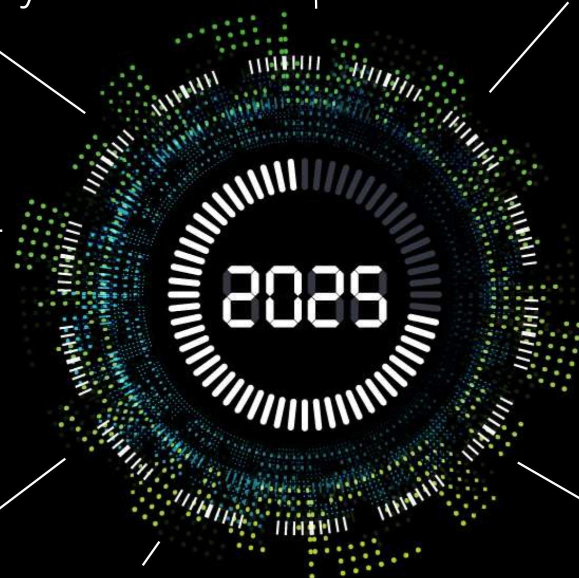


1 ON TRACK

The finance factory

Finance will continue to automate, but the focus will shift from operational finance to financial insights.

2 ON TRACK

The role of Finance

Finance will focus more on service, analytics, and business insights, all of which mandate new capabilities.

3 LAGGING

Finance cycles

Although real-time financial data will still be a ways off, quarterly reporting will gradually lose its relevance for investors and management, both of whom require more timely information.

4 AHEAD

Self-service

Finance will remain uneasy about the use of self-service data, but it will embrace self-service as a way to rationalize reporting requirements and special requests.

5 AHEAD

Operating models

Changes to finance operating models will be less about cost reduction and more about expanding Finance's core capabilities.

6 AHEAD

Enterprise resource planning

Through acquisitions and functional enhancements, ERP vendors will continue to stave off competition from specialized applications and microservices.

7 ON TRACK

Data

Standardized, high-quality data will become even more important, as data is the foundation for business insights, automation, and touchless operations.

8 ON TRACK

Workforce and workplace

Finance will hire more people who can configure and customize digital tools to generate insights. And work will increasingly be done remotely as hybrid workplaces become common.

Accounting Operation Enhancement

K. Bardin Laprangsirat

What does management today expect from Finance?

In today's rapid changing world, management and business leaders demand much quicker and more insightful analyses as well as greater advisory support from Finance. The traditional focus of control and cost efficiency is no longer sufficient, and Finance needs to evolve from a gatekeeper into a business partner.

Support stakeholders in executing strategic and financial initiatives and driving a risk intelligent culture

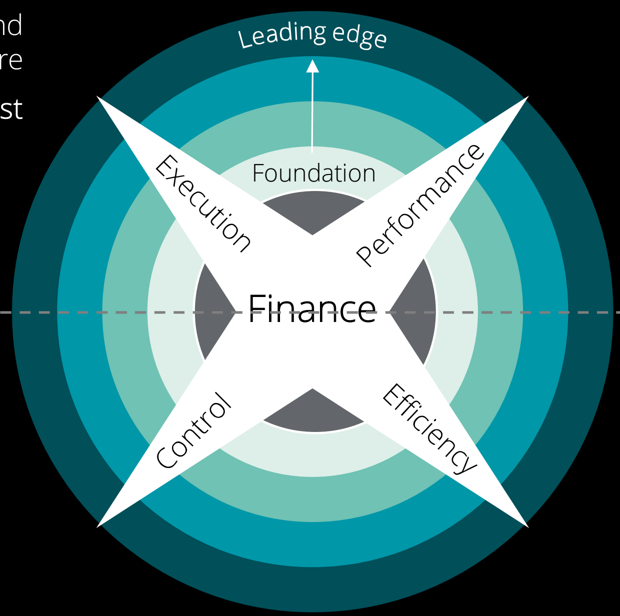
Catalyst

Provide financial insights to help management determine the strategic direction and supporting financial strategies

Strategist

Business Partner

Gatekeeper



Progression towards more strategic roles

Steward

Protect and preserve the critical assets of the organization and accurately report on financial position and operations

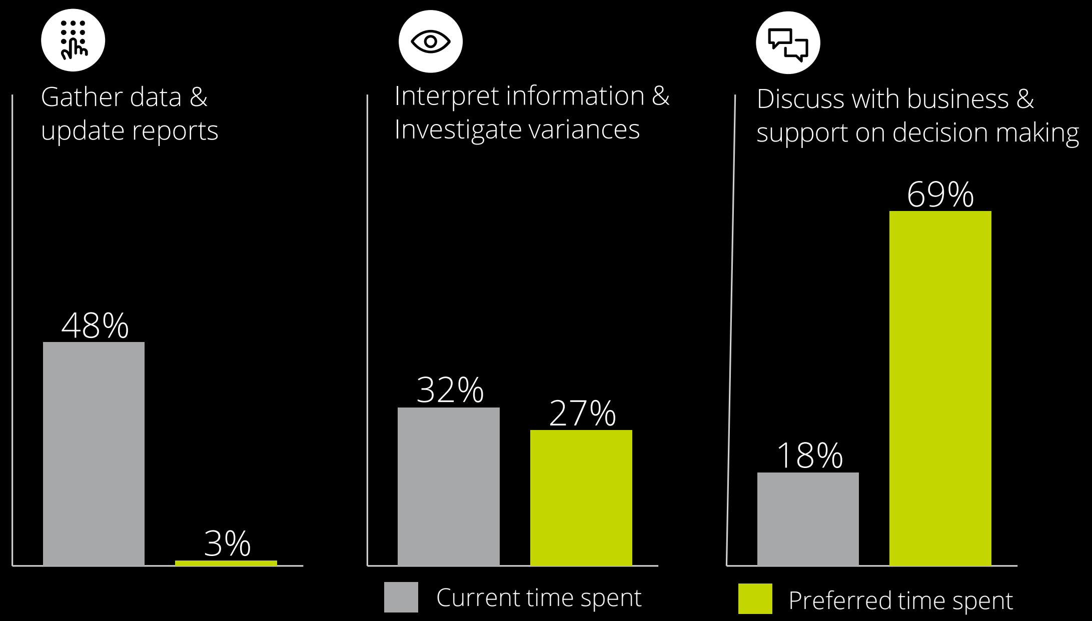
Operator

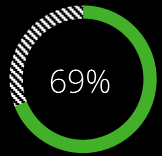
Balance capabilities, talent, costs and service levels to fulfill Finance's core responsibilities efficiently

Is "Going Digital" still an option for Finance?

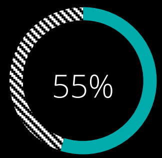
Executives across the globe have expressed that their Finance teams are not meeting their needs, as they are tied up by manual works with little time for analysis and support. Going "digital" is no longer an option, but a necessity.

Inadequate Support to Business

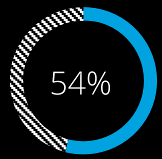




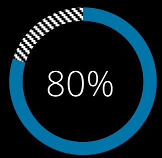
Delay in Reporting
say manual effort is the #1 bottleneck in the close-to-report process
~ The Hackett Group



Higher Risk of Errors & Inconsistencies
are not confident they can spot all errors / inconsistencies before reporting results
~ Censuswide Research



Lack of Insights
are not satisfied with the quality of the management reports
~ Deloitte



Bad Business Decisions
has made strategic decisions based on flawed information
~ CGMA

Source: "Business reporting in a digital world", The Crunch Time Series for CFOs by Deloitte.

Lights Out Finance

What exactly do you mean by Lights Out?

"Lights Out means finance operations that leaders can set and forget, like a slow cooker: easy, reliable, and in need of little to no human attention. Here's what we mean:"

What exactly do you mean by Lights Out?

Data

Clearly defined end-to-end data strategy and structure with real-time continuous data that enables instant insights and alignment of actuals and plan.

What Lights Out looks like:

- Standardized data infrastructure
- Globalized master data and definitions
- Single source of truth

Technology

A combination of technologies that enable touchless transactions and autonomous operations, prompting human intervention on an exception basis.

What Lights Out looks like:

- Dynamic rules-based ingestion, analysis, and processing of routine transactions
- AI augmented, in-transaction, real-time information supporting decision-making
- Humans and machines working together to enable the right action, at the right time

Process

Lean and efficient centrally organized teams oversee standard process design and execution to keep processes streamlined and governed correctly.

What Lights Out looks like:

- Consistent, standardized, and repeatable policies and procedures
- Reduced manual intervention and touchpoints
- Governance models that monitor KPIs and compliance through Global
- Process Owners (GPOs) and Centers of Excellence (COEs)

People

Finance workforce that goes beyond the numbers—not only identifying trends, but also explaining potential implications—to tell the story of an organization's future.

What Lights Out looks like:

- Time to focus on strategic work that adds value
- Emphasis on both technical finance and human skills, like problem solving and communication
- Elevated workforce experience enabled by humans and machines, each doing what they do best

So, what enablers do I need?

It's a good question, and the answer starts with another question: *How Lights Out are you now?* No matter the destination, here are the enablers that can make Lights Out work, no matter where you choose to turn your dials.

- Standardized processes that enable automation and improve efficiency and efficacy
- Cloud-based ERP through a single platform that reduces technology redundancy and can shorten close cycles
- Automated and purpose-built technologies—including cognitive and machine learning capabilities—that free up human time to do more value- added work
- Self-corrective tasks—utilizing RPA and advanced AI capabilities—that improve accuracy in complex transactional environments
- Advanced analytics and self-service capabilities that provide automatic insights and real-time reporting
- Standardized data that allows for the agility to change course and strategy as needed
- Flexible service delivery models that include workers, robots, and algorithms (think humans *and* machines working together to bring out the best in each other)
- Systemically configured and automated controls framework geared toward risk sensing that operates around the clock across the entire chain of processes; Lights Out won't work without those vital guardrails

> *With the right mix of capabilities to support your vision, your Lights Out road map can lead to an evolved finance organization driven by insight, analysis, and outcomes, instead of transactions and the same processes over and over.*

A deeper look into technology enablers

The combination and interplay between technologies is a critical element of going Lights Out. Technology layers are streamlined and integrated: core ERP, domain-specific solutions, robotics and intelligent automation, and autonomous business processes all work together to meet your desired business outcomes.

