

Executive summary

1. Creating sustained value in a changing world

Integrating nonfinancial risks and opportunities into value creation and reporting

69%

More than two-thirds of finance leaders surveyed say investors ask more questions about nonfinancial drivers of value now than two years ago.

Engaging with investors and shaping their expectations

59% vs. 44%

More than half of investors are completely satisfied that they clearly articulate to companies the strategic issues they think are critical to long-term value, but only 44% feel they provide completely clear guidance on how they assess companies against those value-driver priorities.

Driving sustained value creation

47%

Fewer than half of finance leaders think it's "very likely" that their organization will deliver against their major sustainability priorities and meet stated targets, such as achieving net zero on time.

2. Cutting the reporting confidence deficit

Building confidence in nonfinancial reporting

55%

More than half of finance leaders feel sustainability reporting in their industry risks being perceived as including elements of greenwashing.

Navigating nonfinancial reporting regulations

78%

More than three-quarters of investors feel that new reporting regulations and standards will have a positive impact on the accuracy and comparability of companies' sustainability disclosures.

Strengthening trust in nonfinancial data

96%

Nearly all finance leaders report some problems with the nonfinancial data they receive for reporting, from varying data formats (39%) to data inconsistencies (35%).

3. Transforming finance analytics in the AI era

Anticipating AI's impact on transparency

Building robust technology foundations

Taking a human-centered approach to finance transformation

57%

More than half of investors said an AI tool that could assess the credibility and accuracy of a company's data disclosures would be "very useful."

32%

Fewer than one-third of finance leaders say they have a high-grade technology suite for managing and analyzing data.

26%

Just over one-quarter of finance leaders said that they routinely seek input from younger members of the team when driving transformation.

CFOs should set out how the company will drive sustained performance over the long term while managing near-term volatility.

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Creating sustained value
in a changing world

While finance leaders have built a hard-earned reputation for protecting and optimizing value, they should also set out a plan to drive value and growth over the long term. In short, they share a strategic responsibility for the future of the company.

This evolution is reflected in the *2024 EY Global DNA of the Financial Controller* report, which shows finance leaders focused on driving long-term value. The research found that 86% of financial controllers expect their roles to change by 2030, with 40% anticipating a heightened focus on value creation.¹ Similarly, the *2023 EY Global DNA of the CFO Report* found that over three-quarters (78%) of respondents said that “effectively balancing trade-offs between short-term and long-term priorities is an important challenge for finance leaders.”²

“We’re in an age where CFOs are expected to balance multiple priorities in parallel,” says Myles Corson, EY Global and Americas Strategy and Markets Leader, Financial Accounting Advisory Services. “Their responsibilities today extend far beyond the traditional focus of the role. They are expected to accelerate the transformation of finance by unleashing the potential of talent and new technologies. At the same time, they are focused on driving enterprise-wide performance; in particular, balancing short-term performance with long-term value-creation.”

As part of that broad responsibility, finance leaders are recognizing the need to embrace nonfinancial data as a long-term driver of high performance. This addition to the CFO’s scope is reflected in the questions investors ask. More than two-thirds of finance leaders surveyed (69%) say investors ask more questions about nonfinancial drivers of value now than two years ago.

Sustainability is the most prominent area of focus, and CFOs can play a central role in integrating sustainability risks and opportunities into decision-making, and the allocation of resources and capital against key priorities.

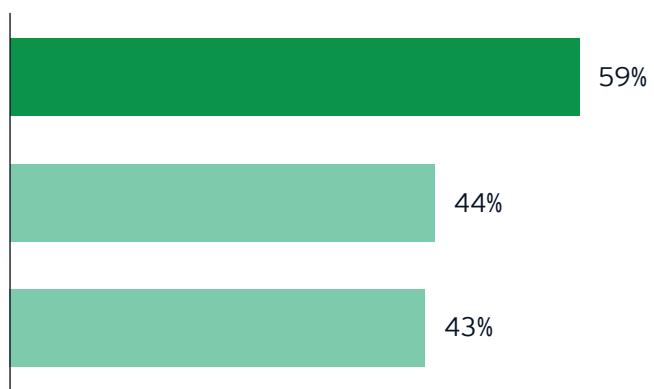
However, investor interest in sustainability cannot be gauged purely by the number of directly related questions they ask. Some might assume that, given its high-profile nature, companies are managing sustainability risks and opportunities intensively as a matter of course. Moreover, investors may frame more nuanced questions that probe a company’s culture and mindset around sustainability, rather than the practical measures it has taken.

CFOs should use their experience and expertise to detect and interpret investor interest in sustainability. Stakeholder engagement could be critical, not least because, as investors admit, they are not always clear on how they assess companies against material priorities and on the information they want for their investment decision-making.

Figure 1. Investor satisfaction with guidance provided to management teams

Question: To what extent do you feel satisfied that you provide the management teams of investee companies with clear guidance on the following areas?

Percentage of investors who replied “Completely satisfied that our engagement mechanisms and communications provide full and clear guidance”



¹ EY “How can the financial controller transform to shape the future with confidence?,” EY, 25 September 2024.

² “The CFO Imperative: How can bold CFOs reframe their role to optimize performance?,” EY, 28 June 2023.

P. B. Balaji, Group CFO, Tata Motors

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For us, sustainability is not just about getting to net zero — it's about how we can also leverage that to compete effectively in an industry that is transitioning.

P. B. Balaji, Group CFO, Tata Motors

Build a value-creation narrative that excites investors about the disruptive opportunity in sustainability

“Investors want to understand the sustainability of your long-term journey and where the competitive advantage lies for you. For Tata Motors, we believe that EV transition offers a once-in-a-lifetime opportunity to do well and do good. For us, sustainability is not just about getting to net zero — it's about how we can also leverage that to compete effectively in an industry that is transitioning. We are in business, which means growth and profits, but we can achieve that goal in a sustainable way.”

Take a wide lens when looking at finance's talent needs

“One capability that will never go out of fashion is controls and accounting – because you have no license to operate as a CFO if something goes wrong in that area. But I do think the judgmental accounting area is going to get increasingly sophisticated because business models are morphing. You will need very strong accountants who can also understand the business in its entirety.”

“The business partnering role will also change as management information becomes more self-service. You'll need people who immerse themselves in the business unit and are willing to get out there – visiting markets and understanding customers – so they can sense where disruption might come from. Finally, there will always be a need for people who can use data and advanced analytics to challenge assumptions and increase the velocity of decision-making.”

Think creatively about the operating model for advanced analytics

“Data science and related issues like privacy and security are moving so fast that it might be best treated as a separate vertical rather than 'within' finance. This will help us create the right environment and right kind of talent within the organization.”

“Additionally, there is full ownership of this capability by the business. The organization wants its analytics capability to be the best. Some of the more advanced data science capabilities, which utilize nonfinancial and unstructured data – such as market and sustainability data – may be beyond the capabilities of finance people. You could rotate finance people into the data analytics area to build their data science skills before they then return to an analytics or business partnering role.”

Integrating sustainability as a driver of long-term value

Companies should also demonstrate to investors that they can achieve their long-term commitments, including sustainability targets.

Overall, fewer than half of finance leaders surveyed (47%) think it's "very likely" that their organization will achieve their major sustainability priorities and meet stated targets, such as achieving net zero on time (figure 2 shows how this breaks down by sector).

