



February 2021

Accountability Emergency

A review of UK-listed companies'
climate change-related reporting
(2019-20)

ClientEarth

ClientEarth

A future in which people and planet thrive together isn't just possible: it's essential. We use the power and rigour of the law to create it; informing, implementing and enforcing legislation, training legal and judicial professionals, and proposing policy. Our programmes of work span two broad categories: climate and pollution, and protection of nature. Our climate and pollution efforts defend our rights to a healthy existence. We force governments around the world to uphold their commitment to the Paris Agreement, decarbonise energy and tackle pollution hazardous to human and environmental health. Our nature protection work fights on behalf of vital ecosystems upon which we depend: forests, oceans and wildlife. We push for ambitious new legal protections and radical reforms to industry, and hold lawbreakers to account.

ClientEarth's Climate Finance Initiative carries out research, analysis and advocacy to accelerate action by actors across the financial sector to better integrate climate change-related risks and impacts into their business and investment decision-making, and to align their activities with the goals of the Paris Agreement.

Acknowledgements

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Disclaimer

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Executive summary

Between June and September 2020, ClientEarth conducted a review of the most recent Annual Reports of the 250 largest companies listed on the Main Market of the London Stock Exchange (as of 1 June 2020).

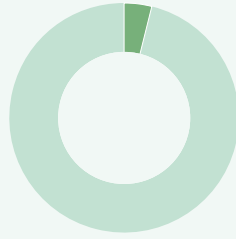
Our review analysed the extent to which climate change is referred to under a range of relevant reporting requirements, where material climate change-related information is expected to be disclosed. This report provides a summary of the results of our analysis, including the following key findings:

Key findings

- **Financial Accounts:** Of the 250 companies reviewed, only 4% made a clear reference to climate change-related factors in their financial accounts. Even where companies did so, the information disclosed was often highly general and non-specific, making it difficult to assess the financial implications.
- **Audit:** Only 4% of audit reports provided a clear explanation about whether the auditors had considered climate change-related factors in their audit. This indicates that many auditors are still failing to consider climate change-related financial risks and to assess the consistency of narrative disclosures with key assumptions in the financial accounts.
- **Risks and impacts:** Narrative disclosures about risks and impacts associated with climate change are improving. 40% of companies clearly referred to climate change in their discussion of principal risks and uncertainties. However, many companies still failed to provide any information at all about climate change-related risks and impacts.
- **Boilerplate disclosures:** Even among firms that did disclose financial and narrative information about climate change-related risks and impacts, highly generalised boilerplate language was common. The risks of stakeholders being misled through material omissions, or 'greenwash', are significant.
- **'Paris-alignment'/'net-zero' targets:** Despite no specific legal requirement, 31% of companies clearly disclosed a target to reduce their greenhouse gas (GHG) emissions by reference to alignment with the goals of the Paris Agreement, 'net-zero' objectives or 'science-based targets'. However, meaningful detail about assumptions, methodologies and strategies regarding targets was often limited or missing.
- **Entities not subject to the UK Companies Act 2006:** Many entities listed in the UK are not subject to all the requirements of the Companies Act 2006 (Companies Act), either because they are incorporated in another jurisdiction, or are structured as investment trusts. In general, climate change-related disclosures by such entities were very limited, increasing the risk of material omissions and creating a significant data gap.
- **GHG emissions:** 15% of the Annual Reports we reviewed did not disclose information about Scope 1 and Scope 2 GHG emissions. The majority of these were foreign incorporated companies or investment trusts. Despite no explicit legal requirement to do so, 33% of companies disclosed some Scope 3 GHG emissions. How Scope 3 emissions were calculated, however, was often very unclear.
- **FTSE 100 vs FTSE 250:** Overall there was a very clear difference in the quantity and quality of climate change-related disclosures by companies in the FTSE 100 compared to the companies that we reviewed in the FTSE 250. In general FTSE 100 companies were significantly more likely to disclose climate change-related information and provided much greater detail than companies in the FTSE 250.

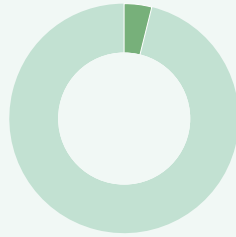
Key findings at a glance

4%



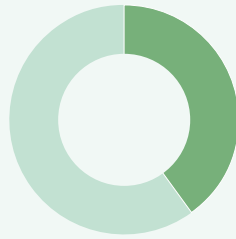
of the 250 companies reviewed made a clear reference to climate change-related factors in their financial accounts.

4%



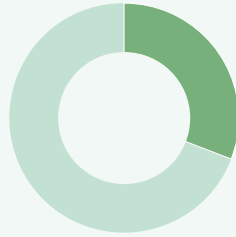
of audit reports clearly disclosed whether the auditors had considered climate change-related factors in their audit.

40%



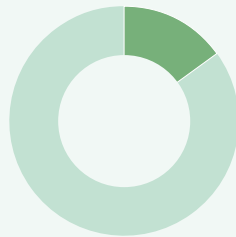
of companies clearly referred to climate change in their discussion of principal risks and uncertainties.

31%



of companies clearly disclosed a target to reduce their GHG emissions by reference to alignment with the goals of the Paris Agreement, 'net-zero' objectives or 'science-based targets'.

15%



of companies did not disclose information about Scope 1 and Scope 2 GHG emissions.

Key Recommendations

Law reform must level the playing field and meet investor expectations

New laws or regulations implementing the UK Government's commitment to introduce Task Force on Climate-Related Financial Disclosures (TCFD)-aligned reporting must:

- be introduced on a mandatory basis as soon as possible;
- explicitly require firms to disclose a strategy, with associated metrics and science-based targets (including interim targets), that is aligned with the Paris Agreement goals to achieve 'net-zero' global emissions by 2050 (Scopes 1-3); and
- provide shareholders with an advisory vote at company Annual General Meetings (AGMs) on the adequacy of climate change strategies and targets.

Strong enforcement is required to eliminate 'greenwash'

The Government, Financial Reporting Council (FRC) and Financial Conduct Authority (FCA) must take urgent action to close the current enforcement and accountability gap and eliminate 'greenwash' by:

- properly resourcing and training enforcement teams to supervise and investigate the adequacy of companies' climate change-related reporting;
- taking strong enforcement action where companies and their directors and auditors omit material climate change-related information; and
- issuing formal guidance to companies, directors and auditors on the legal and regulatory risks of 'greenwash' in financial reporting.

Investors have a duty to drive accountability

In order to meet their own fiduciary duties to manage climate change-related risks through their investment and stewardship decision-making, investors must:

- formally place companies, directors and auditors on notice of their expectations regarding the materiality of granular climate change-related financial information for their decisions;
- file and support robust shareholder resolutions at AGMs to demand that companies set and implement a strategy, with associated metrics and science-based targets (including interim targets), that is aligned with the Paris Agreement goals to achieve 'net-zero' global emissions by 2050 (Scopes 1-3); and
- set and implement a robust stewardship policy to vote against the reappointment of directors, audit committee chairs and auditors at companies that omit material climate change-related information.