Robotics and intelligent automation coupled with autonomous business processes

Robotics and intelligent automation

- RPA and cognitive to automate repetitive, rule- based activities

Autonomous business processes

- AI-augmented, in-transaction, real-time process execution

- Automating the remaining repetitive and manual tasks
- Improving data quality and shortening transaction processing time
- Working on top of existing IT systems and infrastructure to autonomously execute critical processes

Portals and point solutions with embedded technologies

Portals and point solutions

- Leveraging digital technologies like machine learning, speech recognition, natural language generation (NLG), analytics, blockchain, and computer vision

Data input solutions

- Link to upstream processes, serving as process input
- Data and information from upstream process is complete and first-time right

- Automating end-to-end processes with a combination of digital technologies embedded in platforms and point solutions
- Streamlining upstream process by automating interactions with internal stakeholders (but outside Finance) and external stakeholders

Finance core modernization

Cloud ERP

- Fully scalable architecture
- Improved security and control
- Enables easy and fast implementation of advanced capabilities such as machine learning

In-memory computation

- Increased speed of data processing and analysis
- Improved reporting capabilities
- Ensures consistent data structure, providing one source of truth

Automated workflow tools

- Create lean and efficient workflows
- Notify and engage with key users when needed
- Increase the level of automation provided by the ERP

- Creating a fast, scalable, and powerful source of financial data
- Increasing security and control while being cost-effective
- Increasing transaction processing speed and enabling advanced analytical capabilities

OK, but why?

Because Lights Out can speed up Finance's journey from steward/operator to catalyst/strategist, now and for the future. Because rote processes that require too much time from human employees belong in the past, cost more, and produce less. Because with Lights Out, Finance can truly turn digital, scale up and down based on business demands, reduce costs, and do more, better.

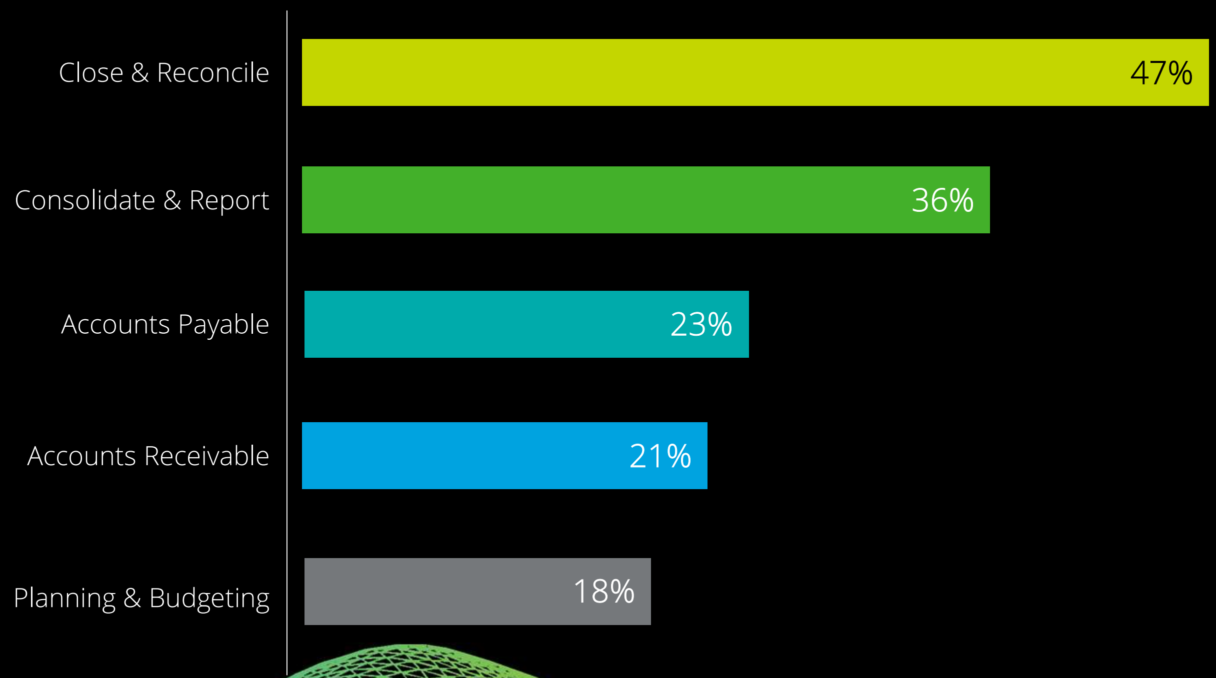
Here are a few benefits of Lights Out:

- Insight generation and analysis of cash flow, balance sheets, profit and loss, and more, enabled by technologies such as AI and predictive analytics
- Clean data and data standards that allow business units to operate cohesively and quickly (but don't panic: AI-enabled self-cleaning data is real, so data can be cleaned as you go)
- Scenario-based planning and decision-making that allow for organization-wide standardization and a proactive approach to issue resolution
- Cost reduction that benefits your talent and technology strategies, as well as the bottom line
- Human workers who can do more by leveraging untapped talents
- A more engaged finance workforce that delivers value to the business through forward-looking analysis and storytelling
- Flexible and efficient finance operating model to keep in line with changing and emerging business needs
- Digitization for the long term, with opportunities to scale

Key Success Factor 01: Focus on the Most Time-consuming Areas First

Only by releasing time and resources from the most manually intensive operational processes could Finance teams gain the capacity in delivering better services and providing more business partnering support.

Top 5 Processes Finance Spent Most Time on



- Disparate systems & data sources
- Manual data gathering, mapping & manipulation
- Manual reconciliation
- Numerous Excel spreadsheets & adjustments
- Lack of visibility on the process
- Long close-to-report cycle (e.g. > 10 days)

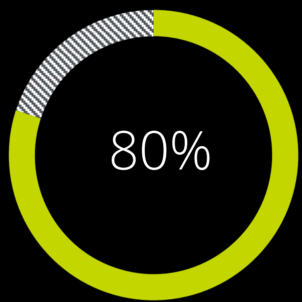
- Lots of hardcopy invoices & manual entry
- Manual 3-way matching & compliance check
- Paper-based workflow & approval
- Manual application with receipts / payments
- Sizeable team

- Complicated Excel-based model & workflows
- Manual data gathering & compilation
- Lots of scenario planning & manual calculation
- Numerous iterations of the budget

Key Success Factor 02: Be Pragmatic on Technology Choices

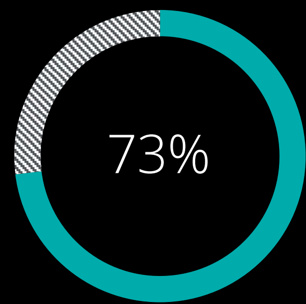
Instead of building a custom system, Finance should consider adopting purpose-built applications first to reduce development costs and speed up the implementation time.

Popular Technologies Chosen for Transformation



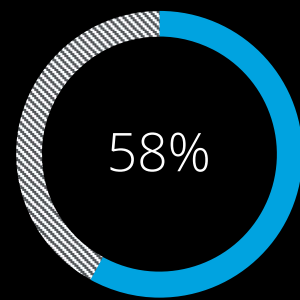
Cloud Computing (including SaaS)

Why?
- Quick deployment
- Access to latest technology
- Real-time collaboration from anywhere
- Scalable to your business needs
- Lesser cost in ownership/ maintenance



Automation (Robotics & Cognitive)

Why?
- Elimination of manual work
- Improve efficiency & user experience
- Non-stop working @ 24/7/365
- Error reduction
- Cost saving (via less man-hours)



Business Intelligence & Analytics

Why?
- Data processing capability
- Generation of insights
- Real-time drill-down and analysis
- Improvement of decision making

"Save-to-thrive: Enterprise transformation and performance improvement strategies during the COVID-19 pandemic" by Deloitte

Key Success Factor 03: Establish a Transformation Program

Digital finance transformation is more than a technology project. To get the most out of your technology investment, Finance should think holistically how the function should transform as a whole, from people, process to technology

Plan for the whole function

Finance should establish a roadmap to transform the whole function, not just a few tasks. This can reduce the risk of redundant effort and rework.

Engage staff throughout

Engaging staff from design, test to launch can ensure new processes & systems are fit-for-purpose while minimizing risk of re-work and future resistance.

Lead from the top

Active oversight from Finance executive is key to success, from defining future state vision, driving consensus to overcoming user resistance.

Rethink existing processes

Processes and the way how staff work together going forward need to be re-imagined in order to get the most out of the technology investment.