This skepticism is reinforced by findings from the 2024 *EY Global Climate Action Barometer*, indicating that the quality of current disclosures fails to show that companies are undertaking substantial actions to combat climate change. Consequently, the

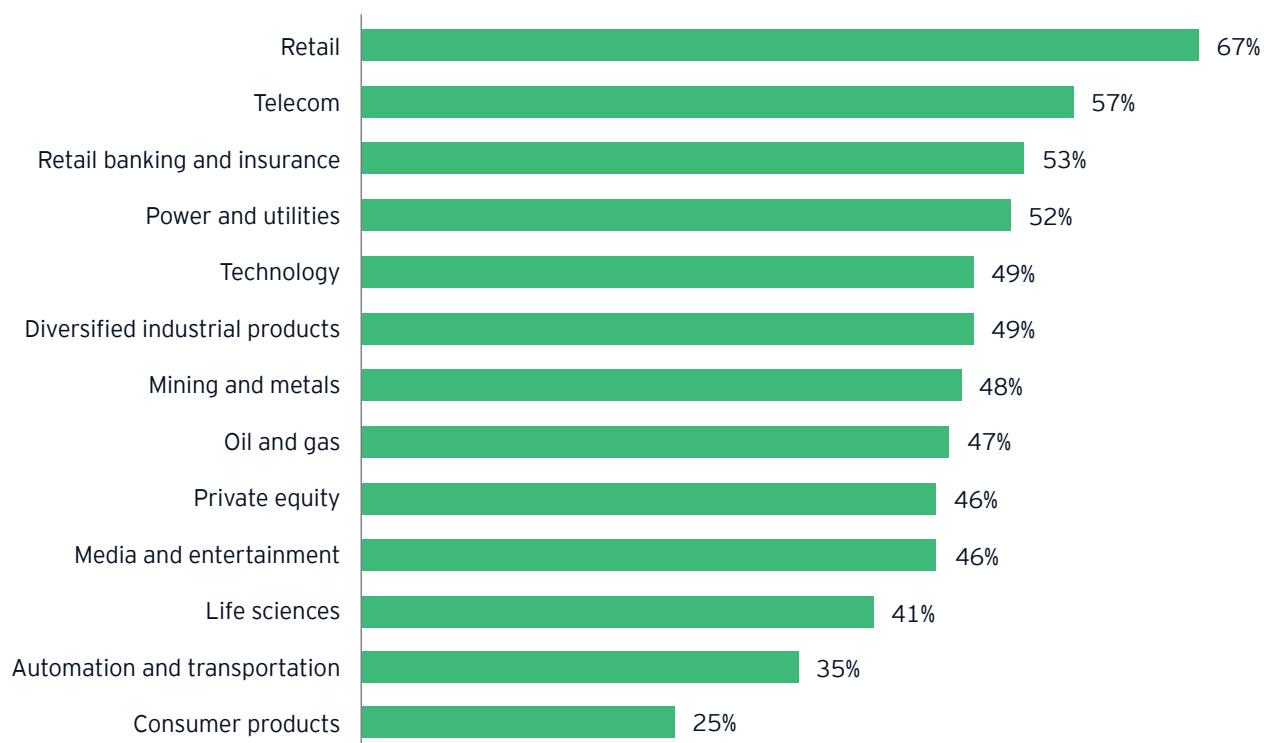
pace of transition is lagging behind the necessary trajectory to achieve net zero by 2050 and fulfill the objectives of the 2015 Paris Agreement.

"As CFOs become more involved in sustainability reporting, their awareness of the immaturity of the reporting mechanisms used in the nonfinancial area has grown," suggests Matt Bell, EY Global Climate Change and Sustainability Services Leader. "While it's relatively easy for an organization to put in place an ambitious sustainability target, once finance leaders start drilling into the data – and they see how much needs to be done to bridge to a target – their conservative tendency perhaps starts to kick in, with a healthy skepticism about the organization's ability to hit those commitments."

Figure 2. Confidence in achieving major sustainability priorities

Question: How likely do you think it is that your company will deliver its major sustainability priorities and meet your stated targets, such as net zero 2040?

Percentage of finance leaders who replied "Extremely likely – all major sustainability targets will be met on time"



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Dr. Matthew Bell, EY Global Climate Change and Sustainability Services Leader.

This finding also raises the question of whether companies are prioritizing short-term earnings performance over longer-term commitments. More than one-quarter of Group CFOs surveyed (29%) said capital investment into sustainability has decreased over the past 12 months. The *EY Global DNA of the CFO Survey* showed that sustainability programs are rated the most important long-term investment priority for CFOs, but are also the most likely initiative to be cut or paused to hit short-term earnings targets.

This tendency could undermine longer-term confidence in a company's ability to execute and deliver on its guidance and commitments. Investors already echo that uncertainty: Only 53% of respondents think it's very likely that companies in their primary markets will achieve their targets.

Commenting on this imbalance between short- and long-term objectives, 80% of investors surveyed agreed that "executive teams are too quick to take steps designed to drive short-term profit or meet quarterly earnings guidance."

Investors expect CFOs to act as a counterpoint to this tendency, using their credibility, influence and existing relationships to encourage the CEO and executive team to take the long-term view. However, the *EY Global DNA of the CFO Survey* found that not all finance leaders are willing to voice their opinions all of the time. Fewer than one-third of respondents (32%) "always"

speak up when their opinion differs from the consensus, and only 30% of respondents "always" strongly challenge members of the executive team when they disagree on an important issue.

If the CFO is to influence the senior team, they should produce a strong, evidence-based analysis of the trade-offs from different capital allocation decisions. However, when we looked at those survey respondents who were in a CFO role (group, divisional and regional CFOs), that segment was particularly concerned that they "lack data and metrics that allow the CFO to fulfill their important role in capital allocation to sustainability priorities."

This reflects the challenges of measuring and assessing the value of sustainability initiatives. For example, a climate investment might provide financial value but also planetary and customer value. Timeframes for value creation also vary: A climate investment may only provide a financial return over the medium to long term. Delivering financial value may require technology to advance sufficiently to make scaling viable.

The key is creating a balanced portfolio. Initiatives that generate financial value can subsidize those that have a positive planetary impact but uncertain financial return. The 2022 EY Sustainable Value Study found that, on average, more than one-third of climate initiatives (37%) will have a positive financial return over their lifetime, creating a basis for supporting those that provide planetary, customer or other forms of value.

Recommendation

To move forward, finance leaders should consider making their capital allocation process as transparent as possible – both internally and externally:

- ▶ Internally, business unit leaders should understand which investment areas contribute to the long-term strategy and are most likely to receive a positive response when allocating capital.
- ▶ Externally, CFOs should communicate to investors the broad framework for making long-term capital decisions. If the leadership team and the board take a united stance on that approach and framework, it can send a powerful message internally and externally on the importance of long-term focus.

Jon Hocking, Head of Investor Relations & Rating Agency Management, Zurich

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As soon as you set targets and metrics for an area of sustainability, investors will start to assess your performance in the same way they do financial performance.

Jon Hocking, Head of Investor Relations &
Rating Agency Management, Zurich

Recognize that investors assess nonfinancial metrics and targets in the same way they do financial performance

“As soon as you set targets and metrics for an area of sustainability, investors will start to assess your performance in the same way they do financial performance. They’re looking at what you’ve produced in the past – whether you hit or miss targets, then how you compare with your industry peers. Although this is an area that people view as ‘nonfinancial,’ the modus operandi of investors is very similar to how they approach financial metrics. This is because it’s something you can grid, monitor and track over time.”

“In the last few years, we have moved a lot of our sustainability reporting from the sustainability team to finance so that we have the same rigor and consistency over the production of those numbers as we have in other areas of the annual report.”