01

Introduction

Climate change is radically transforming the world we live in, including our economy. Human activity has already caused 1°C of global warming and the physical impacts are here now. More frequent and severe droughts and storms, rising sea levels and unprecedented weather patterns are disrupting businesses across the globe. At the same time, transition mega-trends driven by climate change-related regulation, technology advances, and consumer demand are deeply reshaping markets.¹

In light of these unprecedented changes, the world's biggest investors are demanding that companies provide detailed climate change-related disclosures in their financial reports. As managers of our pensions and savings, they know that climate change and the zero-carbon transition create enormous risks and opportunities for individual businesses and the entire economy. Without investment grade disclosures of material information, they will be unable to meet their own duties to allocate and steward our capital through these changes.²

Climate change is material for all listed businesses

Because of clear investor expectations, and corresponding guidance from regulators, companies now need to disclose information about risks, trends and impacts associated with climate change as a matter of law. Strong materiality signals from investors mean that listed companies in the UK are required to report how they have taken into account the resilience of the company's business model and its risks, uncertainties and viability in light of climate change. Many will need to reflect this information in their financial accounts. Auditors too, need to carefully consider these factors when making their own reports to company shareholders.

Corporate climate reporting by large listed companies in the UK (2019-20)

This year, for the first time, we have undertaken a more comprehensive review of the most recent Annual Reports of the 250 largest UK listed companies, including the entirety of the FTSE 100 and the largest 150 companies of the FTSE 250. Through a review of each company's Annual Report, we have analysed whether companies across different sectors have disclosed information about climate change-related matters under the most relevant accounting and reporting laws.

Given their status as the industry baseline for climate change-related reporting, we have also reviewed whether companies have clearly referred to the recommendations of the TCFD in their annual reporting. Additionally, we have assessed the number of companies that claim to have set 'Paris-aligned', 'net-zero' or 'science-based' emission reduction targets.

Firms are failing to provide material climate change-related information

Based on our review and analysis, we have found that while climate change-related reporting by large listed companies in the UK is clearly improving, many companies still fail to provide any meaningful information about the climate change-related risks and impacts that are facing their business.

Even among companies that disclose some climate change-related information, highly generalised and boilerplate information is common. While there are undoubtedly examples of good reporting by individual companies, overall disclosure practices fall a long way short of the granular climate change-related narrative and financial information which investors say that they need and expect. The limited extent to which auditors are drawing attention to these matters in their audit reports also indicates that many are failing to properly test management on their accounting assumptions and disclosures.

ClientEarth regulatory complaints

Despite strong guidance from regulators and clear expectations from investors, the quantity and quality of climate change-related reporting in the UK remains poor. Existing accountability mechanisms are not functioning effectively, and regulatory oversight is lacking.

In recent years, ClientEarth has conducted high-level reviews of company reporting by large listed companies in the UK for compliance with climate change-related reporting requirements. We have identified widespread non-compliance and reported specific examples to the FRC and FCA.³ Each of the entities reported has significantly improved its reporting in subsequent years. However, neither the FRC nor FCA have ever made a public finding of non-compliance, indicating a clear accountability gap.

Figure 1: Summary of ClientEarth regulatory complaints and outcomes

Date	Company	Climate Risk Disclosure	Outcome
2016	Cairn Energy plc	None	No public decision made by FRC
2016	SOCO International plc	None	No public decision made by FRC
2018	Admiral Group plc	None	No public decision made by FCA
2018	Lancashire Holdings Limited	None	No public decision made by FCA
2018	Phoenix Group Holdings	None	No public decision made by FCA
2018	Balfour Beatty plc	Very limited	No public decision made by FRC
2018	Bodycote plc	None	No public decision made by FRC
2018	EnQuest plc	None	No public decision made by FRC
2018	EasyJet plc	None	No public decision made by FRC

Accountability mechanisms must be improved

In light of the findings of our review, we strongly welcome recent announcements by the Government and financial regulators to introduce new climate change-related reporting requirements across the economy, including for listed companies, from 2021.⁴ We are also pleased to see that the FRC has recently carried out a 'Thematic Review' on climate change and called for boards and auditors to improve their disclosures.⁵

While we support these developments and welcome calls for greater action by industry, based on the clearly inadequate and inconsistent disclosure practices we have identified under existing requirements, we also strongly believe there must be a step-change in action by Government and the financial regulators to close the existing accountability gap.

With increasing risks of boilerplate reporting and 'greenwash', clear mandatory reporting requirements supported by strong supervision and enforcement of non-compliance and additional accountability tools for shareholders will be essential. Improved accountability mechanisms will be critical to ensure that all firms comply with new and existing requirements and disclose the material information that investors and other stakeholders are demanding.

In order to meet their own fiduciary duties to their clients and beneficiaries, investors too must use their existing legal rights and powers to hold companies, directors and auditors accountable, where disclosures are inadequate.

The remainder of this report is structured as follows:

Section 2	provides an overview of the relevant legal requirements and other matters which we have considered in the course of our review
Section 3	explains the methodology that we have used for our review and analysis
Section 4	sets out our research findings and analysis in relation to different relevant legal requirements, including our quantitative analysis and examples of disclosure
Section 5	provides our conclusions and recommendations

02

Overview of relevant legal requirements

Publicly listed entities in the UK are subject to numerous legal disclosure requirements where climate change-related factors will need to be considered and reported. While the applicable legal requirements will differ slightly depending on the type of entity and its jurisdiction of incorporation, in general, all listed entities are required by law to disclose material information about their business and activities to the market.

In some cases, the requirements for companies to disclose climate change-related information are explicit, such as the duties on companies subject to the requirements of the Companies Act to disclose detailed information about GHG emissions that they are responsible for.⁶

In other cases, requirements to disclose climate change-related information may be implicit, with climate change-related information being required to be considered and reported where material. This includes reporting requirements regarding business model, risks, impacts, and strategy in the narrative of the Annual Report, as well as making financial adjustments or disclosures in the Financial Accounts. Alongside specific requirements, general prohibitions regarding misleading information and material omissions under the FCA Handbook and Market Abuse Regulation also apply.⁷

Where material, company auditors are required to consider and explain their approach to these issues in their Audit Reports.

Expectations from investors and regulators are clear

In recent years, the need for companies to address climate change-related factors under existing reporting requirements has been made clear by the FRC,⁸ the FCA⁹ and the International Accounting Standards Board (IASB).¹⁰ Leading law firms and accounting firms have published public reports and advice, confirming this position.¹¹ For many years, the world's largest investors have also publicly communicated their views that granular climate change-related financial disclosures are highly material to their decision-making.¹²

In relation to the level of detail that investors and regulators now expect, the recommendations of the TCFD are the industry baseline standard for disclosing material information. Increasingly, investors also expect companies to disclose a strategy to reduce their GHG emissions in line with the Paris Agreement and/or 'net-zero' objectives, and align their financial accounts and reporting with this trajectory.