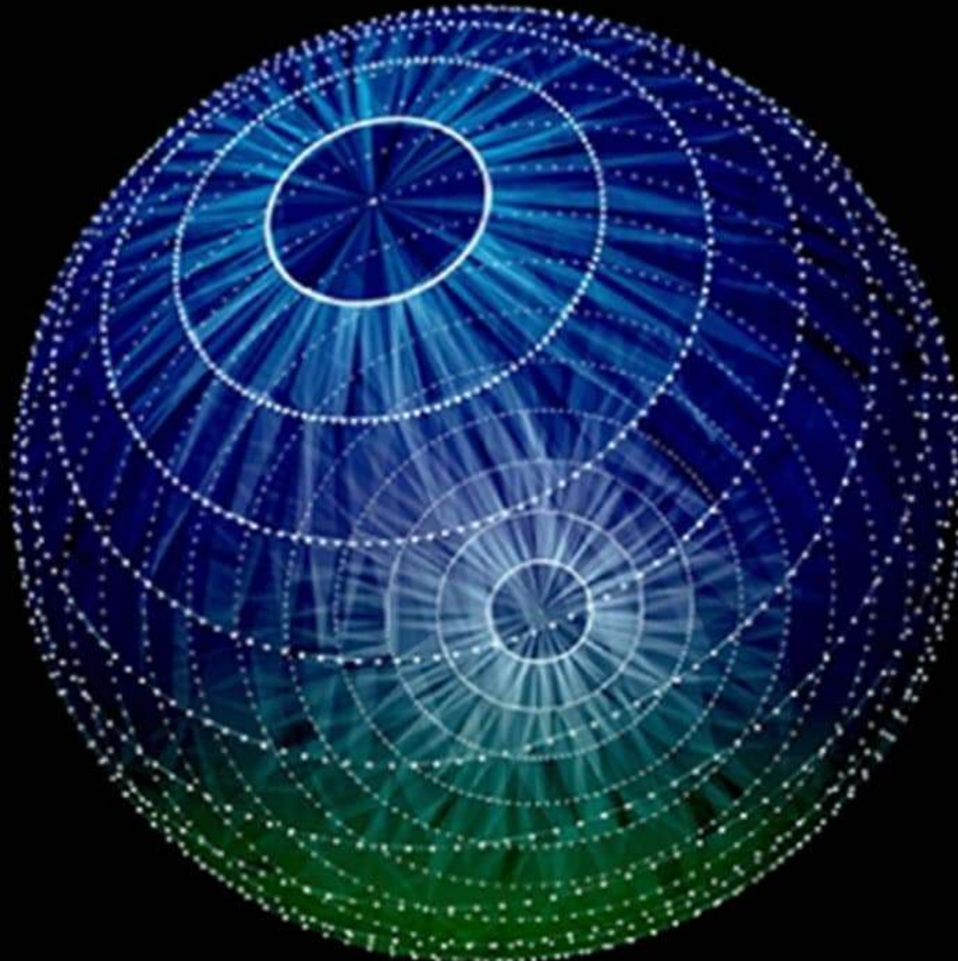
Enable ongoing governance

Finance should develop in-house capability to not only maintain the new processes on their own, but also identify new areas for digitalization continuously.

How to raise fund for expanding your business – M&A/ Global Offering

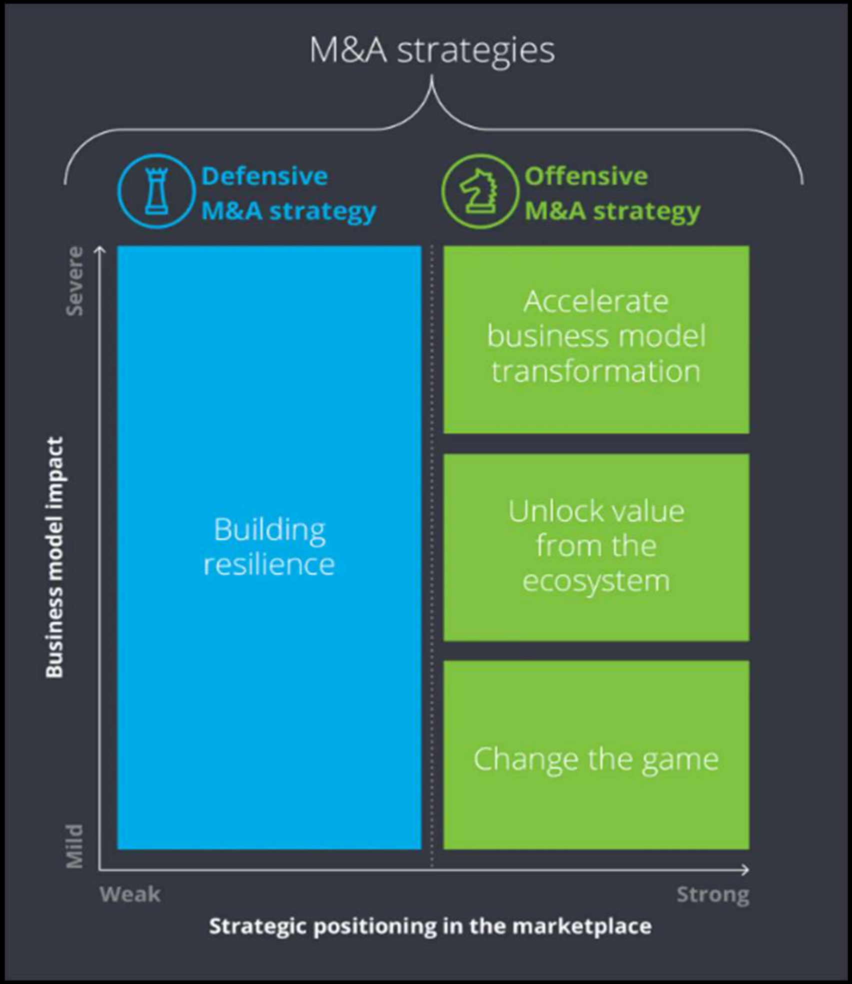
K. Wilasinee Krishnamra

Mergers and acquisitions, and opportunities



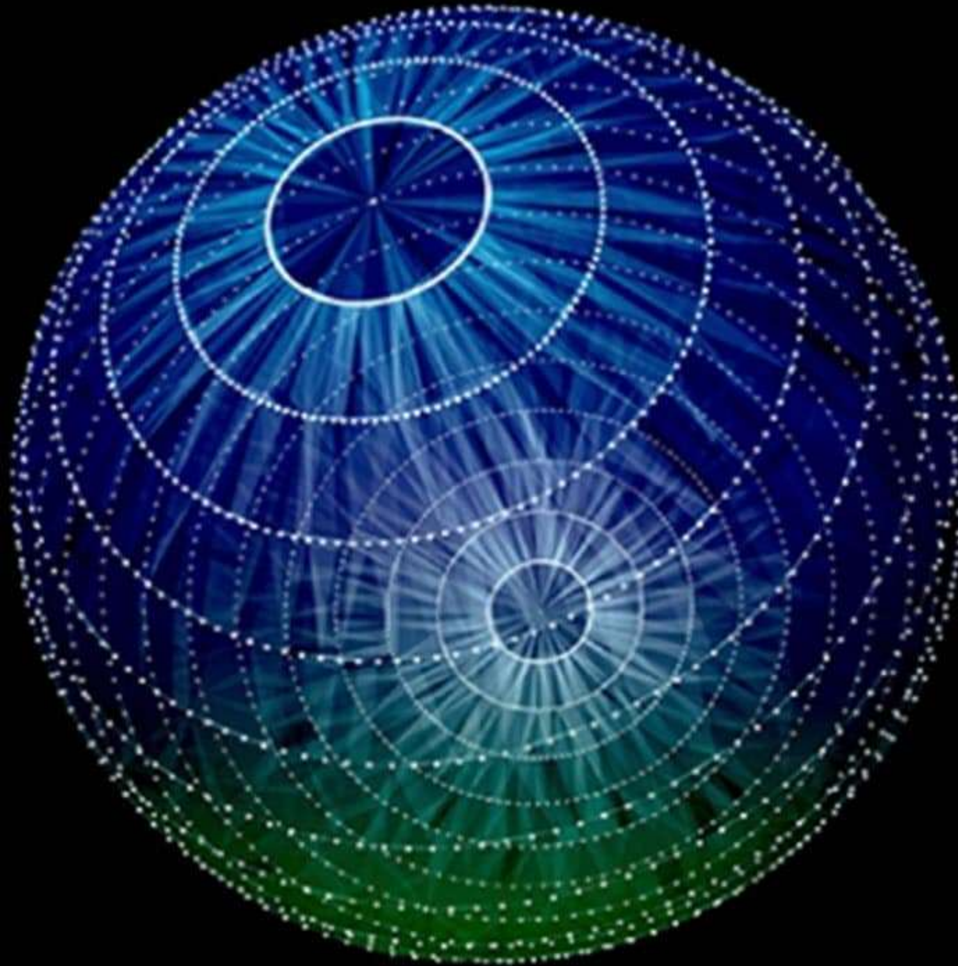
Mergers and acquisitions, and opportunities

Companies could also seize on opportunities through co-investment and partnerships, including with private equity firms. This kind of collaboration can facilitate transformation by **pooling resources and expertise, which in turn helps to build resilience.**



***Strategic positioning in the marketplace**: Consider your liquidity position, balance sheet strengths, ability to raise capital, competitive environment, threats of disruption, and drivers of competition in the marketplace.

International Offerings
Regulation S and 144A



International Offerings Under Regulation S and Rule 144A

Introduction

Offering Under Rule 144A: Rule 144A is often referred to as a 144A offering, which is an offering to U.S. based investors. A 144A is considered by many to be one of the more efficient and quickest ways to raise capital outside of the initial public offering space, which is able to raise hundreds of thousand dollars and even billions dollars in one offerings

Offering Under Regulation S: Regulation S is often referred to as a Reg S, which is an offering of securities outside the U.S., and additionally, the Reg S offering may not be on behalf or for the account of U.S. citizens, unless pursuant to an exemption form, or in transaction not subject to registration requirement of the Securities Act.

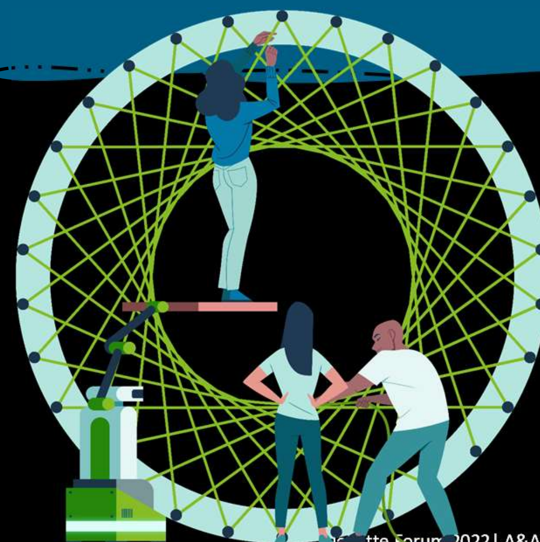
International Offering Readiness

U.S. Securities Law Liabilities

An issuer and the underwriters in a 144A/Reg S offering may be subject to securities law liabilities in the United States if the prospectus or other offering document contains any untrue statement of a material fact or fails to state a material fact necessary in order to make the statements made, under the circumstances which they were made, not misleading, the so called 10b-5 standard.

In order to mitigate the risk of material facts being misled or omitted, the essential workstreams are indicated in the next slide, which the underwriters to the offering generally conduct due diligence defense to this liability.