Build a universal understanding of your stakeholder base

“There’s a massive diversity of investors, and they have very different objectives. Some will be running short-term money and will be looking to make investment decisions over the next quarter. Many will be large ‘traditional’ investors who might have a holding period as long as five to seven years. Insurers typically have a significant proportion of investors that are focused on dividends, as they like that sort of predictable income stream.”

“When it comes to sustainability disclosures, you also find yourself dealing with proxy agencies and other organizations that compile ratings and rankings on how companies compare on sustainability. You can find yourself being asked for your approach to an issue, and the supporting data, that may not be covered in the annual report.”

“It becomes a question of doing your best to understand what a particular organization is looking for, explaining your approach to the area they are probing, and pointing them to information that is in the public domain, but may not be included in the annual report and accounts.”

Conduct AI trials to identify innovations in data analytics

“There are a few AI tools that we have trialed, and there’s a lot that AI can do in terms of the efficiency and effectiveness of data analytics. For example, when it comes to assessing trends in our industry, that has traditionally been a largely manual process of trawling through material like the transcripts of quarterly results calls and regulatory filings. With AI and analysis tools, you can scrape information out very quickly and analyze it. But you can also click through to individual pieces of information to see the underlying attributions. That allows you to look at the original source and verify it. These sorts of tools are going to become increasingly important.”

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Cutting the reporting confidence deficit

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Investors should expect that they can rely on the sustainability information in corporate reporting.

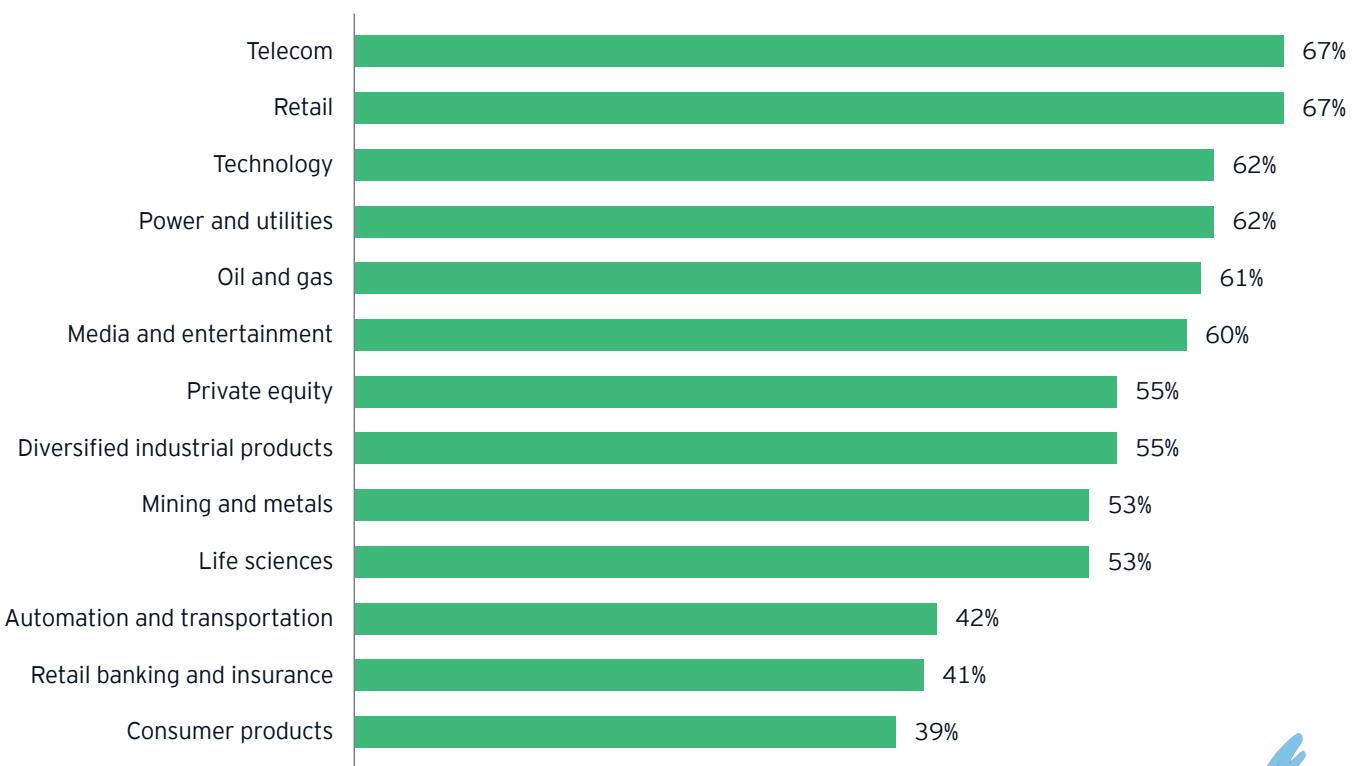
Investors should expect that they can rely on the sustainability information in corporate reporting. However, the research found that even preparers themselves have doubts. More than half

of finance leaders surveyed (55%) feel sustainability reporting in their industry risks being perceived as including elements of greenwashing (figure 3).

Figure 3. Perceived risk of greenwashing in sustainability reporting

Question: To what extent do you feel that sustainability reporting in your industry faces the risk of being perceived as including elements of greenwashing?

Percentage of finance leaders who replied "to a large extent"



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Finance leaders are highlighting the difficulty of producing credible reporting disclosures due to the highly complex nature of sustainability topics.

Dr. Velislava Ivanova, EY Global Strategy and Markets Leader, Climate Change & Sustainability Services

These doubts may reflect the relative immaturity of sustainability reporting compared to the sophisticated methods used in financial reporting. Companies have drawn on multiple voluntary sustainability reporting frameworks and metrics are still evolving. While companies may set targets and report progress in good faith, finance leaders clearly have doubts that disclosures are backed up by the necessary due diligence, data and processes.

“My experience is that finance leaders are primarily concerned about the lack of rigorous, data-enabled reporting,” says Dr. Velislava Ivanova, EY Global Strategy and Markets Leader, Climate Change & Sustainability Services. “In the past, sustainability professionals were producing reports with a wide range of stakeholders in mind, from employees to customers, which were often narrative-based. But Finance comes at it from a different angle. Their background is generally in financial and regulatory reporting, where you report against mandatory standards and defined metrics. Finance leaders are highlighting the difficulty of producing credible reporting disclosures due to the highly complex nature of sustainability topics and the overwhelming amount of reliable data required for the new mandatory sustainability reporting.”

The *EY Global Climate Action Barometer* reinforces these concerns, highlighting the fear of exposure to potential litigation from key stakeholders including investors arising because of incorrect or unsubstantiated claims, and failure to deliver on intended strategy, as well as a reluctance to give away too much

information. This demonstrates how issues related to perceptions of greenwashing may extend to other areas:

► **Data challenges**

Companies face similar issues with data and reporting across various areas, including diversity, inclusivity and workplace safety. Finding accurate data could also become more challenging as companies delve into their value chains to source information on Scope 3 greenhouse gas emissions (emissions originating from business activities from assets not directly owned or controlled by the organization). Likewise, growing expectations around biodiversity disclosures will likely require accurate data.

► **Risk of green hushing**

Companies and capital markets are being driven to “green hushing,” where they decide to remain silent on their environmental and societal ambitions because of regulatory and reputational concerns.³

► **Influence of ratings agencies**

The influence of third-party sustainability ratings agencies on decision-making could grow as trust in corporate sustainability reporting diminishes. However, research has shown that there is wide variance between providers, resulting in divergent assessments of the same company. Researchers from MIT and the University of Zurich found that it can be difficult for companies to challenge an agency’s verdict if they have serious concerns about how it was derived.⁴

Building confidence in sustainability reporting is likely to require an integrated response, with regulations, standards, assurance and talent playing an important role.

