



Climate Risk in Corporate Reporting

Tuesday 15 June 2021

This webinar will commence shortly



Introduction

Alison Dundjerovic
Director
ICAEW

Today's presenters

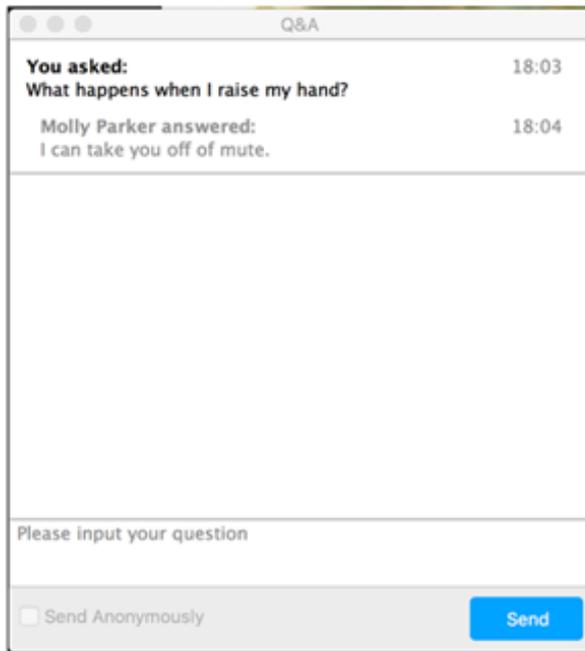


Phil Fitz-Gerald
Director
Financial Reporting Lab



David Wray
Senior director
Huawei

Ask a question



The screenshot shows a Q&A window with a title bar containing three window control buttons and the text "Q&A". The main content area displays a question and an answer:

You asked: 18:03
What happens when I raise my hand?

Molly Parker answered: 18:04
I can take you off of mute.

Below the answer is a large empty text area for input. At the bottom of the window, there is a text prompt "Please input your question", a checkbox labeled "Send Anonymously", and a blue "Send" button.

To ask a question

Click on the **Q&A** button in the bottom toolbar to open the submit question prompt.

Type in your question and click **send**.

Note. If you wish to ask your question anonymously check the **send anonymously** box shown on the illustration to the left.

Contents

FRC's Climate Thematic

Reporting – FRC expectations

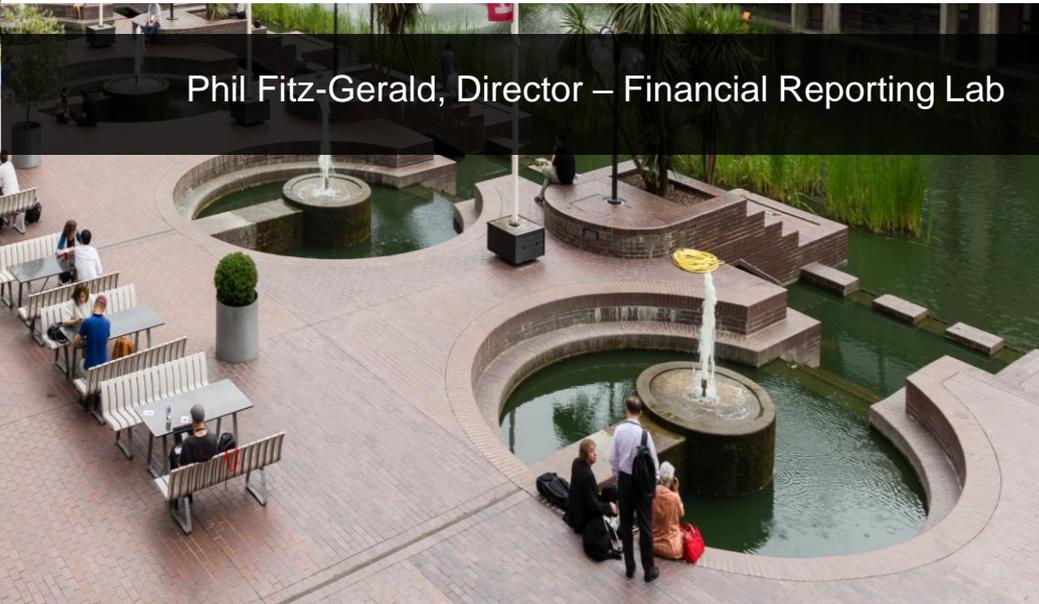
Reporting under IFRS

Going beyond checking the box

What lies ahead?



Reporting on Climate Change



Phil Fitz-Gerald, Director – Financial Reporting Lab



Find our reports here:
<https://www.frc.org.uk/investors/climate-thematic-review-2020>

Climate Thematic – Headline findings



Boards

- It is the board's responsibility to consider climate-related issues.
- There is little evidence of how key Board decisions are influencing business models and company strategy



Companies

- An increasing number of companies are providing narrative reporting on climate-related issues.
- Some companies have set strategic goals such as 'net zero', but it is unclear how progress towards these goals will be achieved and monitored.
- While minimum legal requirements are often being met, users are calling for additional disclosure to inform their decision making.
- Consideration of the financial statement implications of climate change lags behind narrative reporting.



Auditors

- The quality of support, training and resources provided to the audit practice varies considerably across firms.
- Firms need to do more to ensure that their internal quality monitoring has appropriate regard for climate change considerations.
- Audits reviewed indicated that auditors need to improve their consideration of climate-related risks when planning and executing their audits



Professional bodies

- UK professional bodies, and audit regulators in the Crown Dependencies, are responding to climate change, but approaches differ in terms of substance and granularity regarding references to climate-related reporting and the impacts of climate change.



