[Company name & address]

[Date]

Dear [Audit Committee Chair],

Investor expectations: 1.5C-aligned accounting disclosures

We wrote to you last November as a group of long-term investors and members of the Institutional Investor Group on Climate Change (IIGCC) to draw your attention to investor expectations for Paris-aligned accounts[1]. We are writing again now to understand why the Board was unable to make the requested disclosures, and what steps you will take to address this omission in the forthcoming audited accounts.

In our last letter, we set out the five disclosures we expected to see as part of your 2020 audited financial statements. We specifically asked for an affirmation that the Board was reflecting both [company]'s promised action to reduce greenhouse gas emissions and global decarbonisation aimed at limiting temperature increases to 1.5C in critical accounting assumptions and judgements. Where the Board chose not to adjust its accounting assumptions, we asked for an explanation and sensitivity analysis in the Notes to provide visibility into what a Paris-aligned pathway would mean for [company]'s financial position.

When we wrote, we also drew your attention to guidance published by the International Accounting Standards Board and the International Audit and Assurance Standards Board, as well as the Financial Reporting Council, for including material climate risks into financial statements and associated audits[2]. Where investors representing over $100 trillion in assets under management call for disclosures for how a net zero pathway will impact companies' financial position, they become material under the standards[3] [4].

Having now reviewed your 2020 Financial Statements in some detail, we are keen to understand why the Audit Committee has felt unable to provide the requested disclosures. Overall, we lack the required visibility to give us confidence that the economic impacts from climate change and associated policy action are being properly accounted for. We have little understanding of how [company]'s financial position might be impacted be accelerating decarbonisation associated with a 1.5C pathway.

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[1]These expectations were published in this report: Investor Expectations for Paris-aligned Accounts – IIGCC

[2] See: IFRS - Educational material: the effects of climate-related matters on financial statements prepared applying IFRS Standards, IAASB Issues Staff Audit Practice Alert on Climate-Related Risks | IFAC, Summary-FINAL.pdf (frc.org.uk)

[3] A statement calling for Paris-aligned accounts was released by the Principles for Responsible Investment (PRI), the UN Environment Programme Finance Initiative (UNEP FI), the Net-Zero Asset Owner Alliance initiative, IIGCC, Investor Group on Climate Change (IGCC), the Asia Investor Group on Climate Change (AIGCC), and the UK's Pensions and Lifetime Savings Association on 24th September 2020: https://www.unpri.org/accounting-for-climate-change/public-letter-investment-groupings/6432.article

[4] The latest IASB guidance noted above reiterates that materiality depends on investor expectations: *"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of financial statements (hereafter, investors) make on the basis of those financial statements, which provide financial information about a specific company. For example, information about how management has considered climate-related matters in preparing a company's financial statements may be material with respect to the most significant judgements and estimates that management has made."*

We attach a more detailed review of your 2020 financial statements and auditor report by Carbon Tracker, setting out gaps against our expectations. [OPTION: add company specific commentary on key areas of concern]

We understand that [company] faces challenges in navigating a transition to a net zero business model. However, the longer the Board delays making the net zero accounting adjustments, the longer it will delay the needed shift in capital towards a low carbon business model. Any misallocation of capital today increases the risk of larger impairments – and associated destruction of shareholder capital – in the future.

[Company] is not alone in omitting reference to climate factors in its financial statements. Carbon Tracker recently published a report "Flying Blind" that details the widespread failure of companies and their auditors to cover material climate risks[5]. In response to this market wide problem, our request for accounting disclosures is being added to the CA100+ benchmark as an 'alignment assessment' indicator, so will also form part of that engagement process.

As we did with our last letter, we are copying in [company's] auditor to emphasise our expectation that they alert shareholders where the accounts are not consistent with a 1.5C outcome[6]. Where they believe there to be material mis-statements according to the accounting standards, or a failure to meet the statutory auditor requirement, this should be highlighted in their Opinion on the accounts. We hope the Audit Committee will reinforce these messages.

Against the above backdrop, from next voting season you should increasingly expect to see investors vote against Audit Committee directors' reappointment, where high-risk companies fail to meet the expectations we have set out in the IIGCC November 2020 paper and underlined again here. We also expect to see these expectations increasingly reflected in investor voting policies on the reappointment of auditors. We would, therefore, be grateful if you could share this letter with the other members of the Audit Committee.

We would, of course, welcome further dialogue with you on the matters raised here. If you would find this helpful, please contact [add name and contact of investor lead].

Yours sincerely,

Cc

Audit committee directors: [add]

[Lead audit partner]

[5]Their report is based on an analysis of the financial statements published by 107 global listed high-carbon companies: [Flying blind: The glaring absence of climate risks in financial reporting - Carbon Tracker Initiative]

[6] See auditor expectations in [Investor Expectations for Paris-aligned Accounts – IIGCC]