³ “Asset managers turn to ‘green hushing’ on sustainable funds,” Financial Times, 26 September 2023.

⁴ “Aggregate Confusion: The Divergence of ESG Ratings,” Review of Finance, Volume 26, Issue 6, November 2022; Florian Berg, Julian F. Kölbel, Roberto Rigobon.

Stephanie Fielding, Director of Sustainable Finance and Tax, Bupa

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Finance has the right mindset for nonfinancial reporting, because we're used to driving the performance of the company, and developing and maintaining rigorous processes and controls.

Stephanie Fielding, Director of Sustainable Finance and Tax, Bupa

Mandate finance's role in the driving seat of nonfinancial reporting

"Nonfinancial reporting initially sat within corporate affairs. However, we decided that finance needed to be in the driving seat – bringing rigor, experience in regulatory reporting, and understanding of running processes and controls. Initially, the focus has been on Scope 1 and 2 emissions but will likely evolve to other areas of nonfinancial reporting, including Scope 3 and Corporate Sustainability Reporting Directive (CSRD), etc. Finance has the right mindset for nonfinancial reporting because we're used to driving the performance of the company, and developing and maintaining rigorous processes and controls."

"You need to mandate the role of finance in sustainability. If you don't, you may get resistance from team members who have plenty on their plates as it is. Mandating it sends a strong signal of its importance in driving strategy and performance to meet internal and external sustainability targets."

Take responsibility for building your own sustainability knowledge and skills

"Today, finance uses its core skills, like financial planning and analysis, to understand what levers we can pull in our decarbonization journey. But we do need to build our skills in other areas, like carbon accounting and nonfinancial regulatory reporting. We are in the process of developing enterprise-wide training for sustainability. However, I ask my team to be pragmatic while it's still evolving. If there's a sustainability area that you don't know much about, find a course or an individual who can share their experience and knowledge in that area to get you to a base understanding. You need to be determined to upskill yourself."

Plot a glide path to reasonable assurance

"If we put numbers in the public domain, they need verification, as the credibility of those numbers cuts through to our brand and reputation. With CSRD regulations coming in (which will eventually require reasonable assurance), we are developing a roadmap to reasonable assurance. Scope 3 is also a complex area, and finance will have a role in shaping what data is required, and developing rigorous process and controls so that, ultimately we have the same confidence in any reported data as we do for Scope 1 and 2."

Make a clear distinction between finance transformation and cost optimization

"If you look closely at finance change programs, they can sometimes be cost-efficiency exercises rather than true transformation. At Bupa, we have a mantra of 'run and change.' That recognizes that you need to run the business, but that you also must pursue more fundamental change to respond to the external landscape and meet leadership's expectations. This focus on 'change' drives a positive culture and engagement. Our last finance employee engagement survey, which we run every six months, showed that every single finance team around the world had a high score above 80."

2. Cutting the reporting confidence deficit

While investors have confidence in financial statements, finance leaders should build equivalent confidence in sustainability reporting.

Nonfinancial reporting regulations and standards are an opportunity to build that confidence. Most investors surveyed (78%) said that new reporting regulations and standards could have a positive impact on the accuracy and comparability of companies' sustainability disclosures.

Fluid picture for global sustainability reporting regulations

Global sustainability reporting regulations are complex. A comparison of two major markets, the US and Europe, helps to illustrate this. The EU's CSRD entered into force in 2023. It is broad in scope and will apply to reports published in 2025. However, the climate disclosure rule from the U.S. Securities and Exchange Commission (SEC) has been pared down and is currently on hold.

However, despite this apparent disparity, CFOs in the US should also prepare for reporting regulations:

- ▶ There is a range of US multinationals that could fall within the scope of the EU's CSRD.
- ▶ California has launched two climate bills requiring businesses to disclose their carbon emissions and climate-related financial risks.
- ▶ If the authorities pass parts of the SEC rule, finance leaders should get ahead of requirements, putting the processes and resources in place to respond.

Finance leaders in every part of the world should monitor the fast-changing global picture, with further policy and regulatory changes around sustainability likely.

When we asked finance leaders to assess how costly and complex it might be to respond to new reporting regulations and standards, 55% of respondents said costs would be significant and 44% of respondents said it would be highly complex. If finance leaders are primarily concerned about rising costs and the challenges of the task, they could turn to a "low-bar" approach to try to reduce their exposure.

While adopting a low-bar or compliance-centric approach may fulfill regulatory requirements, it will likely fail to establish a strong link between sustainability and value creation:

▶ Cost focus

Focusing on the cost implications of sustainability reporting regulations is a tacit admission that the company does not consider sustainability to be important to its long-term prosperity and, therefore, it is unlikely to integrate it into corporate strategy and the enterprise risk management system.

▶ Strategic alignment through reporting

Effective corporate reporting can positively impact business conduct: The scrutiny of reporting can help executive teams to align their business strategies with sustainability issues. For example, the EU's focus on sustainability reporting is intended to drive more sustainable business models and build a sustainable economy.

▶ Financial impact disclosures

Many of the new standards require disclosure of the financial impacts on a company of sustainability risks and opportunities. If companies fail to prepare sustainability disclosures with sufficient care and integrity, investors could conclude that the company is jeopardizing financial value.

Recommendation

Finance leaders can shift mindsets by helping to make sure their reporting strategy aligns with the company's overall sustainability strategy, and other transformation initiatives within finance and the wider enterprise. Active dialogue with the CEO and leaders such as the chief strategy officer can help elevate the conversation around sustainability reporting and make the case for an enhanced approach.

This can take reporting beyond a compliance-only exercise and can identify synergies with other initiatives as part of a wider strategic transformation. This includes working closely with the chief sustainability officer or other leaders of sustainability efforts.

Kristina Fanjoy, CFO, CPP Investments

“For a long time now, our approach to reporting has been to benchmark ourselves to evolving practices around the world. We hold ourselves to a higher standard and report beyond minimum requirements, which helps preserve public trust.

Kristina Fanjoy, CFO, CPP Investments

Build a proactive, principles-based vision for corporate reporting

“At CPP Investments, our approach to reporting is based on principles rather than rules and regulations. Our mandate – which is based on providing 22 million Canadians with financial security in their retirement – is unique. To preserve trust and build transparency into our performance, we need to go beyond the minimum standard in statute.”

“For a long time now, our approach to reporting has been to benchmark ourselves to evolving corporate reporting practices around the world. We hold ourselves to a higher standard and report beyond minimum requirements, which helps to preserve public trust. This is not because we’re required to, but because we believe it helps fulfill our mandate in the long term and provides our stakeholders with decision-useful information. In 2022, for example, we were the first unregulated entity in Canada to publicly hold ourselves to the standard of having our external auditors attest to not just our financial statements but also the integrity of the internal controls that underpin those statements. Doing so made good business sense. Taking this approach helps us build trust with our stakeholders and boosts our operational effectiveness through streamlined processes.”

Create a value case for AI that factors in personal productivity, finance-wide use cases and enterprise-wide use

“As an investment organization and in terms of our own portfolio, AI and emerging technologies are a significant global theme. But we’re also looking at AI in terms of our own operations. Following a close review by our technology and compliance teams, we made an AI tool widely available. To support the rollout, we provided education and training, but I also believe that you need to encourage people to get their hands dirty and experiment with how this tool might be used. Finance is now one of the most active users of this tool.”

“I think the value of AI can be viewed through three layers. The first is boosting personal or individual productivity to free time for problem solving. Second, utilizing AI to execute standardized processes within a function, like finance, where people are routinely using the tool to deliver. The third layer is enterprise wide. For example, embedding AI querying tools into the internal reporting and management information dashboards that are used across the organization. This means that decision-makers get more value from your data; you are also replacing ‘fixed’ reports with a more agile approach.”

