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International Corporate Governance Network
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ICGN sets out investor expectations on reflecting climate-related matters in financial statements

Embargoed until 09:00, 27 November 2023 - London, United Kingdom: The International Corporate Governance Network (ICGN) explores whether climate-related matters are adequately reported, specifically in financial statements, and sets out investors' expectations on this key issue in its latest Viewpoint.

Led by investors responsible for assets under management of around $77 trillion, ICGN advances the highest standards of corporate governance and investor stewardship worldwide in pursuit of long-term value creation, contributing to sustainable economies, societies, and the environment.

ICGN's Viewpoint 'Reflecting climate-related matters in financial statements' discusses why accounting for climate change matters to investors, identifies potential obstacles impeding progress, and makes suggestions for constructive dialogue between investors and companies on this matter, with questions investors may consider asking company boards.

In June 2023, the International Sustainability Standards Board (ISSB), published its inaugural sustainability reporting standards, marking an important step towards comparable and reliable corporate sustainability reporting. A key aspect of high-quality reporting is ensuring consistency between information disclosed in financial statements and information communicated in other parts of the annual report or in a separate sustainability report. Ensuring connectivity and consistency of information is high on standard-setters' agendas. For several years, investors have encouraged companies to account for material climate-related risks and decarbonisation commitments in their financial statements. To help companies and auditors, standard-setters have clarified how climate-related matters may impact key accounting assumptions under existing standards. Yet, despite some companies paving the way for more "climate conscious" accounting, progress remains overall relatively limited.

Reliable corporate reporting is crucial to support informed board decisions on capital allocation, sound investment decisions and well-functioning markets. As companies globally develop a better understanding of climate-related risks and opportunities, and set targets to reduce their greenhouse gas emissions, investors expect to see how these matters have been reflected in company accounts. Investors also expect external auditors to consider climate change when auditing financial statements.

Standard-setters and regulators have underlined requirements for material climate-related risks to be reflected in financial statements (and their audits). Both the UK's Financial Reporting Council (FRC) and the European Securities Markets Authority (ESMA) have issued statements to warn of their increasing scrutiny of company accounts on this issue. Building on its 2010 "Guidance Regarding Disclosure Related to Climate Change", which set out the existing requirements for material climate impacts to be reflected in company filings, the US Securities and Exchange Commission (SEC) has also proposed a rule which, if adopted, includes detailed requirements for climate-related disclosures in companies' financial statements.

Natasha Landell-Mills, Head of Stewardship at Sarasin & Partners, a member of ICGN's Financial Capital Committee and lead author of the Viewpoint, said: "As investors, we look to companies' financial statements to give us a fair representation of the economic health of the entity. The efficient functioning of capital markets depends on this. The trouble is that that too many companies' accounts today are leaving out material financial consequences from climate change; ongoing decarbonisation and even entities' net zero emissions targets. Ignoring these economic realities will not only result in a misallocation of capital towards excessively carbon-intensive activities but, at a system level, the climate blind-spot in accounting fuels risks of future economic dislocation as markets correct. Recalibrating financial statements today is vital to help secure prosperity tomorrow.".

ICGN's Global Policy Director, Séverine Neervoort, said: "Company boards have a key oversight role to play and should encourage the implementation of best practices, even if this is a complex and fast-evolving field, with uncertainties. We encourage boards to be transparent about the challenges companies are facing in their journey towards better climate reporting. We also encourage standard-setters and regulators to continue to provide guidance to companies and auditors in this journey, with illustrative examples.".

The 'Reflecting climate-related matters in financial statements' Viewpoint draws on the ICGN Global Stewardship Principles, which provide an international framework for investors to implement their fiduciary obligations on behalf of clients and beneficiaries. The Principles are to be reviewed during 2024, through an international consultation and drawing on innovations around the world.

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Note to Editors

About ICGN

Led by investors responsible for assets under management of around $77 trillion, and bringing together companies and stakeholders, ICGN advances the highest standards of corporate governance and investor stewardship worldwide in pursuit of long-term value creation, contributing to healthy and sustainable economies, societies, and environment.

ICGN's comprehensive international work programme is based around three core objectives as follows:

- Influence: public policy and professional practice with global standards of corporate governance and investor stewardship.
- Convene: impactful global events to share knowledge, build networks and collaborate across capital markets.
- Inspire: governance and stewardship professionals with guidance and education for in-house policies, activities, strategies, and reporting.

Enquiries

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