FRC Statement on the Government's Green Finance Strategy (July 2019)

"The Boards of UK companies have a responsibility to consider their impact on the environment and the likely consequences of any business decisions in the long-term.

They should therefore address, and where relevant report on, the effects of climate change (both direct and indirect). Reporting should set out how the company has taken into account the resilience of the company's business model and its risks, uncertainties and viability in both the immediate and longer-term in light of climate change.

Companies should also reflect the current or future impacts of climate change on their financial position, for example in the valuation of their assets, assumptions used in impairment testing, depreciation rates, decommissioning, restoration and other similar liabilities and financial risk disclosures."

Legal requirements considered in our review

Material climate change-related information will need to be considered and disclosed under a range of different reporting requirements. For the purpose of our review, we considered the following:

Figure 2: Relevant reporting requirements

Financial accounts

Financial accounts must provide a 'true and fair view' and be prepared in accordance with IFRS (CA, chap 4). Relevant IFRS where climate change may need to be considered include:

- asset lives and values – IAS 16; IAS 38
- accounting judgments/estimates – IAS 1; IFRS 13
- impairments – IAS 36
- provisions and contingent liabilities – IAS 37
- changes in expected credit losses for loans and other financial assets – IFRS 7

Narrative reporting

Climate change-related information may need to be disclosed under a range of narrative reporting requirements, including:

- principal risks and uncertainties – CA ss 414C(2)(b), 414CB(2)(d); DTR 4.1.8R(2)
- environmental impacts and policies – CA s 414CB(2)
- strategy and business model – CA ss 414C(8)(a), 414CB(2)(b); DTRs 4.1.8R(1), 4.1.9R
- section 172 statement – CA s 414CZA
- viability statement – DTR 7.2; LR 9.8.6R(6); UK Corporate Governance Code
- greenhouse gas reporting – CA Part 7, Schedule 8

Audit

The auditor must provide opinions on the Financial Accounts, the Strategic Report and Directors Report (CA, chap 5). Relevant ISAs where climate change may need to be considered include:

- identifying and assessing the risks of material misstatement – ISA 315
- the auditor's responses to assessed risks – ISA 330
- auditing accounting estimates and related disclosures – ISA 540
- the auditor's responsibilities relating to other information – ISA 720

Definitions: Companies Act 2006 (CA); International Financial Reporting Standards (IFRS); International Accounting Standards (IAS); FCA Handbook Disclosure Guidance and Transparency Rules (DTR); FCA Handbook Listing Rules (LR) International Standards on Auditing (ISA)

When applying these specific reporting requirements, listed entities must also carefully consider general prohibitions regarding misleading information and material omissions.¹³

A comment on 'materiality'

Under the UK's principles-based corporate reporting framework, companies are often required to apply the principle of 'materiality' to determine what information to include in their disclosures. While the concept of 'materiality' is not itself defined in legislation, the FRC Guidance on the Strategic Report explains that:

"Information is material if its omission or misrepresentation could reasonably be expected to influence the economic decisions shareholders take on the basis of the annual report as a whole."¹⁴

This definition makes clear that the core touchstone of 'materiality' is whether or not particular information would reasonably be expected to influence investor decision-making. This requires consideration of both quantitative and qualitative factors, as well as investors' reasonable expectations. IFRS accounting standards adopt a broadly similar formulation for materiality in relation to the financial accounts.¹⁵

In light of unequivocal demands by the world's biggest investors, in our view, granular climate change-related information must now be presumed to be material for all large listed companies.

03

Research methodology

Between June and September 2020, ClientEarth conducted a high-level review of the most recent Annual Reports of the 250 largest companies listed on the London Stock Exchange.

This selection of companies included the entirety of the FTSE 100 and the largest 150 companies of the FTSE 250 (as of 1 June 2020).¹⁶ In carrying out our review, we analysed the extent to which climate change was referred to under existing reporting requirements likely to apply to UK listed entities, where material climate change-related information would be expected to be disclosed (see **Figure 1**).

For each of the relevant reporting requirements we analysed each company's reporting and categorised them using the following simple framework:

Category	Explanation
Clear disclosure	The 'Clear disclosure' category indicates that a clear and more than extremely limited reference to climate change has been identified in relation to the relevant requirement.
Unclear disclosure	The 'Unclear disclosure' category indicates that a reference to climate change may have been identified in relation to the relevant requirement, but it is unclear or only extremely limited.
No disclosure	The 'No disclosure' category indicates that no reference to climate change has been identified in relation to the relevant legal requirement.

This review methodology aimed to provide high-level findings about the current state of climate change-related reporting under existing legal requirements. It was not designed to provide an in-depth, qualitative assessment about the adequacy of the disclosures of individual companies. In particular, no assessments about the materiality of climate change-related factors for particular companies were made in the course of the review. The manual nature of the review also meant that some subjective discretion was exercised by reviewers.

On that basis, while the overall findings are useful in providing a broad impression of current reporting practices and trends in the UK, they do not purport to identify or quantify compliance with the law or the adequacy or quality of company disclosures. In addition to our quantitative findings, we have also included some examples of company disclosures, together with brief qualitative comments to help illustrate current practice. These examples are included for illustrative purposes only and do not indicate any definitive assessment about whether or not a particular company has complied with the law.

Sectoral analysis

Alongside a comparative analysis of companies across the FTSE 100 and FTSE 250, as part of our review, we have also carried out a sectoral analysis using the categories set out below. These have been adapted from the FT Market Data website.¹⁷

Sector	Number of companies reviewed		
	FTSE 100	Top 150 of FTSE 250	Total
Basic Materials	10	10	20
Consumer Goods	13	15	28
Consumer Services	13	12	25
Financials	23	51	74
Healthcare	4	6	10
Industrials	23	29	52
Oil & Gas	2	1	3
Real Estate	0	14	14
Technology	4	6	10
Telecoms	2	3	5
Utilities	6	3	9

04

Research findings and analysis

The following section sets out quantitative findings of our analysis in relation to each relevant legal requirement, alongside examples of company reporting and brief qualitative comments on broad trends and practices identified in the course of our review.

For results of our quantitative analysis, we have displayed our findings in relation to the entirety of the 250 largest listed companies that we reviewed (Top 250), as well as separately for all companies in the FTSE 100 (FTSE 100) and the top 150 largest companies in the FTSE 250 by market cap (Top 150 of FTSE 250). Where relevant we have also displayed our findings for the Top 250 companies differentiated across the different sectors.

In selecting examples of particular company disclosures for inclusion in this section, for each relevant legal requirement, we have aimed to identify one company that clearly refers to climate change in substantial detail, and one company that provides no clear reference to climate change, or only an unclear reference. The inclusion of a particular company's reporting as an example does not otherwise indicate an overall assessment of the adequacy or quality of their disclosures, or compliance with the law.