Boost problem-solving and creativity by building a nuanced understanding of your people’s motivations and behaviors

“As part of a recent gathering of all our finance team, we ran an exercise to probe our different personality types. These run from the typical traits you would associate with finance professionals – such as a focus on stewardship and a tendency to prioritize structure and controls – to those who lean more toward new ideas and experimentation. While we all have elements of these different types in our personality, there was a definite bias toward stewardship. Overall, it was good to see that we had a diverse representation of many personality types, including those that are biased toward seeking innovation, driving results and building business relationships. As you collaborate to solve complex problems, you need that diversity of viewpoint. Increasingly, as more routine finance tasks are automated and new technologies come online, you want to see finance professionals focused on problem-solving that utilizes a breadth of capabilities.”

The majority of investors and finance leaders agree on the importance of independent assessment.

Building stakeholder confidence in nonfinancial information

Almost three-quarters of investors surveyed (74%) say that external assurance by an independent third party would boost their confidence in the credibility and accuracy of a company's nonfinancial reporting.

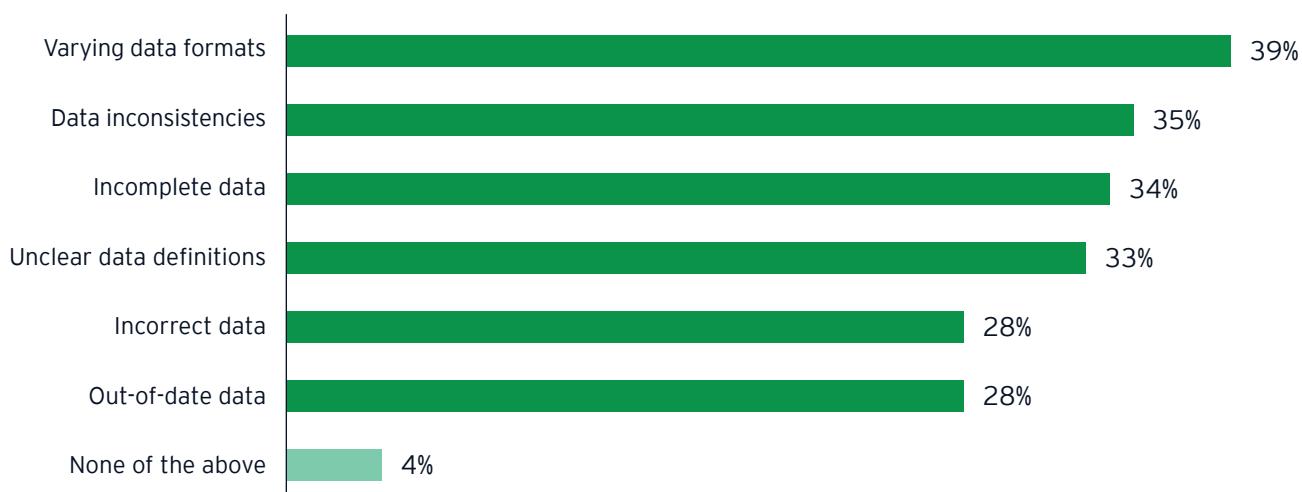
Finance leaders also agreed on the importance of independent assessment. When asked which method would positively affect investor confidence in the credibility of nonfinancial disclosure, a majority of respondents (52%) identified reasonable assurance by an independent third party (i.e., assessed at the same level as

companies' financial statements). A further 26% of respondents were in favor of limited assurance by an independent third party, while 22% of respondents felt that a review from an internal audit team would be adequate.

However, while the aspiration for assurance is high, there are question marks over whether companies' nonfinancial data is ready to undergo the scrutiny of independent third-party review. Almost all finance leaders surveyed (96%) report some problems with the nonfinancial data they receive for reporting, with only 4% of respondents saying their data does not exhibit any of the following issues:

Figure 4. Challenges in processing nonfinancial corporate reporting data:

Question: Thinking about the nonfinancial data that you receive and process as part of corporate reporting, please say whether the data is affected by any of the following issues.



Recommendation

For companies at an early stage, an assurance readiness exercise can provide deeper insight into the scale of the task ahead. By putting a select group of sustainability disclosures through the equivalent of limited assurance, the diagnostic can expose weaknesses in data, controls and processes. This can help companies to get ahead of any mandatory assurance regime.

Dalton Smart, Senior Vice President Finance and Global Controller, Merck

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As the world changes around us, finance functions need to be fit for the future.

Dalton Smart, Senior Vice President Finance and Global Controller, Merck

Skill up on environmental, social and governance (ESG) reporting

“As a corporate controller, part of my remit is to make sure that we’re leading with integrity across all of our external reporting. When you look at what’s changing in the external environment, there is a growing interest around what companies are doing in their ESG reporting, from both a regulatory and an investor perspective.”

“When you look at ESG data, it can come from all different parts of the company. Some of these sources are highly reliable. The data might have come out of HR systems, for instance, that are regulated, tested and checked internally. But other data may come from less mature processes and requires a great deal of management judgment to ensure data consistency across the enterprise and over time.”

“There is a skill set that enables that. To be transparent in reporting the ESG story to the external community, controllers need to understand strategy, processes, and people to know which disclosures to provide. I think the skill sets of controllers are transferable to the area of ESG, as it’s commensurate with what we do in our Sarbanes-Oxley program, even though they are different domains.”

Understand the benefits of an ESG controller

“The key to being an ESG controller is not that you need to know everything, it’s that you need to know what’s required by the external community and who in the company has the information and subject expertise. You also have to be collaborative, inquisitive and work as an enterprise leader across the organization.”

“There are three different skills that are important to being an ESG Controller. The first is external reporting and the ability to step into an area and know what’s required from an external perspective. Second, it’s about understanding processes, controls and people. So, you need someone who can find out exactly where a number that’s being reported comes from in the organization. Thirdly is the need to leverage specialized skills without necessarily having all of those specialized skills yourself. Some believe that an ESG controller needs to come with a deep prior specialization in ESG. Personally, I don’t believe that. I want an ESG controller who is inquisitive and collaborative and can apply their existing skills to ESG.”

Embed a centralized data team

“The business world recognizes value that can be unlocked through centralized data and data governance. Businesses can improve through top-down implementation of systems, like S/4HANA and other technologies, but they also need a bottom-up approach to transformation including a culture of data visualization, automation and experimentation.”

“For example, rather than having 1,000 finance employees accessing data and doing everything on their own, it may be more efficient to have a centralized data team of 50 that can help the other 950 finance employees’ access what they need. The model of a centralized team is important because it can do three things. Firstly, it’s more effective. Secondly, the centralized team can consult and coach others in areas like pulling data and creating visualizations. And thirdly, it creates space to experiment. New tools are coming out all the time. So the team can find what works and then share it back with the rest of the organization.”

For CFOs, finding an ESG controller who has refined interpersonal skills can be just as important as domain expertise.

Appointing an ESG controller with the right "DNA"

Investors are increasing their analytical firepower to assess nonfinancial data:

- ▶ Forty-three percent of investors surveyed employ full-time dedicated sustainability analysts (57% use "generalists" who assess environmental and social factors alongside financial considerations).
- ▶ Twenty-five percent of investors surveyed see the number of sustainability analysts in their organization "increasing a lot" over the next two years.

