



C A D W A L A D E R
CLIMATE
Connecting Climate Change and the Law

Accounting Firms Challenged on Reporting of Climate Risks in Company Financial Statements

August 15, 2023



By Jason Halper
Partner and Co-Chair | Global Litigation



By Sara Bussiere
Special Counsel | Global Litigation

Environmental law NGO [ClientEarth has written](#) to the Global Public Policy Committee (GPPC), which brings together representatives of the six large international accounting organizations, to request greater transparency and higher standards in how climate change is addressed in financial statements. ClientEarth expressed concern that most companies in the [Climate Action 100+ focus list](#) “and their auditors do not fully consider climate-related matters when preparing their financial statements or the audits thereof, or at the very least do not explain if and how they have done so.”

In 2020, [the GPPC wrote to the IASB](#), confirming that “[a]ll GPPC networks will provide technical communications to audit partners and professionals on the recent IASB and IAASB developments and engage with companies and other stakeholders to encourage greater transparency on the impact of climate-related matters on companies’ financial statements.” According to ClientEarth, the GPPC has yet to fulfill this commitment.

Taking The Temperature: ClientEarth’s letter is just the latest salvo by environmental or investor groups expressing concern about the state of climate-related financial statement reporting. [We have reported](#), for instance, on an October 2022 Carbon Tracker Report, which claimed that “despite a growth of net zero pledges along with other climate commitments in the last year, most of the companies surveyed, with a collective market capitalization of over \$10 trillion, do not appear to be addressing the financial impact of these commitments, or of climate change risks more generally, in their financial statements.” Earlier this year, Climate Action 100+ released its [2022 progress report](#), which indicates the initiative has made headway in some areas but notes the

need for progress in others. In the foreword to the progress report, Andrew Gray, current chair of the global Steering Committee for Climate Action 100+, conceded that “the lack of credible short- and medium-term decarbonization strategies across the majority of focus companies needs to be tackled. So, too, does the clear lack of capital allocation commitments towards climate-change mitigation.”

In 2022, [over 30 members of the Institutional Investors Group on Climate Change \(IIGCC\)](#) wrote to the UK’s four largest accounting firms outlining investor expectations on increased and more transparent disclosure regarding how climate-related risks were being taken into consideration in the audit process. Separately, [34 members of the IIGCC](#) wrote to the Audit Committee Chairs of 17 of Europe’s largest companies requesting insight into why standards for financial reporting and climate-related accounting disclosures had yet to be met.

Likewise, organizations such as the [International Sustainability Standards Board \(ISSB\)](#) and the [International Accounting Standards Board \(IASB\)](#) have disseminated reporting guidelines designed to promote increased transparency in climate change reporting in financial statements.

We have written extensively on the lack of, and need for, consensus on appropriate climate-related disclosure schemes for financial reporting. In the UK, for example, [a recent survey](#) showed a developing consensus among UK companies that ESG considerations should be integrated into reporting frameworks, and yet, sustainability reporting is not yet “on par with the level of detail and scrutiny given to financial reporting [alone].” The formation of the [Forum ISSB Preparers Group](#) (a partnership between the World Economic Forum (WEF) and the International Sustainability Standards Board (ISSB)), which aims to share insights for those adopting the ISSB sustainability reporting standards, is an example of the necessary action being taken to address the lack of consensus on appropriate climate-related disclosure.