4.1 Financial Accounts

It is now widely recognised that climate change-related risks and impacts will be relevant for a wide variety of items in the financial accounts. In the UK, listed companies are required to prepare their financial accounts using International Financial Reporting Standards (IFRS).¹⁸ While there is no single IFRS standard which specifically addresses climate change, the principles-based framework established by IFRS means that climate change-related risks and impacts will need to be taken into account to satisfy many existing requirements.

The potential financial implications arising from climate change-related and other emerging risks may include, but are not limited to:

- asset impairment, including goodwill (IAS 36);
- changes in the useful life of assets (IAS 16; IAS 38);
- changes in the fair valuation of assets (IFRS 13);
- effects on impairment calculations because of increased costs or reduced demand (IAS 36);
- changes in provisions for onerous contracts because of increased costs or reduced demand (IAS 37);
- changes in provisions and contingent liabilities arising from fines and penalties (IAS 37); and
- changes in expected credit losses for loans and other financial assets (IFRS 7).

IFRS, 'IFRS Standards and climate-related disclosures' (2019)

Initially foreshadowed in the work of the TCFD¹⁹ and ClientEarth's 2017 'Risky Business' report,²⁰ this position has now been clearly confirmed by the IFRS itself in its 2019 discussion paper on IFRS standards and climate-related disclosures.²¹ More recently, the FRC has drawn attention to these requirements in its thematic review on climate change-related reporting, which also identified many areas of potential non-compliance with IFRS.²² Significantly, investors representing assets worth over US\$ 103 trillion have also publicly called on companies to fully reflect climate change-related factors in their financial results.²³ More recently, there have also been calls for companies to explicitly align their accounts with the goals of the Paris Agreement.²⁴

Financial accounts: findings

Despite these clear statements of expectation from the standard setters, regulators and investors, very few of the reviewed companies made any reference at all to climate change-related factors in their financial accounts or notes to their accounts.

Materiality in financial accounts

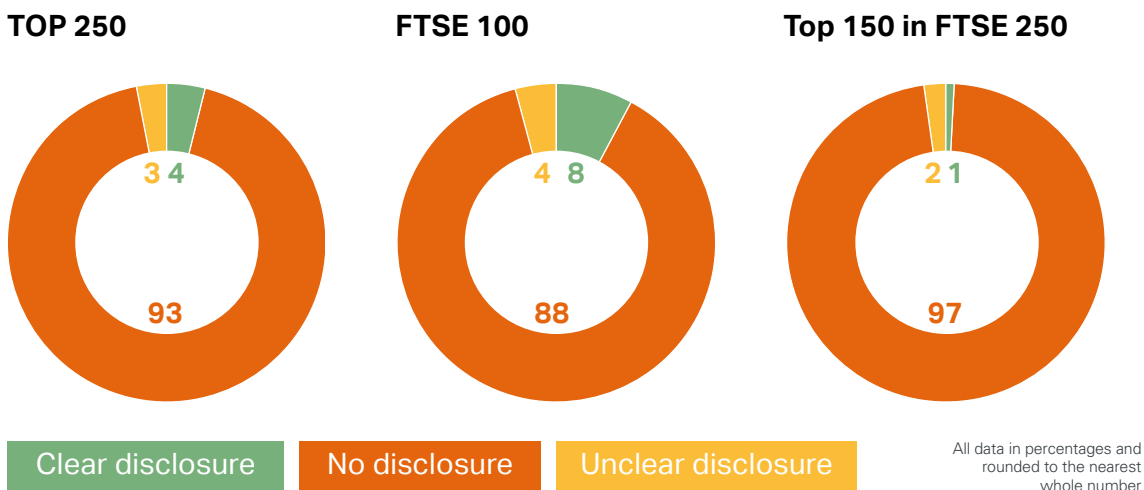
Investors’ reasonable expectations are highly relevant to the definition of materiality used by the IFRS standards:

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

[IAS 1: Presentation of Financial Statements](#)

Of the 250 companies reviewed, just 4% clearly referred to climate change in their financial accounts. A further 3% of companies made unclear or very limited disclosures.²⁵ The remaining 93% of companies made no reference at all to climate change-related factors in their financial accounts. Within these few examples, the vast majority of companies that did refer to climate change in their accounts were within the FTSE 100. Just two companies across all of the FTSE 250 companies we reviewed made a clear reference to climate change in their financial accounts.

Where companies did refer to climate change-related factors in their financial accounts, the most common matter discussed was potential implications for key assumptions, such as long-term commodity prices, and the relevance of these for asset lives, values and impairments. However, except for a few examples, the information disclosed was often highly general and non-specific, making it difficult to assess its relevance and implications.



BHP plc Annual Report 2020 (year ending 30 June 2020)

BHP Group (BHP), is an Anglo-Australian multinational mining, metals and petroleum dual-listed public company headquartered in Melbourne, Australia.

BHP provides an extensive narrative discussion regarding climate change-related risks and impacts in its Annual Report. In addition to this narrative discussion, BHP also explains that it has taken into account these climate change-related factors in preparing its financial accounts.

Beyond some comments about considerations for a range of long-term oil price assumptions, BHP does not however provide granular detail about the specific financial implications of these climate change-related factors, or whether they are aligned with the group overall emission reduction targets.

BHP's auditors, EY, also include a discussion of how they have taken into account climate change-related factors in their audit report.

Note 11 – Property Plant and equipment (pg 197).**"Climate change**

Impacts related to climate change and the transition to a lower carbon economy may include:

- demand for the Group's commodities decreasing, due to policy, regulatory (including carbon pricing mechanisms), legal, technological, market or societal responses to climate change, resulting in a proportion of a CGU's reserves becoming incapable of extraction in an economically viable fashion;
- physical impacts related to acute risks resulting from increased severity of extreme weather events, and those related to chronic risks resulting from longer-term changes in climate patterns.

The Group continues to develop its assessment of the potential impacts of climate change and the transition to a lower carbon economy. **Where sufficiently developed, the potential financial impacts on the Group of climate change and the transition to a lower carbon economy have been considered in the assessment of indicators of impairment, including:**

- the Group's current assumptions relating to demand for commodities and carbon pricing and their impact on the Group's long-term price forecasts;
- the Group's operational emissions reduction strategy. For example, transitioning to renewable power supply contracts at the Group's Escondida and Spence operations.

Given the significant petroleum price volatility in CY2020 and the potential impact of climate change on long-term petroleum prices, the Group considered a range of long-term price assumptions, including oil prices at US\$55 a barrel (Brent), when determining that no indicators of impairment existed at 30 June 2020."

No disclosure

Rio Tinto plc 2019 Annual Report (year ending 31 December 2019)

Rio Tinto Group is an Anglo-Australian multinational and the world's second largest metals and mining corporation, behind BHP, producing iron ore, copper, diamonds, gold and uranium.

In the narrative section of its Annual Report, Rio Tinto includes an extensive discussion of climate change-related risks and impacts and states:

"Climate risks and opportunities have formed part of our strategic thinking and investment decisions for over two decades. Our climate change report explains our approach to governance and risk management in this area and sets out our 2030 targets and our ambition to reach net zero emissions by 2050 across our operations" (pg 26).