As investor scrutiny of sustainability performance and disclosures intensifies – and jurisdictions transition to mandatory sustainability reporting regimes – finance leaders are embracing the ESG controller role. More than one-third of respondents (36%) already have someone in place, and 58% of respondents are planning to establish and fill this role (that 58% is made up of 26% who plan to establish the role within the next 12 months and 32% who are looking further out).

While the ESG controller role can vary from company to company, it is likely to be universally important in establishing controls, processes and reporting structures for sustainability disclosures.

However, the role is likely to be challenging. There are significant hurdles that finance should overcome to improve the quality and credibility of nonfinancial disclosures:

- ▶ According to finance leaders, the top challenge is that companies "lack defined policies and processes for sustainability reporting, including robust internal controls for disclosure assurance" (selected by 44% of respondents as a critical challenge).
- ▶ Secondly, there is concern about the lack of effective partnership and collaboration between finance function leadership and those charged with sustainability, such as chief sustainability officers (selected by 42% of respondents).

For CFOs, finding an ESG controller who has refined interpersonal skills can be just as important as domain expertise. It should be an individual with a talent for collaboration, who is comfortable and adept at building networks not only internally, but also externally with suppliers and other partners.

Recommendation

CFOs should seek candidates with a broad profile of skills.

The ESG controller should bring a range of capabilities and experiences in addition to their core finance skills around regulatory reporting, controls and reporting processes. They should have strong data and technology experience, so that they bring an understanding of the technologies required to deliver the relevant data.

It should also be an individual with a talent for collaboration. They should bring highly developed interpersonal skills and collaborate across the organization, seeking to understand stakeholders' expectations and liaise with sustainability officers, legal, supply chain, etc. The ability to network, collaborate and build bridges with different teams will likely be important. Appointing someone who has a network of existing relationships, and who has proved their business partnering credentials, can give the appointee a head start.

Thomas Bohun, Head Group Reporting & Investor Relations, Swiss Re

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Sustainability is in our culture, embodied in the tone from the top and, most importantly, strongly tied to the business model.

Thomas Bohun, Head Group Reporting & Investor Relations, Swiss Re

Equip your people to speak confidently, and with credibility, on sustainability

“Investor relations professionals and those involved in external reporting need to be able to speak confidently about sustainability. Sustainability is a new dimension, and people will need training to engage confidently with stakeholders and the outside world. Essentially, it's just as sensitive and requires the same care as when you're speaking about the financial performance of the firm. As a start point, you need individuals who are interested in the topic, but they will also need significant training.”

Reinforce the link between sustainability and the core business model

“Ultimately, the core vision of Swiss Re is to make the world more resilient, and our core business model is to price risk. That, of course, has a very significant sustainability dimension to it. If risks can no longer be priced, it usually means that there's something unsustainable going on. So it's very natural that sustainability is core to the business model. Reflecting this, the tone from the top on sustainability – including from the CEO – has always been very strong on issues like climate. In fact, we launched our first publication on climate some 30 to 40 years ago. Sustainability is in our culture, embodied in the tone from the top and, most importantly, strongly tied to the business model.”

Consider a greenfield approach to sustainability reporting before integrating into finance

“Ultimately, you want to be in a position where the validity and thoroughness of your external nonfinancial reporting is exactly the same as your financial reporting, and there's clearly a role for finance to play there. But for us, the sustainability side of reporting had to be built from scratch. That was a significant undertaking and raised questions about how we set the project up, what skills we would need and what systems would be required. So we are taking more of a greenfield approach where we build that capability and then, over time, we will bring it closer into the finance function. There's also good reason for this approach in the insurance industry, where many finance teams are having to contend with significant demands, such as the shift to IFRS 17.”

3



Transforming finance analytics in the AI era

Companies should match the AI “muscle” that investors could bring to their assessment of companies, including exploring use cases for GenAI.

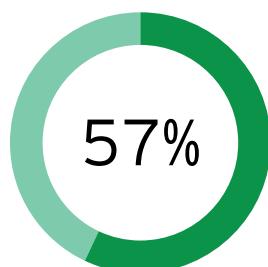
There are two imperatives for finance leaders and the finance functions that support them. First, they should understand the requirements of investors and create a compelling and achievable value-creation narrative. Second, they should instill confidence in investors around their sustainability reporting.

As CFOs integrate these two imperatives into their finance transformation plans, AI can play an important role. It can transform the efficiency of core finance processes, strengthen the effectiveness of data analytics and generate insights that enable value creation. The EY DNA of the Financial Controller research

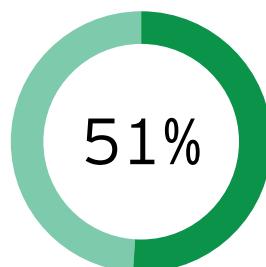
highlighted that controllers are already enthusiastic users of AI tools, with 65% using generative AI (GenAI) on a frequent basis.

Moreover, stakeholders such as investors are eager to utilize AI to gain greater insight into company performance and identify any inconsistencies between a company's disclosures and third-party sources.

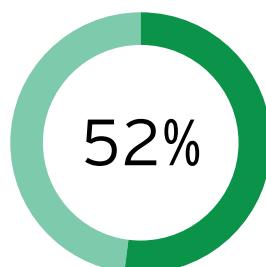
In that sense, AI is not only changing how finance functions operate but also raising the bar when it comes to transparency. More than half of investors surveyed said that the following use cases would be “very useful”:



Assessing the credibility and accuracy of a company's data disclosures



Identifying discrepancies between a company's disclosures and what third-party data is indicating



Looking beyond a company's public disclosures to access alternative data

Companies should match the AI “muscle” that investors could bring to their assessment of companies, including exploring use cases for GenAI. While “traditional AI” can analyze numeric, tabular and structured information, for example, and make predictions that are integrated into a business intelligence report, GenAI can go beyond this. It can work with unstructured data such as charts, video and code. It has the advantage of using natural language and applying context based on prompts to offer predictions. In the future, companies could increasingly use these tools in tandem.

GenAI can also provide other benefits. It can drive significant productivity improvements in the finance team. It can summarize and compare large amounts of text and information for inconsistencies, and assess a company's relative position in its industry.

There are several success factors for finance leaders to consider as they explore the potential of AI – both traditional and generative.



1. Build on strong data and technology foundations

Any AI innovation in finance should be built on solid technology and data foundations. However, there are currently weaknesses in both areas:

Data: Improving the quality of the data used to train complex AI systems can accelerate their advancement. However, as mentioned previously, 96% of finance leaders report some kind of problem with the integrity of the nonfinancial data they receive. A failure to establish that integrity could compromise the ability of AI to process large amounts of data and generate strategic insight.

