

OPEN LETTER

Investor groups call on companies to reflect climate-related risks in financial reporting

As groups representing institutional investors, we call on companies to ensure that their financial reports and accounts reflect the [recent opinion from the International Accounting Standards Board \(IASB\)](#) and are prepared using assumptions consistent with the Paris Agreement on climate change. For some time, the largest investor groups in the world representing over US\$103 trillion in assets under management globally, including the Principles for Responsible Investment (PRI), the UN Environment Program Finance Initiative (UNEP FI), the UN-convened Net-Zero Asset Owner Alliance initiative, the Institutional Investors Group on Climate Change, Investor Group on Climate Change (IGCC), the Asia Investor Group on Climate Change, and the Pensions and Lifetime Savings Association the have urged that corporate reporting appropriately reflect climate-related risks, and help support the undertaking in the Paris Agreement to make “finance flows consistent with the pathways towards (...) climate-resilient development”. To deliver this, companies should ensure that their financial statements accurately report their performance by incorporating material information about climate-related risks, for instance that they value assets in a way that would be compatible with a sustainable climate.

In this regard, we welcome the publication by the IASB (International Accounting Standards Board) of a paper explaining that companies that are facing climate impacts “are likely to judge that it is necessary to explain how they have considered climate related risk in their impairment assessments, and...other judgements made in relation to the recognition or measurement of items in the financial statements”. [Link below]. More specifically, the publication emphasises that under the current IFRS (International Financial Reporting Standards) rules, an assessment of climate-related risks should be incorporated in financial statements. The publication also elaborates on how the existing guidance should be applied.

Without such clarifying guidance on how to incorporate an assessment of climate-related risks into their financial statements, companies have found it difficult to do so, let alone do so consistently. Auditors have had similar difficulties in fulfilling their role. Some companies may even have thought that they did not need to consider such risks, since they are not explicitly referenced in the existing IFRS guidance. This publication creates clarity that, from now on, an assessment of climate-related risks must indeed be incorporated into financial statements that are prepared under IFRS, and indicates how that should be done. The publication further emphasises that the materiality of disclosures should be assessed according to investor concerns.

We therefore confirm the investor view that climate-related risks are material factors that should be reflected appropriately in financial statements.

Given the scope and mandatory nature of the IFRS regulatory framework, it is particularly valuable that the reflection of climate-related risks is required under this framework and, hence, subject to external assurance by auditors. The latter play a key role in ensuring that companies appropriately apply accounting standards in all material respects. This includes the appropriate reflection of climate-related risks in financial statements, and the transparency of assumptions.

So we are asking:-

- That companies apply the IASB opinion in the letter and the spirit, including showing the key assumptions that have been made with regard to climate-related risks
- That auditors only sign off financial statements which are consistent with the IASB opinion in the letter and the spirit, which include showing the key assumptions that have been made with regard to climate-related risks
- That regulators and civil society work with us in enforcing and encouraging these actions
- That henceforward the assumptions made by companies in preparing financial statements under International Financial Reporting Standards be compatible with the Paris Agreement

SIGNED

Fiona Reynolds

CEO, Principles for Responsible Investment

Günther Thallinger

Member of the Board of Management Allianz SE and Chair of the Steering Group of the UN-Convened Net-Zero Asset Owner Alliance

Eric Usher

Head, UNEP Finance Initiative

Stephanie Pfeifer

CEO, Institutional Investors Group on Climate Change

Emma Herd

CEO, Investor Group on Climate Change

Rebecca Mikula-Wright

Director, Asia Investor Group on Climate Change

Julian Mund

Chief Executive, Pensions and Lifetime Savings Association