Rule 10b-5 is a regulation created under the Securities and Exchange Act of 1934 that targets securities fraud. This rule makes it illegal for anybody to directly or indirectly use any measure to defraud, make false statements, omit relevant information, or otherwise conduct business operations that would deceive another person in the process of conducting transactions involving stock and other securities



International Offering Readiness

Offering Memorandum, Due Diligence Defense and Comfort Package

Generally, the underwriters and issuer will involve legal counsels in the workstream as well

Preparation of Offering Document
The Offering Memorandum (or Offering Circular) should contain robust disclosure, substantially equivalent to what it is required in SEC registered offering. The disclosure should be in accordance with 10b-5 standard which no material is omitted from the disclosure. Consequently, the preparation of the offering memorandum for 144A and Reg S deal is more time-consuming than Reg S only deal.

Due Diligence Defense
The underwriters and outside counsels generally undertake US-style due diligence process because they have potential due diligence defense to U.S. securities liabilities. The due diligence is more in-depth for 144A and Reg S deal than Reg S only deal.

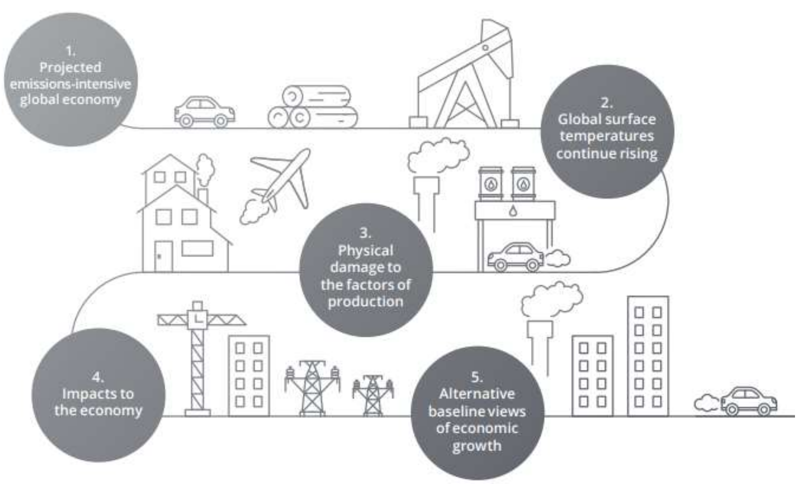
Comfort Package
The underwriters generally require the delivery of 10b-5 disclosure letters from outside U.S. counsels, and U.S. style SAS72 comfort letter from the issuer's auditors to support the underwriter's due diligence defense. These are intended to provide comfort to the underwriters as to the adequacy of the disclosure.

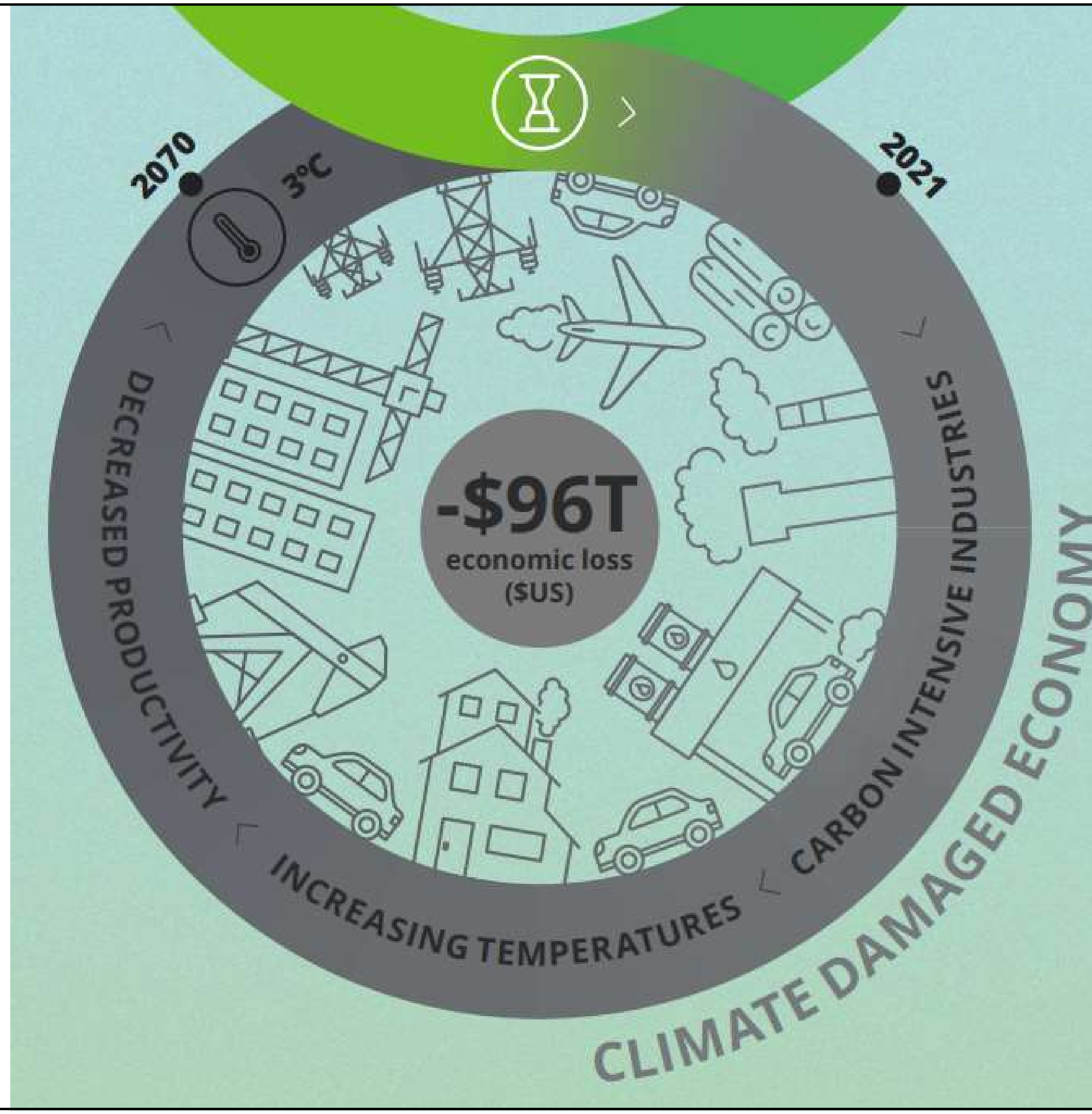
CFOs’ Roles in Corporate Sustainability

K. Kasiti Ketsuriyonk

Climate Damaged Economy: The Risks

The Economic Cost of Climate Inaction in AP

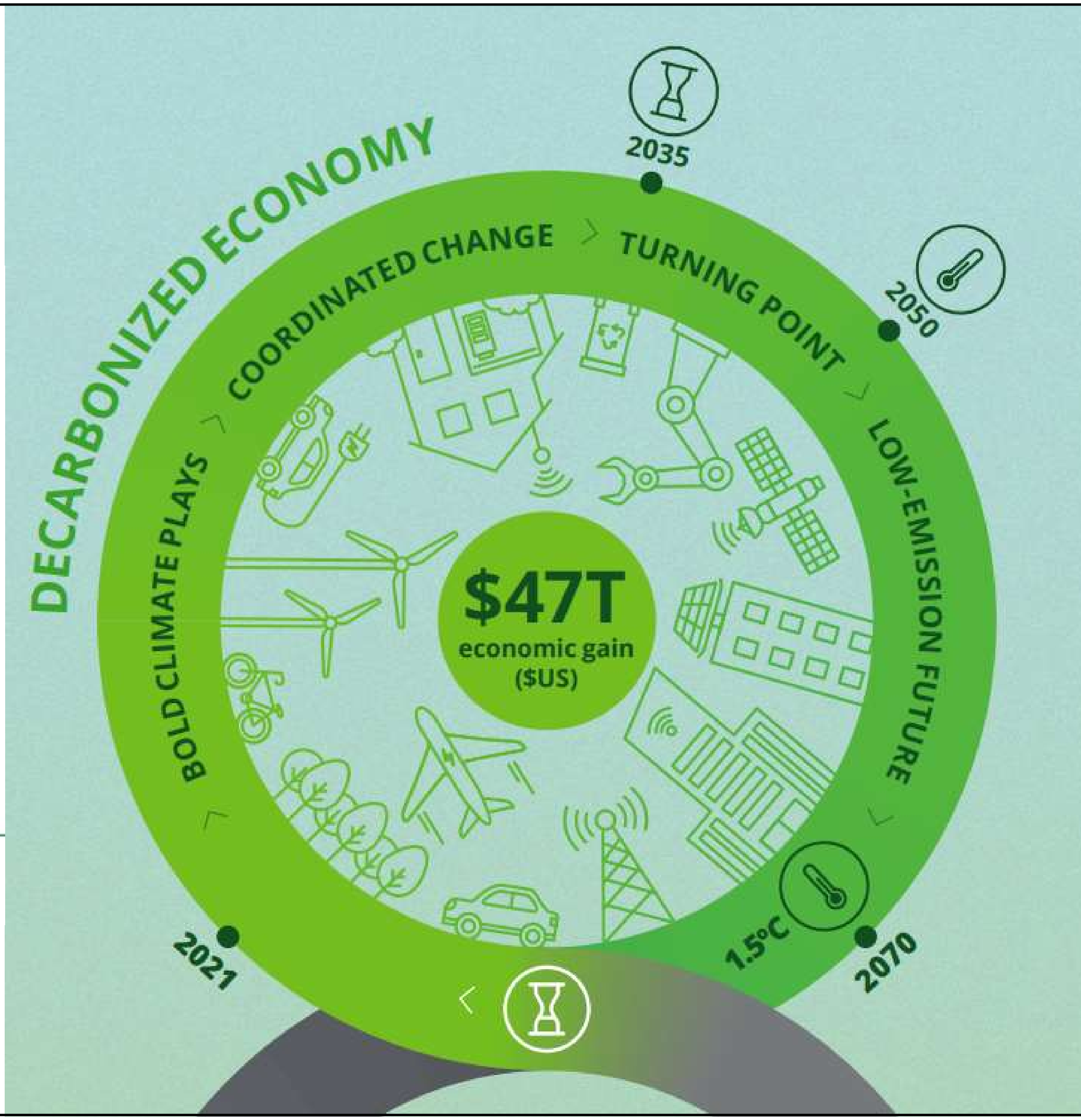




Source: Deloitte, Asia Pacific's turning point, 2021 (URL)