Investors

- Investors support the Task Force on Climate-related Financial Disclosures framework, but also expect to see disclosures regarding the financial implications of climate change.
- Investors are themselves facing a changing regulatory environment.

Climate change reporting

What does the FRC expect?

Narrative reporting

- Section 172 statements should describe actions of Board of Directors
- Non-financial information statement should address environmental matters such as climate change
- Principal risks and uncertainties should clearly articulate climate related risks and mitigations
- Metrics for calculating emissions should be clearly explained

Financial statements

- Ensure link between narrative reporting and financial statements
- Consider overall whether information on climate change is material for users
- Consider the matters included in the IASB guidance note – for example:
 - Impairment
 - Changes in useful life of assets and fair value
 - Provisions for onerous contracts
 - Expected credit losses for loans and other financial assets



What next?

Reporting Under IFRS

- Fact: Climate is not referenced anywhere in IFRS, but....
- Many standards could easily require companies to consider climate-related matters, for example:
 - IAS1 – Presentation of Financial Statements
 - IAS16 – PP&E
 - **IAS36 – Impairment of Assets**
 - **IAS37 – Provisions, Contingent Liabilities and Contingent Assets**
 - IFRS9 – Financial Instruments
 - IFRS13 – Fair Value Measurements
- What about materiality in the context of climate-related matters?
 - Materiality as defined in IAS1 continue to apply...but...

Going Beyond Checking the Box

- IAASB have made climate an audit matter now too
- Stakeholders are telling us that they think climate is material
 - Want assumptions to be sustainable (well below 2 degrees)
 - Environment is moving fast and will continue to speed up
 - Asking if we can quantify COVID, why can't we readily do it for climate?
- Important to have coherence between the management report and financial report
 - How will we bridge and harmonise the two?
 - How can we as a profession further this conversation, especially if sustainability reporting is not currently housed in finance (in many organisations)?

How are corporates doing with TCFD reporting?

	Supply chain risk management				Carbon pricing risk management				Climate Related Financial Disclosure (TCFD)			
	On the couch	Gear packed	Base camp	Near summit	On the couch	Gear packed	Base camp	Near summit	On the couch	Gear packed	Base camp	Near summit
NAM	79%	21%	18%	6%	83%	17%	9%	8%	46%	54%	42%	22%
EMEA	67%	33%	28%	8%	75%	25%	14%	12%	39%	61%	50%	28%
APAC	76%	24%	18%	4%	76%	24%	10%	9%	30%	70%	52%	20%
Global	75%	25%	21%	6%	78%	22%	11%	10%	38%	62%	47%	23%

Source: Trucost, 2019 https://www.spglobal.com/_media/documents/trucost-carbon-disclosure-marketing-brief-05.pdf

- The table illustrates the corporate climate journey around three climate-related risks:
 - supply chain risk management,
 - carbon pricing risk management, and
 - climate-related financial disclosure in line with the Task Force on Climate-related Financial
- Bottom line: we're moving in the right direction but need to do more...

What lies ahead for business reporting?

- EU proposal for CSRD is moving fast – they will roll out in financial reporting in 2024 (for 2023 reporting year)...watch for exposure drafts of new standards and get involved over the next few months
 - https://ec.europa.eu/info/publications/210421-sustainable-finance-communication_en#csrd
 - Double materiality and assurance requirements in the EU
 - Consider data sources and data quality, especially when it is not finance owned!
- IFRS Foundation is also working on establishing an international sustainability standards board – they are already issuing exposure drafts for comments
- Watch what ESMA, the SEC and other regulators are doing in this space – they are actively looking at climate-related matters.
- Digitisation is taking center stage in sustainability reporting – from standard setting to business reporting, we need this much needed transformation!

Useful Reference Material to Help Us

- Effects of climate-related matters on financial statements
 - <https://www.ifrs.org/content/dam/ifrs/supporting-implementation/documents/effects-of-climate-related-matters-on-financial-statements.pdf>
- IFRS Standards and climate-related disclosures (Nick Anderson article)
 - <https://www.ifrs.org/content/dam/ifrs/news/2019/november/in-brief-climate-change-nick-anderson.pdf>
- ICAEW Climate Hub resource centre
 - <https://www.icaew.com/climatechange>

Faculty resources

[icaew.com/financialreporting](https://www.icaew.com/financialreporting)

- Current reporting requirements
 - www.icaew.com/climate-reporting
- Reporting on climate change under FRS 102
 - [July 2020 | Reporting climate change under FRS 102 | ICAEW](#)
- TCFD disclosures
 - www.icaew.com/tcfdguide

Future events

For details, please visit [icaew.com/frfevents](https://www.icaew.com/frfevents)



Bitesize Briefings
COVID-19 series

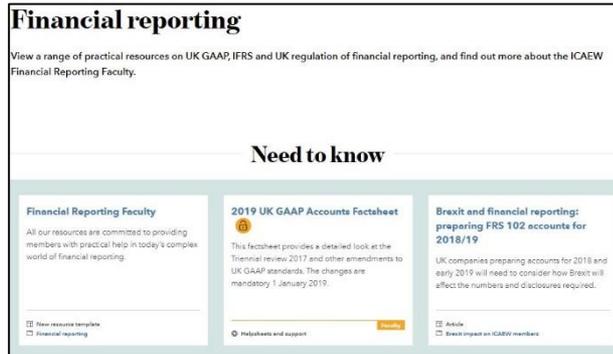


Webinars
12 July: Climate risk in the statutory audit



2021 Financial Reporting Conference
11-12 October

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Questions



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Thank you for attending



Please take the time to fill out our short survey:
[Survey link](#)



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