However, unlike some of its key competitors, Rio Tinto makes no explicit reference to implications of climate change-related risks or impacts in its financial accounts or the notes to the accounts. This indicates a potential lack of consistency between the narrative and the financial accounts. There is also no reference to climate change-related factors in the audit report prepared by PwC.

In its discussion of its depreciation of non-current assets (pg 158), Rio Tinto does note that: "[f]actors affecting the remaining service potential of smelters include, for example, smelter technology and electricity purchase contracts when power is not sourced from the company's, or in some cases a local government's, renewably sourced electricity generating capacity." This may indicate the consideration of climate-change related risks, however this is highly unclear.

4.2 Principal risks and uncertainties

The need for companies to consider, manage and disclose the risks and uncertainties associated with climate change is now widely recognised. Under section 414C(b) of the Companies Act, there is a clear legal requirement on UK incorporated companies to disclose a description of the principal risks and uncertainties facing the company. There is also an equivalent requirement under DTR 4.1.8R in the FCA Handbook, which is particularly relevant for companies that are listed in the UK, but incorporated elsewhere.

Additionally, following the transposition of the EU Non-Financial Reporting Directive (Directive 2014/95/EU) (NFRD) into UK company law in December 2016, there is a further requirement on UK incorporated companies to disclose principal risks, specifically in relation to environmental matters.²⁶

In terms of the types and details of climate change-related risks that firms should now be disclosing, the TCFD Recommendations provide a clear typology and framework. FRC Guidance also make clear that companies should not only disclose the risks facing their business, but also provide details about financial implications and the actions being taken by the company to manage and mitigate them.²⁷

Explainer: A climate risk taxonomy

The most widely adopted taxonomy to describe climate risk, now adopted by the industry-led TCFD, divides climate risk into two broad categories – physical risks and transition risks:

Physical risks refer to risks arising from the direct physical impacts of climate change. These may be driven by specific events, including increased severity of extreme weather events, or by longer-term shifts in climate patterns, including sea level rise (leading to increased flooding and salinisation) or chronic heatwaves.

The financial impacts of these risks could include losses from damage to assets and supply chain disruption; reductions or disruption to production capacity; increased operating and input costs; and increased insurance premiums.

Transition risks refer to risks arising from the transition to a low-carbon economy. Extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change are well underway. They are already having financial impacts on companies and their investors.

Policy changes and new regulation are driving write-offs and balance sheet impairments; disruptive technology is creating new competitive pressures; and consumer demand for low-carbon and sustainable products is shifting markets.

“Where relevant, the description of the principal risks and uncertainties facing the entity should include linkage to and discussion of the entity’s strategy and/or business model. Any linkage to accounting estimates and judgements disclosed in the notes to the financial statements, the going concern statement, trends or factors from the external environment described elsewhere in the strategic report, or any other linked disclosure in the annual report, could also be highlighted and, where relevant, discussed.”

– FRC, *Guidance on the Strategic Report (2018)*

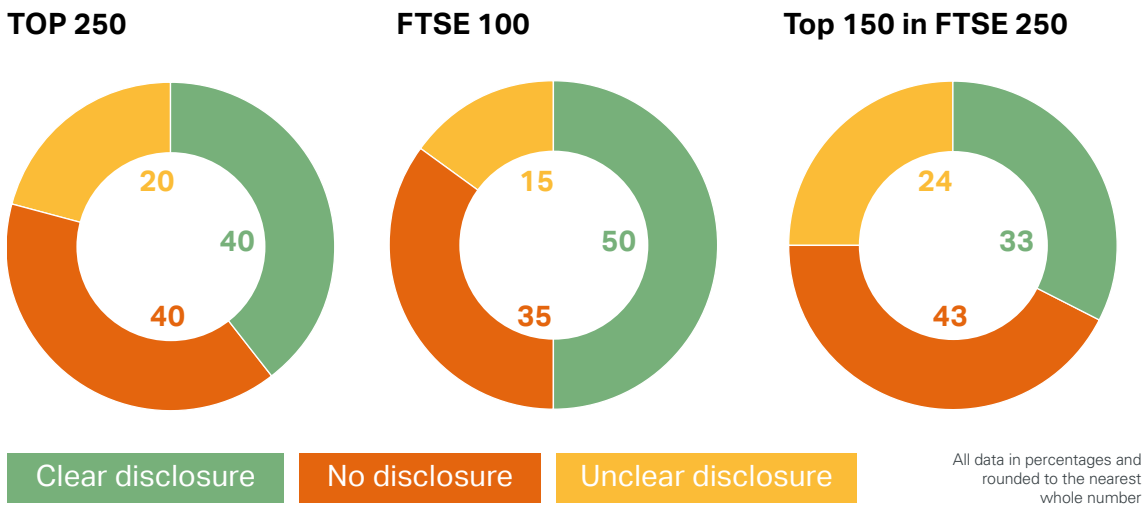
Principal risks and uncertainties: findings

While many of the companies reviewed have responded to investor demands and regulatory guidance by providing increasingly detailed information about the climate change-related risks facing their business, a very significant proportion are still failing to provide any meaningful disclosures about climate change-related risks at all.

Of the 250 companies reviewed, just 40% clearly made any reference to climate change in their disclosures of principal risks and uncertainties. A further 20% of companies made unclear or very limited disclosures. The remaining 40% provided no reference to climate change in their principal risks and uncertainties section at all.