Decarbonized Economy: The Opportunities

The Economic Gains of Rapid Decarbonization in AP



Source: Deloitte, Asia Pacific's turning point, 2021 (URL)

ESG levers enabling Shared Value

ESGs are non-financial pillars used to evaluate a company’s sustainability and ethical impact

ESG Pillars and Components

Environmental Pillar				Social Pillar				Governance Pillar	
Climate Change	*Natural Capital*	*Pollution & Waste*	*Env. Opportunities*	*Human Capital*	*Product Liability*	*Stakeholder Opposition*	*Social Opportunities*	*Corporate Governance*	*Corporate Behaviour*
Carbon Emissions	*Water Stress*	*Packaging Material & Waste*	*Opportunities in Clean Tech*	*Labour Mgmt.*	*Product Safety & Quality*	*Controversial Sourcing*	*Access to Communication*	*Board*	*Business Ethics*
Energy Efficiency	*Biodiversity & Land Use*	*Electronic Waste*	*Opportunities in Green Building*	*Health & Safety*	*Privacy & Data Security*		*Access to Finance*	*Pay*	*Anti – Competitive Practices*
Renewable Energy	*Raw Material Sourcing*	*Circular Economy*	*Opportunities in Renewable Energy*	*Human Capital Dev.*	*Chemical Safety*		*Access to Health Care*	*Ownership*	*Corruption & Instability*
Product Carbon Footprint			*Smart city solutions*	*Supply Chain Labour Standards*	*Financial Product Safety*		*Access to Education*	*Accounting*	*Financial System Instability*
Financing Env Impact					*Responsible Investment*		*Youth empowerment*		
Climate Change Vulnerability					*Insuring Health & Demographic Risk*		*Human Rights Advocacy*		
							SMME Development		

Source: MSCI ESG Research.

Impact of ESG aspects on firms

The multi-faceted impacts of sustainability on corporates and their stakeholders

Political

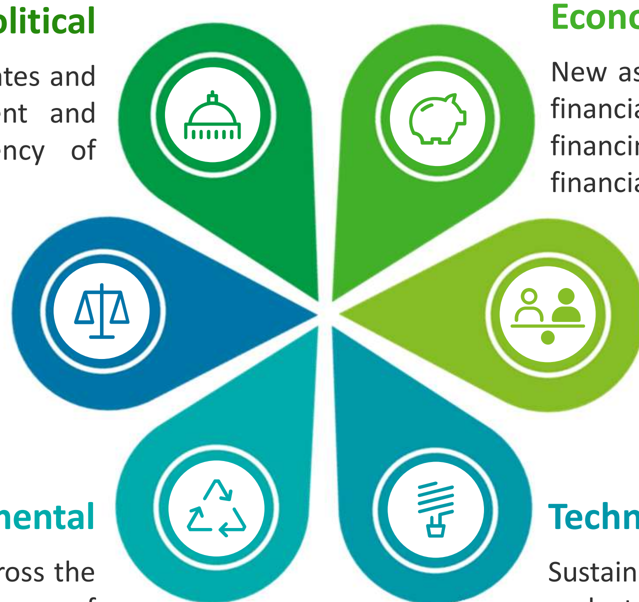
ESG issues are a big factor in political debates and policy-making which will reshape current and future taxation policies and transparency of business operations

Legal

Extensive ESG requirements are reshaping legislation regulating process for sustainability-related financial controls and reporting

Environmental

Environmental aspects impact operations across the entire supply chain. The interconnectedness of supply chain can put companies at risks of falling behind in enhancing cost-saving, efficiency, compliance, and climate expectations



Economic

New aspects of sustainable Finance are disrupting the financial markets and impact on how companies obtain financing, adapting business models, improve their financial terms and strengthen financial performances

Social

Society already expects companies to be sensitive to climate issues, particularly companies' stakeholders

Technological

Sustainability is a major driver in scientific research and technological innovation, to create new markets, new business model and new value networks

Roles of CFO in Driving Corporate Sustainability

Why sustainability is increasingly relevant to the finance function

- Investors and lenders now expect companies not only to deliver strong financial performance but have positive social and environmental impact.
- CFOs can promote the social and ecological transition of their companies by using new financing tools and by supporting sustainability impact projects.
- Finance executives can help rethink the performance model of their company, using new accounting frameworks (such as the Triple Depreciation Line framework) and new measures for triple performance (i.e., economic, social and environmental).
- Finance functions have a key role to play in ensuring the relevance, compliance and accuracy of sustainability information provided to external stakeholders – from risk analysis to governance, internal control, prevention and mitigation measures, and third-party assurance
- CFOs need to steer financial and non-financial performance using new tools and solutions, internal dashboards, individual and collective performance criteria, and group and entities roadmaps

CFOs in Europe open up on sustainable finance

Dr. Michela Coppola and Joep Rinkel

Deloitte. Insights

Source: Deloitte, Financing a Sustainable transition, 2020

CFO as the driver of sustainability

Characterization of the expanding role of the CFO based on the model "Four Faces of the CFO"

Catalyst – Execution role

- Implementing strategy & steering operations

Strategist – Maximizing the performance

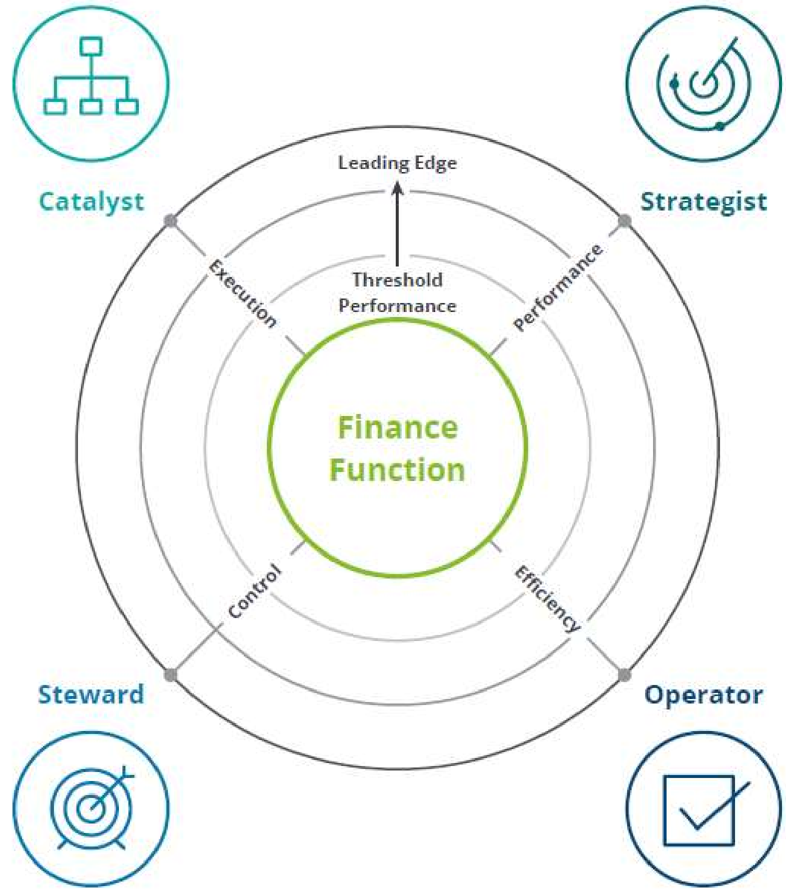
- Setting strategic goals, making decisions & deriving Finance strategy

Steward – Effective controls

- Managing compliance & control systems

Operator – Ensure efficiency

- Ensuring the skills, quality & efficiency of the Finance function



Source: Deloitte (2021). The CFO as the Driver of Sustainability

CFO as the driver of sustainability

The key action for the 4 roles of CFOs in driving corporate sustainability

Catalyst – Execution role

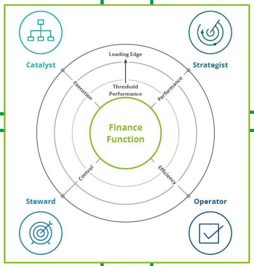
Implementing strategy & steering operations

- Stimulate and drive a timely transition to sustainable enterprise across the entire enterprise
- Prioritize initiatives that add value to the company and fulfill ESG commitments
- Promote transition by rethinking underlying performance model through new accounting frameworks
- Create more incentives to drive actions towards sustainability within the organization

Strategist – Maximizing the performance

Setting strategic goal, making decisions and deriving Finance strategy

- Use core financial skills from financial analysis and resource allocation to reporting systems to drive transition
- Quantify financial value that is created with investments in sustainability and resolve potential conflicts from embedding sustainability into corporate strategy
- Internal alignment with Chief Sustainability Officer (CSO) to set consistent strategy



Steward – Effective controls

Managing compliance & control system

- Ensure that the company has understood and complied with the increasingly complex sustainability legislation
- Ensure that sustainability information provided to external stakeholder is relevant, compliant and accurate
- Develop understanding of the most pressing ESG issues and quantify their impacts on long-term performance
- Expand process of risk identification to address and measure sustainability-related risks, involving entire C-suite
- Separate material from immaterial sustainability issues to manage sustainability in most effective way

Operator – Ensure efficiency

Ensuring the skills, quality & efficiency of the Finance function

- Ensure capability to report non-financial information, with the overview of both financial and non-financial performance
- Integrate new data sources, new flows of data and system
- Equipped with sufficient knowledge of ESG issues and related legislation and data modelling capability
- Access and interpret cost and impact of environmental issues and feed into C-suite decision, in a financial term