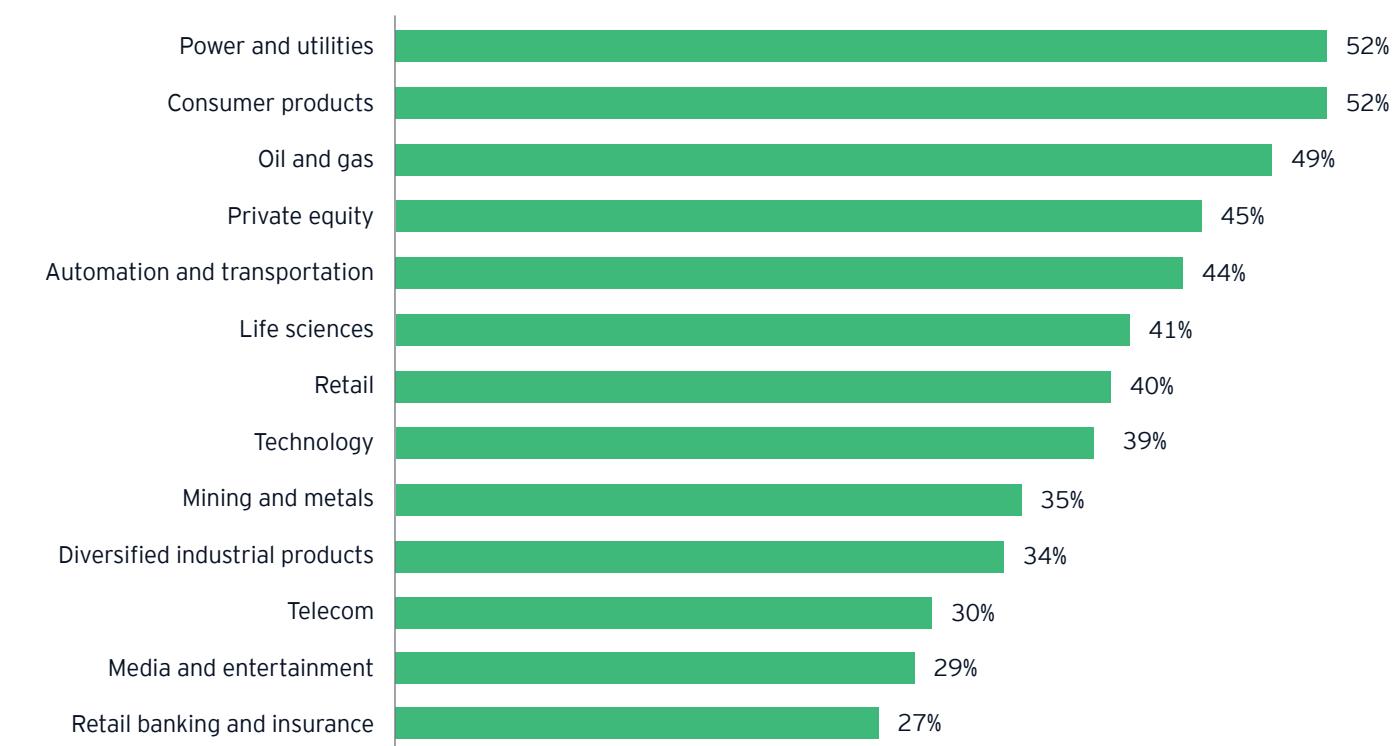
Finance leaders should examine how GenAI can be used to fix data problems so that data issues are not used as an unnecessary delaying tactic by teams. There are GenAI tools that can examine data sets and help identify the problem area. This can significantly accelerate the speed at which problems can be identified and fixed.

Technology: Developers should build AI around agile, high-grade technology. However, only 32% of finance leaders surveyed say they have this in place, and 39% are contending with limited IT resources (figure 5).

Figure 5. Weaknesses in finance's technology and data foundations

Question: How would you describe the current technology suite you have in place for managing and analyzing data – including nonfinancial and sustainability data – and integrating it into your corporate reporting?

Percentage of finance leaders who replied "limited" or "elementary"



Recommendation

Resolving these issues means thinking about the supply and governance of financial and nonfinancial data, and the types of technology finance leaders require to harvest, integrate and consume nonfinancial data, from cloud to specific data analytics tools. Once a suitable structure is in place, companies can develop a vision of how AI can transform insight generation.

2. Take a responsible, principles-based and collaborative approach to build trust in AI use cases

While the true impact of GenAI on the finance function is still emerging, the technology offers exciting potential to transform data analytics capability, from generating financial forecasts to real-time business intelligence.

But while 43% of finance leaders surveyed are enthusiastic about the use of AI in corporate reporting, 29% are “hesitant, until the risks are better understood.”

Senior finance leaders are mindful of these concerns. For Group CFOs, the biggest concern around AI in financial and nonfinancial disclosures is “identifying and managing potential biases in the system.” Putting in place a framework for the responsible use of AI will likely be essential.

3. Navigate emerging AI regulations while managing cost and compliance factors

Finance leaders are particularly concerned about keeping a lid on costs, with more than one-third of finance leaders surveyed (39%) seeing this area as “very challenging” when it comes to developing AI-enabled solutions for finance analytics and reporting.

Part of the cost concern could be related to another area: More than one-third of finance leaders surveyed (36%) feel it’s very challenging to make sure that any finance AI tools are compliant with relevant regulations. Finance leaders are perhaps concerned that the work involved in managing risks (such as the security of sensitive finance data) and building in compliance could increase costs significantly for AI’s use in the finance domain.

Recommendation

While jurisdictions are taking different approaches to AI, there are common principles, such as focusing on perceived risks to core values, security and transparency. By acquiring an understanding of the overall principles, finance leaders can anticipate emerging compliance requirements. With this foresight, they can help their companies avoid unnecessary direct or indirect costs by building in protections and accountability early on in AI development.

Principles for the responsible use of AI

Guided by the National Institute of Standards and Technology Risk Management Framework and professional experience, the EY organization has developed basic principles to help build confidence and trust in AI:

- ▶ **Accountability:** Establish clear and delineated internal ownership over AI systems and their impacts across the AI development lifecycle. Open the access pipeline slowly as user success builds.
- ▶ **Transparency:** Communicate openly with users about the purpose, design and impact of AI systems so that designers and users can evaluate and appropriately deploy AI outputs. Help them appreciate and better understand the benefits and the risks.
- ▶ **Fairness:** An AI system should be designed with the requirements of all relevant stakeholders in mind, so that outcomes aren’t skewed against any part of the population it’s intended to serve. The broader impact of this technology should fully align with the organizational mission and ethics.
- ▶ **Reliability:** AI systems should meet stakeholder expectations and perform with precision and consistency, remaining secure from unauthorized access, corruption and attacks. If an AI application is behaving unexpectedly and raising questions, it’s best to pull back use immediately for internal evaluation.
- ▶ **Privacy:** Data privacy, including collection, storage and usage, is paramount as AI systems are being deployed to internal members of any organization. A gradual, carefully planned approach to AI access and usage can minimize data risk.
- ▶ **Clarity:** Anyone using AI on behalf of the organization should receive explicit communication regarding potential risks, formal policies and expectations so they are equipped to assess, validate and challenge if necessary.
- ▶ **Sustainability:** The design and deployment of AI systems are compatible with the goals of sustaining physical safety, social wellbeing and planetary health.

Source: “Responsible AI means finding the balance between risk and reward,” EY, 7 May 2024.

4. Take a human-centered approach to empower finance teams for an AI-driven future

When it comes to transformation, talent and culture, there are two priorities:

- Taking a human-centered approach to finance transformation and culture change could be key to realizing the potential of AI.** Only 26% of finance leaders surveyed feel that leaders routinely seek input from younger members of the team when driving transformation.

Interestingly, the research found that those who are already using AI in finance analytics, and are enthusiastic about its use in reporting, are further ahead in building a human-centric, innovative culture:

- We looked at the 26% of overall respondents who seek younger team members' insights and examined how responses varied depending on their views on AI.
- That analysis found that those who are using AI in analytics and are enthusiastic about its application in reporting are more likely to involve younger generations: 41% of those AI "champions" routinely seek input from younger members of the team.
- However, this drops to 20% for those who have low AI analytics maturity and are hesitant about its use in reporting.

This suggests that companies that encourage innovation, openness to change, intellectual curiosity and a willingness to confront assumptions could be better placed to keep pace with the fast-changing AI agenda. For CFOs, thinking about the link between AI deployment and culture change could be important.