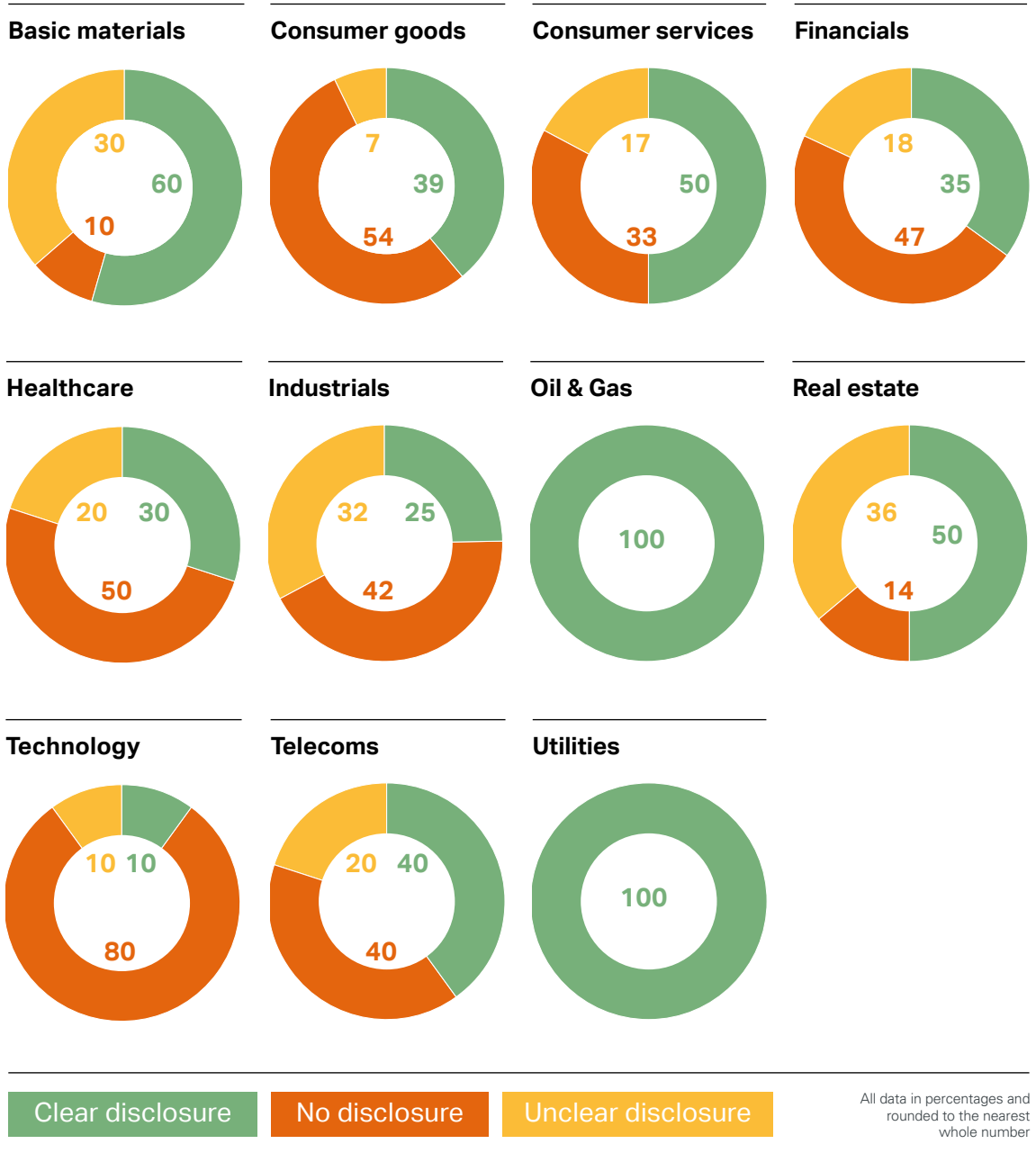
The percentage of companies in the 'unclear disclosure' category indicates the significant proportion of companies with only a cursory reference to climate change or where it was unclear whether climate change was being referred to as an emerging risk or principal risk.

Overall, FTSE 100 companies were substantially more likely to clearly discuss climate change in their principal risks section than their FTSE 250 counterparts (50% compared to 33%). In general, FTSE 100 companies also provided more detail in their disclosures about financial impacts and risk management practices. However, across the board we identified a significant proportion of companies which only provided a very general or boilerplate discussion of climate change-related risks, while providing only minimal entity specific detail or discussion about how the risks were being mitigated or managed.



Sector-specific results

The extent to which companies in different sectors disclose climate change-related risks differed significantly. Companies in sectors which have traditionally been considered to be most exposed to climate change risks and impacts, like 'Oil & Gas' and 'Utilities', all made some form of reference to climate change-related risks in the 'principal risks and uncertainties' section of their reports (12 of the 250 companies reviewed were from these sectors). On the other hand, companies in the 'Technology', 'Consumer goods' and 'Financials' sectors were the least likely to make any clear reference to climate change in the principal risks and uncertainties sections of their Annual Reports.



Principal risks and uncertainties: disclosure examples

Clear disclosure

easyJet plc Annual Report 2019 (year ending 30 September 2019)

easyJet plc (easyJet), is a British multinational low-cost airline group headquartered in Luton. It operates domestic and international scheduled services on over 1,000 routes in more than 30 countries.

In 2018, ClientEarth reported easyJet (along with a number of other companies) to the FRC for its failure to provide any meaningful disclosure about climate change-related risks in its Annual Report.²⁸ Subsequently, easyJet’s climate change-related risk reporting has improved significantly and in 2019 it included a full page on ‘Environment and sustainability’ risks in the ‘key risks’ section of its Annual Report (pg 41).

Risk: Carbon trading schemes – Adverse changes to carbon trading schemes, including the existence and/or cost of the scheme

Potential causes	Potential consequences	Controls and mitigations
<ul style="list-style-type: none"> Political change Uncertainty driven by Brexit International alignment External pressure groups 	<ul style="list-style-type: none"> Closure of existing scheme Loss of free allocations, leading to significant cost impact Introduction of new schemes Inability to hedge in line with fuel policy 	<ul style="list-style-type: none"> easyJet influences future and existing policy and regulations which affect the airline industry through a number of different channels, including working with relevant industry bodies to assist in this; easyJet look to optimise fuel usage to reduce emissions and therefore reduce the potential impact of those schemes, for example ensuring optimal routings as well as using climb, descent and landing techniques to improve efficiency; and easyJet has an appropriate hedging strategy (to the extent possible)

Risk: Climate change – Weather patterns including, but not limited to, winds, storms, extreme temperatures, are becoming increasingly difficult to predict

Potential causes	Potential consequences	Controls and mitigations
<ul style="list-style-type: none"> Increased CO₂ emissions 	<ul style="list-style-type: none"> Adverse customer experience Injury to customers Operational disruption (including airspace and runway closures) Aircraft damage 	<ul style="list-style-type: none"> easyJet continues to bring Airbus neo aircraft into its fleet which are significantly more fuel efficient than the standard variant; easyJet aircraft use only one engine when taxiing on the ground; easyJet operates flights with a high load factor, and is a short-haul operator, which has a lower carbon impact per passenger kilometre than airlines whose operations include a significant amount of long-haul flight; and Disruption management measures include advanced winter planning, standby crews and aircraft, as well as the continual review of flight plans to ensure the optimal routings. In addition, to reduce the time it takes to resolve aircraft technical faults, easyJet has a contract for two light aircraft and crew to transport engineers and spare parts around its network, with dedicated engineers on standby to travel.

Risk: Eco taxes – Future policy measures and regulation to tackle the impact of aviation on climate change could impact easyJet’s business if they impose limitations and cost on how easyJet operates and the services it can provide

Potential causes	Potential consequences	Controls and mitigations
<ul style="list-style-type: none"> Political change External pressure groups Customer demand 	<ul style="list-style-type: none"> Significant increase in cost of existing aviation taxes/levies Future expansion of taxes/levies Policies to constrain growth/capacity Increasing noise curfews Pressure on margins 	<ul style="list-style-type: none"> By engaging with key stakeholders, easyJet seeks to reach a common understanding on the drive to impose policy measures and regulation to address the impact of aviation on climate change; easyJet continues to explain it’s environmental performance, and the further action it is taking, to it’s customers and other stakeholders. For example, this has included highlighting the introduction of the A320neo and A321neo aircraft and their reduced emissions compared to previous generation aircraft, and work with partners in regards to new technologies to radically reduce the carbon footprint of flying; easyJet is able to operate flexible routings in the event of constraints being brought in; and The new generation Airbus A320 neo and A321neo aircraft are 50% quieter during take off and landing than the equivalent previous generation aircraft.