CFOs find benefits from ESG investing

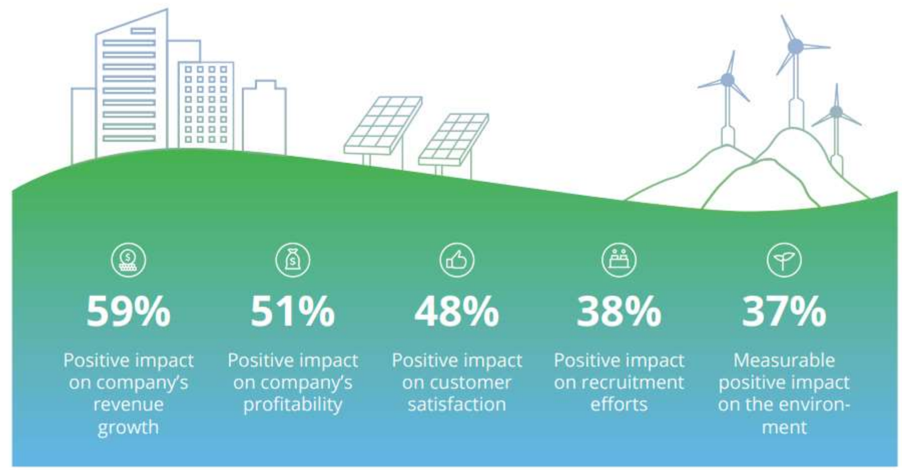
Why CFOs Should consider focusing on ESG for competitive advantage

At the intersection of sustainability and financial performance, CFOs are in the best position to lay the foundation for lasting value creation through ESG. They can start by focusing on three key steps:

- **Make ESG a strategic priority** – Develop a clear vision for what ESG means for your company and define how the Finance organization will drive ESG strategy.
- **Connect performance metrics to ESG goals** – Create accountability by linking performance metrics to ESG impact, where Finance can help assess ESG initiatives that yield the most value for stakeholders.
- **Measure and share impact** – Develop a framework to measure the cumulative effect of ESG initiatives, assess their impact regularly, and commit to transparency in reporting results.

The move towards ESG integration is no longer a question of 'when' but 'how.' Your organization may not have a tangible strategy today, but this can be a great opportunity for Finance to start shaping it.

Businesses are starting to see some results from environment, social, and governance investments



Source: Deloitte Global, *Climate check: Business' views on environmental sustainability*, April 2020.

End-to-end corporate sustainability development approach

Corporate process across sustainability strategy, implementation, and disclosure provides a cohesive view of the sustainable transformation journey.

Strategy: Align Profit to Purpose | **Operations & Finance: Transform Operations** | **Reporting: Disclose Progress and Improve**

1. **Understand needs and risks**
2. **Establish an ESG / climate risk strategy as a part of the corporate strategy**
3. **Establish ESG / climate risk corporate governance**
4. **Develop roadmap and clear ownership**
5. **Refine operations and processes**
6. **Measure and improve**
7. **Conduct internal audit and external assurance**
8. **Tell your story (Reporting, disclosures and communication)**

Roles and focus of CFOs:

Make ESG a strategic priority | **Connect performance metrics to ESG goals** | **Measure and share impact**

Sustainability Reporting

Key reporting standards and possible impacts on financial reporting

What is a sustainability report?

What is it?

Report published by a company or organisation **disclosing its environmental, social, and governance impacts and related matters**

Enables companies to be **transparent about material ESG risks and opportunities**

Companies **disclose targets, progress, and improvements** to be made in managing ESG opportunities and risks

Report is **produced annually using the international standards** (e.g., GRI)

Sustainability reporting – who are the stakeholders

Stakeholders are the entities or individuals that can reasonably be expected to be significantly affected by the reporting organization's activities, products, and services, or whose actions can reasonably be expected to affect the ability of the organisation to implement its strategies and achieve its objectives.

Sustainability reporting provides stakeholders such as investors, customers and employees an insight into the activities of a business to demonstrate how it is managing environmental and social responsibilities. Essentially, sustainability reports can be viewed as part of a company's risk management strategy.

Leadership:
C-Suite
Board
Industries/brands

- **Employees**
- **Customers**
- **Suppliers**
- **Investors/owners**
- **Non-governmental organizations (NGOs)**
- **Industry associations**
- **Governments and regulators**
- **Local communities**

Mandatory Reporting: Key Driver of ESG in Thailand

Purposes and overview of "56-1 One Report" Structure

56-1 One report is the first ESG mandatory reporting for listed companies in Thailand issued by regulator.

The main purposes of the reporting requirement revision are as follow:

- ✓ To lessen burden of report preparer: The previous requirements in line with template of 56-1 Report & 56-2 Report (Annual Report) consist of duplicative sections. The new report template will require listed companies to submit only one report.
- ✓ To strengthen ESG disclosures, as follows:
  - ▸ Review requirements on disclosures of ESG policy, objectives, and targets set by businesses to reflect their commitments in driving corporate sustainability.
  - ▸ Require listed companies to disclose policy implementation results and review requirements on corporate governance policies and disclosures
  - ▸ Review analysis of implementation outcomes, with new requirement for listed companies to explain potential impacts of ESG implementations on business operations.

The changes of structure from (the old) 56-1 form to (the new) 56-1 One Report[26]

Old 56-1 Reporting Structure	
Part 1: Business Operation	
1	Policy and business overview
2	Nature of business
3	Risk factors
4	Assets
5	Legal disputes
6	General information and other material facts
Part 2: Management and Corporate Governance	
7	Securities and shareholders
8	Organizational structure
9	Corporate governance
10	Corporate social responsibility
11	Internal control and risk management
12	Related transactions
Part 3: Financial Position and Operating Results	
13	Significant financial information
14	Management discussion and analysis

56-1 One Report Structure	
Part 1: Business Operation and Operating Results	
1	Organizational structure and operation of the group of companies
2	Risk management
3	Business sustainability development
4	Management discussion and analysis (MD&A)
5	General information and other material facts
Part 2: Corporate Governance	
6	Corporate governance policy
7	Corporate governance structure and material facts related to the board, subcommittees, executives, employees and others
8	Report on key operating results related to corporate governance
9	Internalcontrol and related party transactions
Part 3: Financial Statements	
Part 4: Certification of Information	

Source: กลต. และตลาดหลักทรัพย์แห่งประเทศไทย, 2020 (URL)

Main Reporting Standards

- Global Reporting Initiative (GRI) Standards
- Taskforce on Climate-Related Disclosure (TCFD)
- IFRS Sustainability Disclosure

Overview of Sustainability Reporting

Global Reporting Initiative – the internationally recognised ESG reporting standard

The GRI Standards is currently the most commonly used Reporting Standard due to its range of topics and sectors covered

It comprises of three sections:

Universal Standards: The GRI Universal Standards **apply to all organizations**, and consist of the following:

- GRI 1: Foundation 2021 (GRI 1) outlines the purpose of the GRI Standards, clarifies critical concepts, and explains how to use the Standards.
- GRI 2: General Disclosures 2021 (GRI 2) contains disclosures relating to details about an organization's structure and reporting practices.
- GRI 3: Material Topics 2021 (GRI 3) explains the steps by which an organization can determine the topics most relevant to its impacts, its material topics, and describes how the Sector Standards are used in this process.

Sector Standards: Each Sector Standard consists of the likely material topics for the sector, as well as the impacts and description points of disclosure. If an applicable Sector Standard is available, an organization is obliged ('required') to use it.

Topic Standards: This contains disclosures for providing information on topics such as waste, occupational health and safety, and tax. An organization selects those Topic Standards that correspond to the material topics it has determined and uses them for reporting.

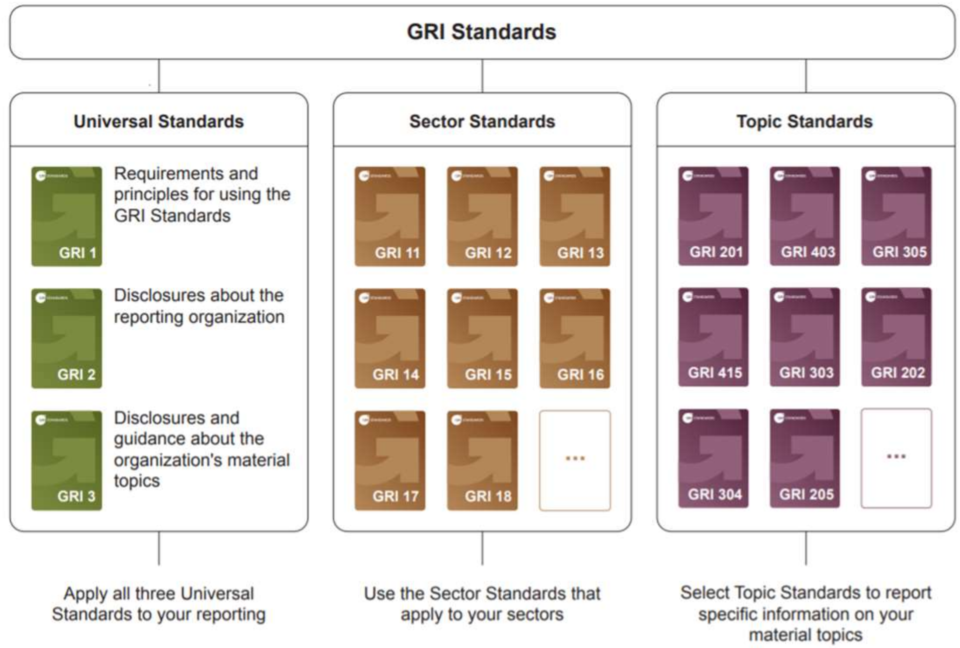


Figure 1. GRI Standards: Universal, Sector and Topic Standards

What is the TCFD?