- A strategic approach to finance talent development will likely be important, with CFOs allocating talent to the parts of the organization that are important to long-term value.** While CFOs today have a strategic remit when it comes to growing and protecting the organization's long-term value, that strategic lens has not always been applied internally to the function's talent. With technologies and the regulatory agenda moving so fast, a near-term and reactive approach

to capability and skills may not suffice. The rise of the ESG controller role, as we saw previously, shows the importance of anticipating the talent and skills required to meet the expectations of investors and respond to a fast-changing regulatory picture for nonfinancial reporting.

Today, finance should develop a talent strategy that is long-term in outlook and proactive. Three elements will likely be important for this strategy:

Recruitment and retention: A majority of finance leaders (67%) struggle to retain the talent they already have, and a similar proportion (68%) recognize the challenge of hiring and retaining talent with advanced data analytics skills as well as finance experience.

People who possess both technical skills and financial experience make up a relatively small talent pool. Moreover, CFOs should find people who combine those skills and experience with business acumen, meaning they can contribute strategically to the business going forward. Those lucky few will have a significant mobility advantage, able to choose between job offers and potentially move between companies for better reward.

Recommendation

Revisiting finance career paths can boost retention and broaden capabilities. A traditional linear model, which keeps employees at a given "level" of finance before progressing in seniority, can frustrate ambitious finance professionals. A more flexible career path, where people can progress based on skills development and value creation, can motivate people and prevent them from looking for a more senior position elsewhere. Flexibility to allow secondments to positions outside finance can provide people with the exposure they need to build commercial, operational and digital skills and experience.

Finance leaders can also pay attention to generational differences. Gen Z finance team members, as digital natives, offer a rich source of ideas and innovation around digital transformation. CFOs should help to make sure that this generation feels motivated by their work, and that their opinions and involvement are sought.

Upskilling: 70% of finance leaders say they should do more to put in place upskilling and training initiatives focused on data analytics in finance.

Upskilling is as much about motivation and positive behaviors as it is a tailored training program. For example, some staff may require encouragement to take time off from their day jobs to attend external conferences and look beyond the in-house training curriculum.

Co-sourcing: CFOs should rethink the operating model for finance and consider whether they should seek specific skill sets, such as those of sustainability specialists, outside the organization. When it comes to analytics expertise, for example, 71% of finance leaders surveyed said, “We will need to make greater use of external partners to meet our needs in finance.”

In the 2024 EY Tax and Finance Operations survey, 54% of respondents said they are rethinking their operating models and that co-sourcing is the most important change they are considering.⁵ CFOs, senior finance executives and financial controllers in the survey also say they are considering more co-sourcing for a range of activities, especially transactional accounting and financial planning and analysis.

Willingness to work with external partners in a co-sourcing model reflects the pressure that finance is under to respond to accelerating developments in AI, rapid legislative change, and a radically shifting talent environment (including a shortage of accounting professionals). Employees frequently perceive a shift to co-sourcing as driving quality and efficiency in important finance processes and allowing retained staff to focus on adding value and business partnering. Trust and transparency in the relationship will likely also be important.

Recommendation

CFOs should invest in hiring, retaining and developing people while managing pressure to keep costs down. To reconcile that tension, finance leaders should be as strategically attuned to allocating finance human resources as they are to allocating capital, directing the former toward the business units that drive growth and long-term value.

Taking a human-centered approach to finance transformation and culture change could be key to realizing the potential of AI.



⁵ "How will GenAI integration shape tax and finance transformation?," EY, October 2024.



The way forward

Encouraging open debate in the finance team about both the opportunity and potential ethical downsides of AI can foster a flexible, contributive approach.

GenAI tools, increasingly sophisticated analytics capability, and the new data that digitization generates, can support finance leaders to make better strategic decisions in an uncertain and fast-changing environment. They can use these tools and capabilities to illustrate and reinforce a compelling story to investors about how their investments in people, innovation and sustainability will protect, optimize and grow long-term value.

There are three imperatives for finance leaders as they pursue this opportunity:

1. Avoid a narrow focus when addressing greenwashing risk and finance's role in improving nonfinancial data.

While finance can bring significant experience and implement controls and policies to improve the quality of sustainability disclosures and the nonfinancial data that informs them, finance's role should not be confined to instilling greater discipline.

Finance leaders should define clearly what constitutes greenwashing in their industry, allowing the regulatory environment, as well as benchmarking industry-leading practices, to inform this definition. They should have the flexibility to adapt that overall definition and framework to changes in the policy and regulatory agenda. CFOs should also participate closely in setting up appropriate accountability frameworks to discourage substandard practices.

Overall, finance's wider role is to create sustainability reporting that clearly articulates the organization's strategy and consistently reports the progress it is making. In this way, organizations avoid falling into the common traps of greenwashing. By integrating robust sustainability data into decision-making, finance leaders drive better outcomes and capital allocation decisions.

2. Build a granular but responsive picture of the risks and ethical challenges of AI, including GenAI.

CFOs should help to provide a comprehensive understanding of the opportunity (value) and risk of specific AI use cases in finance. It's also important that risk management and ethical guidelines for AI continue to evolve. A clear picture of some risks – for example, the inadvertent infringement of copyrighted material that the AI solution has pulled out – is still emerging.

As these tools and capabilities evolve, new ethical implications are likely to emerge. Encouraging open debate in the finance team about both the opportunity and potential ethical impacts of AI can foster a flexible, contributive approach. In this way, finance leaders position AI ethics as an ongoing journey, rather than a destination. An overly static approach can result in a company failing to recognize and mitigate emerging risks.

This active role in AI risk management reflects the CFO's overall importance to technology innovation. Forward-thinking finance leaders are not only integrating AI into their finance transformation plans and the future of reporting but also exploring new opportunities to transform decision-making and insight generation at the enterprise level.

3. Recognize that culture change can be particularly challenging in finance, and tailor your approach accordingly.

Advancing finance's agenda can require not only technology but also a culture of innovation and adaptation. Otherwise, companies may change the technology, but people's behaviors may remain rooted in the past.

However, there is an argument that finance functions could find culture change particularly difficult. There is often significant legacy experience in finance; teams refine processes over many years, and there is an understandable aversion to risk.

Finance leaders may need to provide more interactive communication with their teams so that they feel part of the culture change process and secure in voicing their misgivings. This tailored, human-centered approach to transformation is both caring and pragmatic, recognizing that not all people will adapt willingly to culture change and taking the approach that is most likely to win them over.

About the research

Between March and May 2024, FT Longitude, on behalf of the EY organization, conducted research into both companies and investors. The research canvassed 2,000 senior finance leaders at the companies issuing reporting, as well as 815 institutional investors as users of those disclosures and the primary group interested in material information about financial impact. The goal was to better understand where corporates and investors have shared views and where there is a disconnect.

- Among the finance leaders, 50% are CFOs (including 23% Group CFOs) and 35% are financial controllers. We drew respondents from 30 countries around the world, including North America, Europe and Asia-Pacific, as well as the Middle East and South Africa. Fourteen sectors were represented, and 32% of companies had annual revenues of more than US\$10b.

- Among the investors, more than one-quarter of respondents (28%) are chief investment officers. We drew respondents from 22 countries around the world, including North America, Europe and Asia-Pacific, as well as the Middle East and South Africa. There was representation across banking and capital markets, insurance, and wealth and asset management, with 20% of firms having assets under management (AUM) of US\$50b or more.

The 2024 EY Global Corporate Reporting Survey – part of the CFO Imperative series – is the ninth edition of a research program that was launched in 2014. The series focuses on corporate reporting and the future of the finance function.

This research series is supplemented by interviews with finance leaders and investment decision-makers, as well as the contributions and insights of the following EY subject matter professionals, and our thanks go to all those who contributed their insights:

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