No disclosure

Scottish Mortgage Investment Trust plc Annual Report and Financial Statements (year ending 31 March 2020)

Scottish Mortgage Investment Trust plc (Scottish Mortgage) is a publicly traded investment trust managed by Edinburgh based investment partnership Baillie Gifford & Co Ltd.

It is considered to be Baillie Gifford's flagship investment trust and invests globally in a wide portfolio of publicly listed and private companies, with around GBP 18 billion assets under management.

In the 'Managers' Review' section of the Annual Report (pg 13), there is a high-level observation regarding the implications of the energy transition.

"The End of Carbon

One such miracle may already have occurred. It may eventually be seen as equally historic and as beneficial as the pandemic has been malign. The age of carbon may have ended before the virus spread. For all the drama of the Saudi-Russian clash or of negative oil prices this was a transformation long foretold but finally turning unstoppable in the first quarter of 2020. The remorseless fall in the prices of renewable energy has at last translated into savage competition against traditional fuels. In the first three months of 2020, 52% of German electricity came from renewables. In the UK that figure was 45%. No wonder the share prices of Exxon, BP and Schlumberger were already falling sharply in January and February. Sad though it is to say pandemics are far more common than energy transitions in the history of the world. The rise of renewables and the electrification of transportation will be central to the investing world of the next twenty years at least. It matters."

Beyond this high-level observation however, Scottish Mortgage provides no discussion about the risks of climate change or the energy transition in its discussion of its principal risks and uncertainties, or how it takes these trends into account in its business model or investment strategy.

4.3 Environmental impacts and policies

Following the transposition of the NFRD into UK company law in December 2016, all listed companies must now include a 'non-financial information statement' as part of their Strategic Report. Amongst other matters, this must include information regarding the impact of the company's business on the environment, and in particular:

- a description of the policies pursued in relation to the environmental matters and any due diligence process implemented in pursuance of those policies;
- a description of the outcome of the policies;
- a description of the principal risks arising in relation to environmental matters arising in connection with the entity's operations, and how it manages those principal risks; and
- a description of the non-financial key performance indicators relevant to the entity's business.

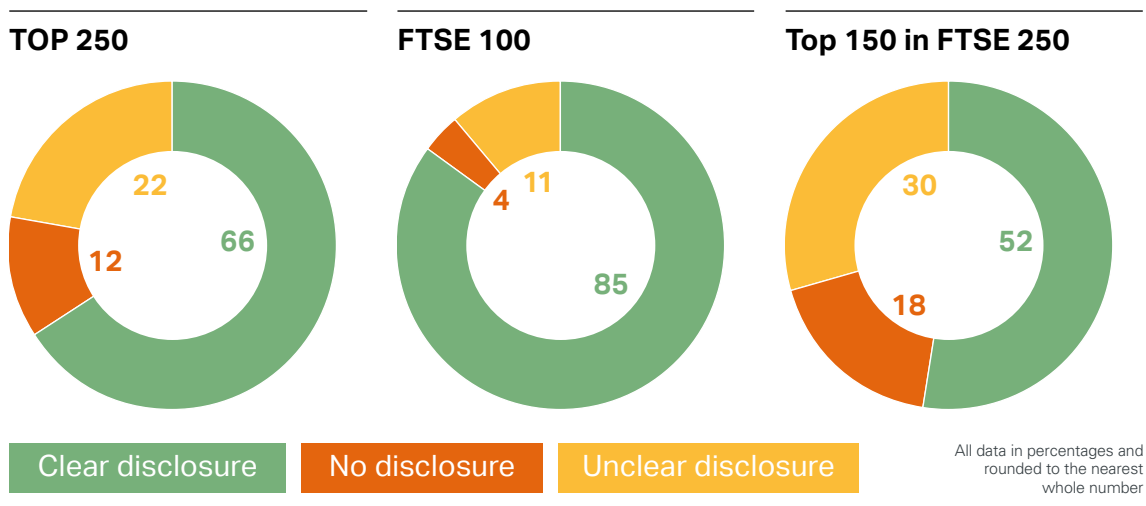
This information should be disclosed to the extent necessary for an understanding of the company's development, performance and position and the impact of its activity. It should also be disclosed in a separately identifiable statement within the Strategic Report. Significantly this information is intended to go beyond the consideration of climate change-related risks to the company itself, and also focus on the climate change-related impacts of the company on the environment and society.

Environmental impacts and policies: findings

In performing this component of the review, we only considered whether climate change was clearly referred to within a company's broader discussion of its environmental impacts and policies. In order to simplify the analysis, we made no assessment about whether all of the 'non-financial information statement' requirements had been met. In performing our quantitative analysis we did not consider the adequacy of any policies adopted by companies to address their climate change impacts, which would have required a significant qualitative assessment, and is outside of our specialism.

66% of companies made some clear reference to climate change in their discussion of environmental impacts and policies. A further 22% made unclear or very limited disclosures. The remaining 12% provided no disclosure of climate change-related impacts or policies. In general, companies in the FTSE 100 were more likely to disclose information about climate change-related impacts and policies than their counterparts in the FTSE 250.