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

- The Task force on Climate-related Financial Disclosures (TCFD)
- Established in 2017 by the G20 Finance Ministers and the Financial Stability Board (FSB)
- Lack of consistent information hinders investors and others from considering climate-related issues in their asset valuation and allocation processes
- Creditors and investors are increasingly demanding access to risk information that is consistent, comparable, reliable, and clear

TCFD Supporters as of January 2022:

92 countries

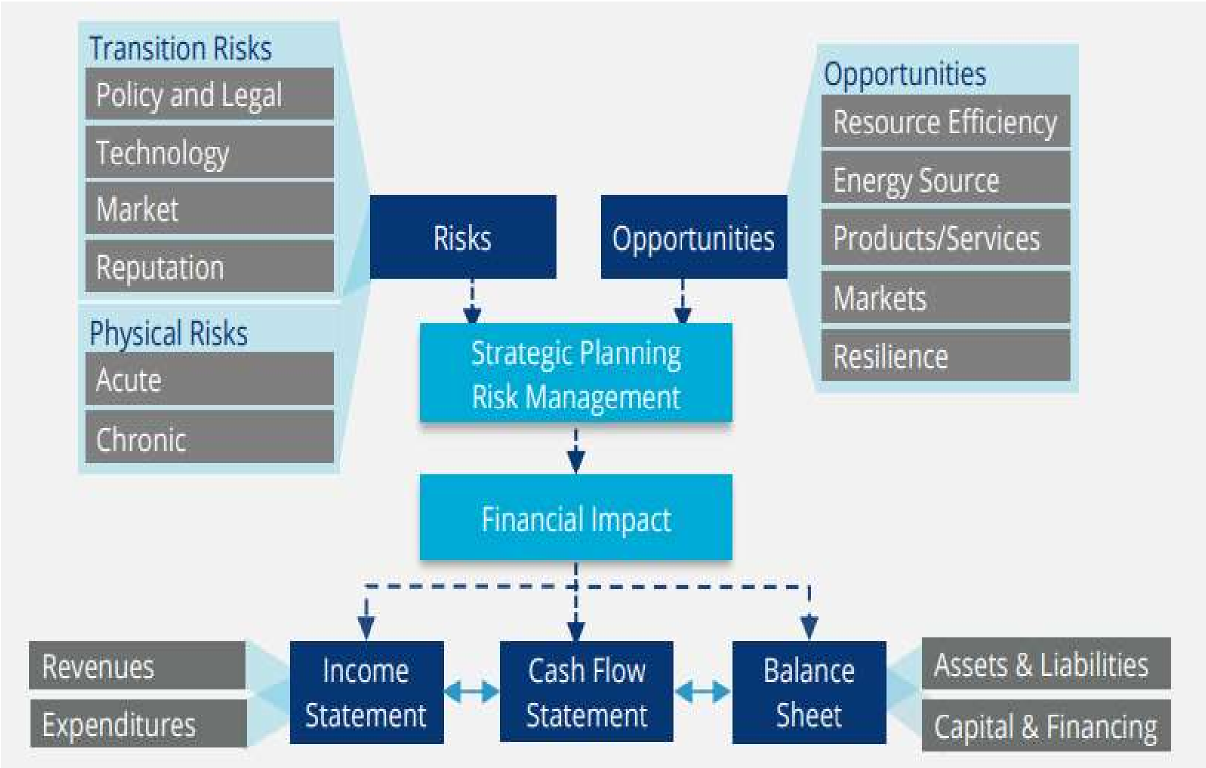
$27 trillion combined market capitalization

Over 3,000 supporting companies

Source: https://www.fsb-tcfd.org/

How climate risks and opportunities impact the business model

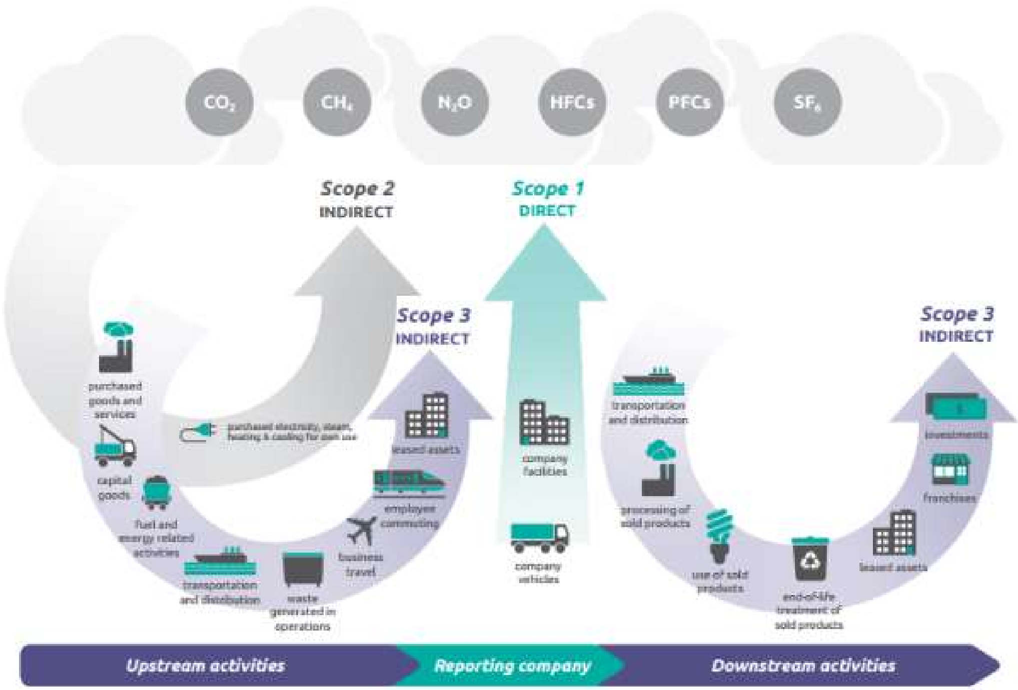
Investors, lenders, and insurance underwriters need to understand how climate-related risks and opportunities are likely to impact an organization's future financial position as reflected in its income statement, cash flow statement, and balance sheet



Source: TCFD

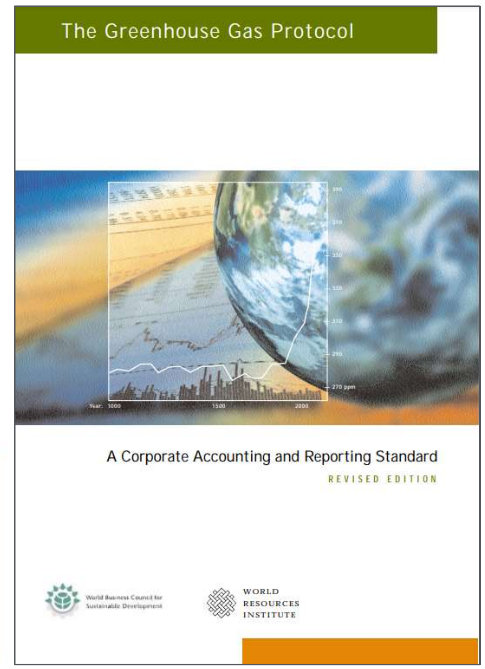
Source: https://www.fsb-tcfd.org/

Greenhouse Gas Emissions



What is greenhouse gas (GHG)?
Gases that trap heat in the atmosphere are called greenhouse gases, e.g., carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), etc…

Why measure GHG emissions?
To understand the carbon footprint and impact to allow the company to identify and focus their efforts to reducing emissions



Scope 2
Indirect emissions from the generation of purchased energy.

Scope 1
Direct emissions from owned or controlled sources.

Scope 3
All indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Source: The Greenhouse Gas Protocol - A Corporate Accounting and Reporting Standard

Overview of Sustainability Reporting

ISSB as the global standard-setter to develop a comprehensive global baseline for sustainability disclosure standards

On 3 November 2021 at the UN global summit COP26, the IFRS Foundation Trustees formally announced three significant developments:

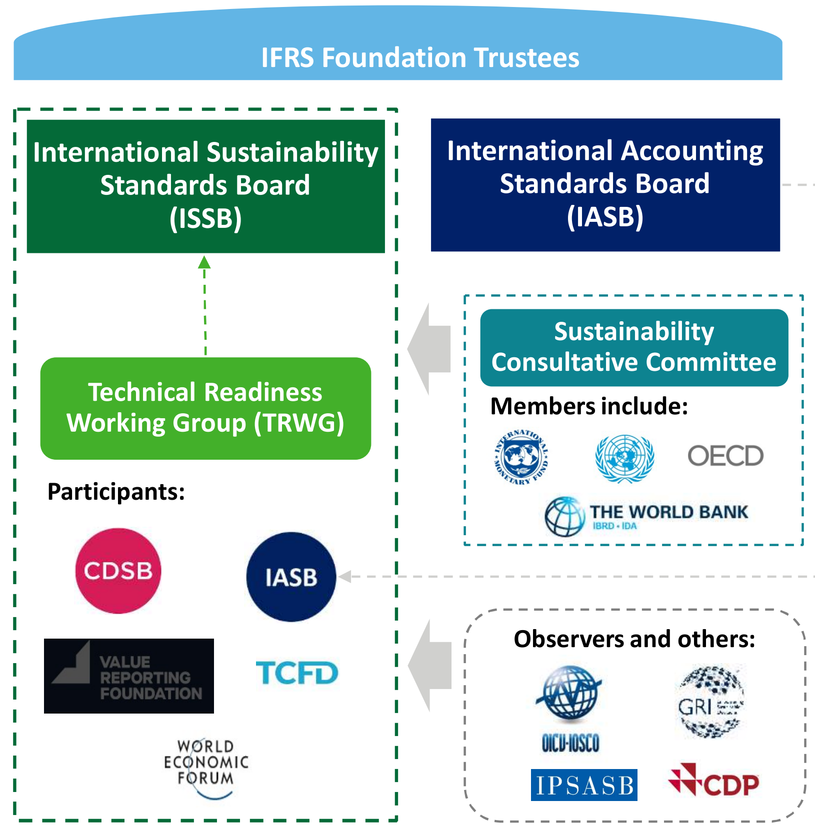
01 Formation of a new **International Sustainability Standards Board (ISSB)**

02 Commitment to consolidate the **Climate Disclosure Standards Board (CDSB)** and the **Value Reporting Function (VRF)** into the new ISSB board by June 2022

03 Climate Prototype and General Requirements Prototype recommendations published by the Technical Readiness Working Group (TRWG) for the consideration of the ISSB

- To develop **"IFRS Sustainability Disclosure Standards"**
- Any proposed standards will be subject to the **ISSB's independent due process** (follows the IFRS Foundation's established due process, same as for the IASB)
- Intention to use and build on existing **technical standards and frameworks** of the CDSB and the VRF (which houses the Integrated Reporting Framework and the SASB Standards), along with TCFD recommendations and the WEF IBC's Stakeholder Capitalism Metrics

Revised IFRS Constitution – The ISSB to sit alongside the IASB



IFRS Foundation and the new International Sustainability Standards Board (ISSB)

A ‘climate-first’ approach

What may new sustainability disclosure standards look like?

As part of preparatory work undertaken by the TRWG, the ‘**Architecture of standards**’ deliverable describes what a full set of standards would look like.

- **Presentation** – General requirements for reporting on all material information about significant sustainability risks and opportunities.
- **Thematic** disclosure requirements for matters that have a pervasive relevance for enterprise value across entities, regardless of their industry.
- **Industry** disclosure requirements that identify disclosure topics that are relevant to enterprise value in a given industry.

The disclosure requirements for each sustainability matter focus on matters critical to the way an entity operates: **Governance**, **Strategy**, **Risk Management**, and **Metrics and Targets**. (embracing the four pillars of the TCFD framework)

Providing information on all four aspects should enhance consistency and comparability across entities.

Prototypes for IFRS Sustainability Disclosure Standards

General Requirements for Disclosure of Sustainability-related Financial Information (S1) Prototype

The **General Requirements Prototype (S1)** will require companies to report across all material sustainability issues from day one, using a high-level framework.

- Inspired by IAS 1 *Presentation of Financial Statements.*
- Sets out the overall requirements for sustainability-related disclosures to investors.
- Appendices define terms, include useful guidance on materiality and describe qualitative characteristics of useful sustainability-related financial information.
- Over time, further thematic and industry specific standards will provide more specific requirements.

Main recommendations in the Prototype

Objectives	Provide information about the significant sustainability-related risks and opportunities to which the reporting entity is exposed that is useful to primary users of general purpose financial reporting in deciding whether to provide resources to the entity.
Scope	• Permitted to apply IFRS Sustainability Disclosure Standards whether the entity's related financial statements are prepared in IFRS or other GAAP • Sustainability matters that do not affect the enterprise value are outside the scope

Prototypes for IFRS Sustainability Disclosure Standards

Climate-related Disclosures (S2) Prototype

The **Climate-related Disclosures Prototype** is the TRWG's prototype for the first thematic Standard of the ISSB.

It specifies **both cross-industry and industry-based metrics** to be disclosed – with industry-based metrics set out for various sectors and with further detail in an appendix, the Supplement: Technical Protocols for Disclosure Requirements.

Main recommendations in the Prototype

Objectives	Disclose information about the **entity's exposure** to climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting: (a) to determine the effects on the entity's financials and to assist users in their assessment of the entity's future cash flows and, therefore, assist users in their assessment of the entity's enterprise value; (b) to understand how management's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its climate-related risks and opportunities; and (c) to evaluate the ability of the entity to adapt its planning, business model and operations in response to climate-related risks and opportunities.
Scope	Applies to **climate-related**: • **risks** that the entity is exposed to; and • **opportunities** available to and considered by the entity.

Prototypes for IFRS Sustainability Disclosure Standards

Climate-related Disclosures (S2) Prototype

Disclosure requirements structured around the four TCFD pillars of:

Governance	Strategy	Risk management	Metrics and targets

Specifies that an entity also discloses:

- **targets** set by management to mitigate or adapt to climate-related risks or maximise climate-related opportunities; and
- **other key performance indicators** used by the board or management to measure progress towards the targets.

Specified cross-industry metrics:

- Greenhouse gas emissions
- Transition risks
- Physical risks
- Climate-related opportunities
- Capital deployment
- Internal carbon prices
- Remuneration

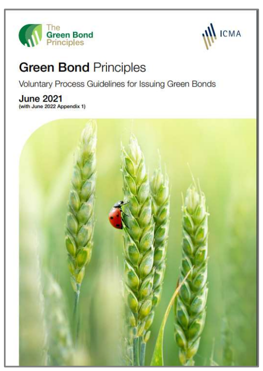
Financial and investment Decisions in ESG

Key financial instruments & implications on accounting

Type of sustainability debt instruments

01 Green bonds

Proceeds raised are used to finance specific new or existing green projects promoting a broad range of environmental objectives

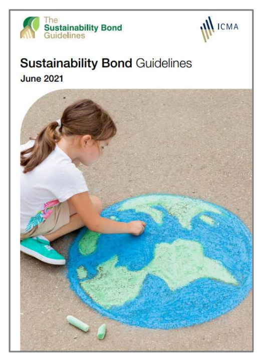


02 Social bonds

Proceeds are used to fund new or existing projects addressing or mitigating a specific social issue, with a goal of achieving positive social impact

03 Sustainability bonds

Green and social objectives are typically combined in sustainability bonds, with the proceeds going to projects or activities with either positive environmental or social impact, or both

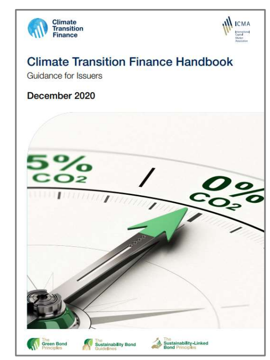


04 Sustainability-linked bonds

Proceeds raised from sustainability-linked bonds are used for general purposes. The coupon of sustainability-linked bonds is tied to the achievement of sustainability targets

05 Transition bonds

Proceeds raised from transition bonds are used to fund projects with objectives to reduce environmental impacts or reduce carbon emissions



Sustainability debt market in Thailand

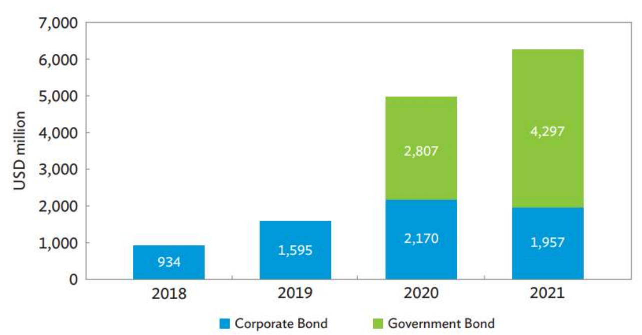
- Development of regulations: green bond (2018); social and sustainability bonds (2019); sustainability linked bonds (2021)
- Total outstanding amount of green, social, and sustainability bonds: USD 5.7 billion (December 2021)

Table: Thai Green Bond Market Investor and Underwriter Portfolios by Sector (%)

Investors			Underwriters		
Renewable Energy	Clean Transportation	Energy Efficiency	Renewable Energy	Clean Transportation	Energy Efficiency
25	23	16	32	27	24

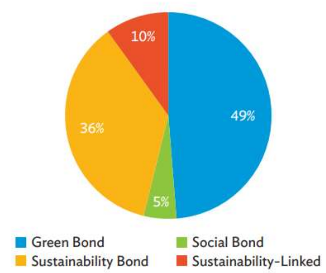
Source: Survey results.

Figure 1: Sustainable Bonds Outstanding in the Thai Market by Issuer Type



USD = United States dollar.
Note: All data as of 15 March 2022. Data were obtained using Bloomberg LP's SRCH function. The SRCH criteria included green bonds, social bonds, sustainability bonds, sustainability-linked bonds, and transition bonds.
Sources: *AsianBondsOnline* and Bloomberg LP.

Figure 2: Sustainable Bonds Outstanding as Shares of Sustainable Finance Market



Note: All data as of 15 March 2022. Data were obtained using Bloomberg LP's SRCH function. The SRCH criteria included green bonds, social bonds, sustainability bonds, sustainability-linked bonds, and transition bonds.
Sources: *AsianBondsOnline* and Bloomberg LP.

Thailand - Top issuers

Issuer	Amount issued (local)	Amount issued (USD)	Format	Number of deals	UoP
Green					
BCPG PCL	THB12000m	USD365m	Bond		Energy
Bangkok Mass Transit System PCL (BTS Group Holdings PCL)	THB10200m	USD309m	Bond		Transport
B.Grimm Power Public Company Limited	THB3000m	USD93m	Bond		Energy
SPCG PCL	THB1500m	USD44m	Bond		Energy
Energy Absolute PCL	THB1500m	USD50m	Loan		Energy
Social, Sustainability, Sustainability-linked					
Indorama Ventures PCL	THB10000m	USD302.2m	Sustainability-linked bond	3	
Thai Union Group PCL	THB6950m	USD210.3m	Sustainability-linked bond	3	
Bangkok Expressway and Metro Public Company Limited	THB6000m	USD191.2m	Sustainability bond	4	
KasikornBank	EUR155m	USD182m	Sustainability bond	1	
National Housing Authority	THB3000m	USD97.3m	Social bond	1	

Source: ADB (2022). Green bond market survey for Thailand; Climate Bonds Initiative (2021). ASEAN Sustainable Finance: State of the Market 2021

ESG - Possible Accounting Considerations on Financial Instruments Accounting

Overview of financial instruments accounting and possible ESG-related accounting implications

In November 2020, IASB issued an educational material which contains a non-exhaustive list of examples regarding how climate risk might affect the measurement and disclosure requirements of various standards and paragraphs of those standards that might be referenced in determining how to incorporate such risks.

IAS 32 *Financial Instruments: Presentation*

IFRS 9 *Financial Instruments*

IFRS 7 *Financial Instruments: Disclosures*

IFRS 13 *Fair Value Measurements*

Accounting considerations on initial recognition

Classification

Subsequent accounting considerations

Subsequent measurement

Lender / Holder accounting

- Contractual cash flow characteristics test (“SPPI“)
- Business model test
- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL)
- Expected Credit Losses (ECL)
- Application of Effective Interest Rate (EIR)
- Fair value measurement (IFRS 13)

Borrower / Issuer accounting

- Equity vs Liability (IAS 32)
  - Compound
  - Debt
  - Embedded Derivatives
  - Equity
- Amortised cost
- Fair value through profit or loss (FVTPL)
- Application of EIR
- Fair value measurement (IFRS 13)

Potential areas with ESG-related accounting implications

Deloitte.