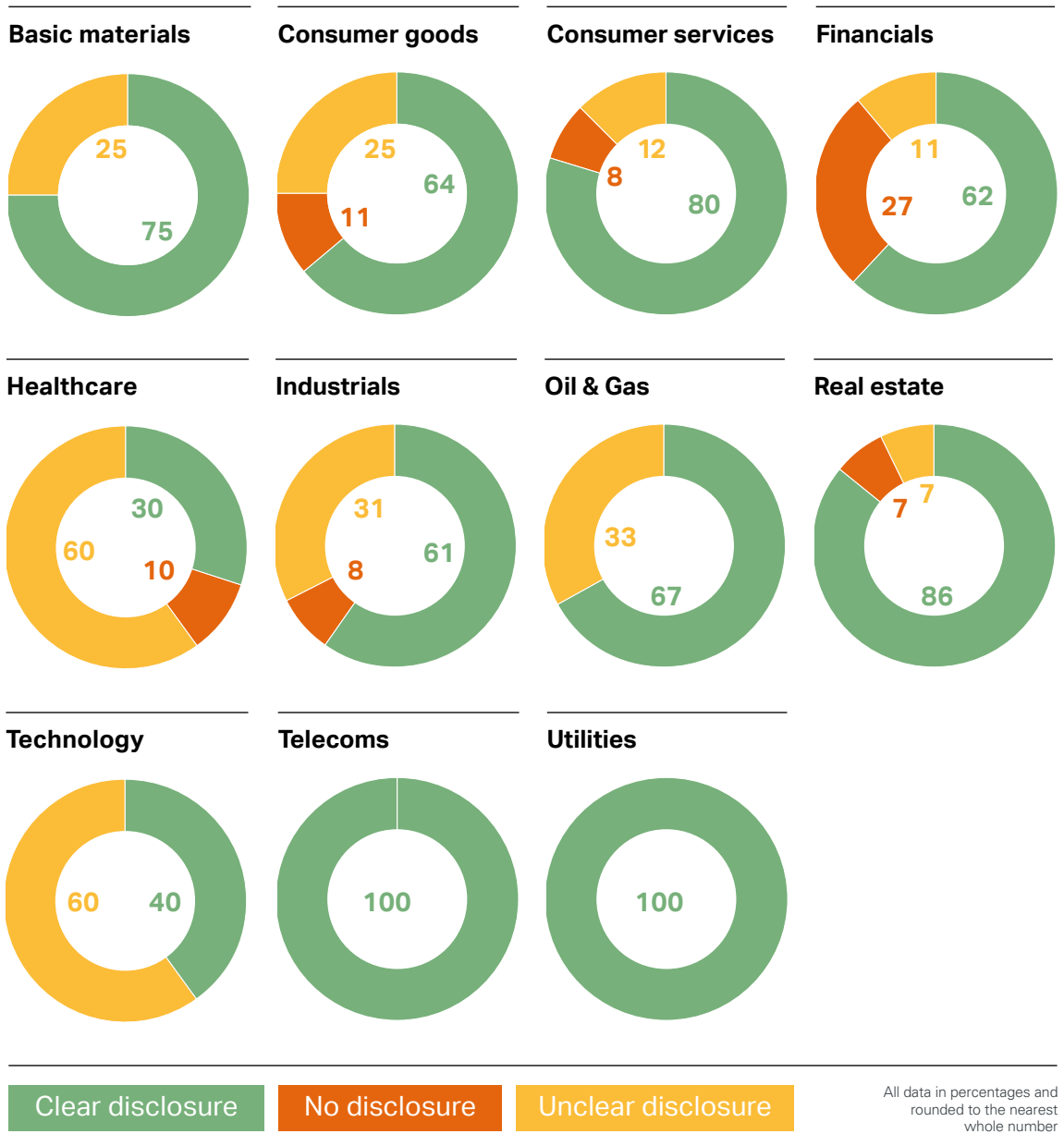
While the overall percentage of companies discussing their climate change-related impacts was quite high, the detail provided by many companies was very limited. Often it did not go beyond a reference to their overall GHG emissions (which is a separate mandatory reporting requirement in any event). We further observed that many companies failed to include their consideration of climate change-related impacts and policies in a separately identifiable 'non-financial information statement'.



Sector-specific results

Disclosures in relation to climate change-related impacts and policies were markedly different across the different sectors. Companies in sectors likely to be responsible for more significant quantities of GHG emissions were generally more likely to refer to climate change-related impacts and policies.

Notably, listed entities in the 'Financials' sector were least likely to refer to climate change-related impacts or policies in their Annual Reports. Amongst other things, this may be because many are structured as investment trusts, to which some of the Companies Act requirements do not apply. This indicates a potentially significant gap in coverage and consistency of disclosure requirements for a large portion of listed entities that are key constituents of major investment indices.



Clear disclosure

**Legal & General Group plc Annual Report 2019
(year ending 31 December 2019)**

Legal & General Group plc (Legal & General), is a British multinational financial services company headquartered in London. Its products and services include investment management, lifetime mortgages, pensions, annuities, and life assurance.

Legal & General provides a detailed discussion of its policies and strategies to achieve positive climate change-related impacts through its core business activities (pg 49). It also makes a clear reference to the fact that this information forms part of its 'non-financial information statement'.

"Our journey to net zero

In last year's annual report we showed our strong support for the aims of the Paris Agreement to limit global temperature rises above pre-industrial levels to well below 2°C. We have a responsibility to support the fight against climate change as one of the UK's top 40 companies and through our ownership of one of the largest global institutional investors.

As a signatory to the Task Force on Climate-related Financial Disclosures (TCFD) we have disclosed our approach to the risks and opportunities presented by climate change in our 2019 TCFD report. This report has four key climate risk policy statements:

1. We will decarbonise the assets on our balance sheet to align with the Paris objective. We interpret the Paris objective as targeting 1.5°C of warming.
2. We advocate urgent action to mitigate the climate emergency from governments and the companies we invest in.
3. We will use our influence as a large investor to promote a transition to a low carbon economy.
4. We support UK Government legislation to achieve net zero carbon emissions by 2050.

We're making a number of other commitments to achieve net zero carbon emissions by 2050:

- From 2030, all homes built by our housing business will be capable of operating at net zero carbon emissions.* In addition, we're seeking to understand and monitor the embodied carbon associated with the construction of our homes.
- From 2030, our operational footprint (occupied offices and business travel) will operate with net zero carbon emissions.
- We will develop energy efficient commercial properties in our urban regeneration business and set Science Based Targets that are aligned with the Paris objective.
- We have implemented additional governance and control around the acquisition of high carbon investments. This includes controls to comply with new guidelines that apply to the funding of new coal facilities.
- We have exclusions for certain stocks including thermal coal written into the Investment Management Agreements for all relevant asset classes we manage."

Airtel Africa plc Annual Report and Accounts 2020 (year ending 31 March 2020)

Airtel Africa plc (Airtel Africa) is a provider of telecommunications and mobile money services, with a presence in 14 countries in Africa, primarily in East Africa and Central and West Africa, and has over 100 million customers. It listed on the London Stock Exchange in June 2019.

In the Corporate Social Responsibility section of its Annual Report (pg 55), Airtel Africa refers in very general terms to its environment and sustainability policy as follows:

"We are committed to conducting business in a responsible manner that will not intentionally harm the environment.

We understand the importance of the natural environments we work in – to our communities and to the world. As well as ensuring we comply with all legal and local environmental requirements, we aim to promote good environmental practices and reduce the impact of our business on the natural world. We have two broad areas of focus: responsible use of energy and resources, and supporting biodiversity.

Responsible use of energy

Our offices, tower infrastructure and data centres all depend on energy to operate. We take a responsible approach to our use of energy. We recognise that every company must contribute if the world is to address the climate crisis. We are committed to using energy from renewable sources whenever this is available and reliable enough to support our network. The continued modernisation of our infrastructure is contributing to more energy efficiency across the Group. In the UK, our energy consumption is less than 40,000 kWh, which is below the threshold for energy and greenhouse gas emissions disclosure. We will report further on our progress next year."

Elsewhere in its Annual Report, Airtel Africa also briefly mentions its consideration of climate change as an emerging risk (pg 62). However, beyond these general statements, Airtel Africa does not provide detail about the climate change-related impacts of its business or the policies it has adopted to address them.

4.4 Impact on business model

Under section 414CB of the Companies Act, a company’s non-financial information statement must also contain information about how the environmental matters it has identified will impact its business model. Where companies have disclosed their climate change-related impacts, it would therefore be expected that they provide a description of what the implications of these impacts are for their business model and strategy.³⁰ Similar, although slightly more limited obligations are arguably imposed by the FCA Handbook, under DTRs 4.1.8R(1), 4.1.9R.

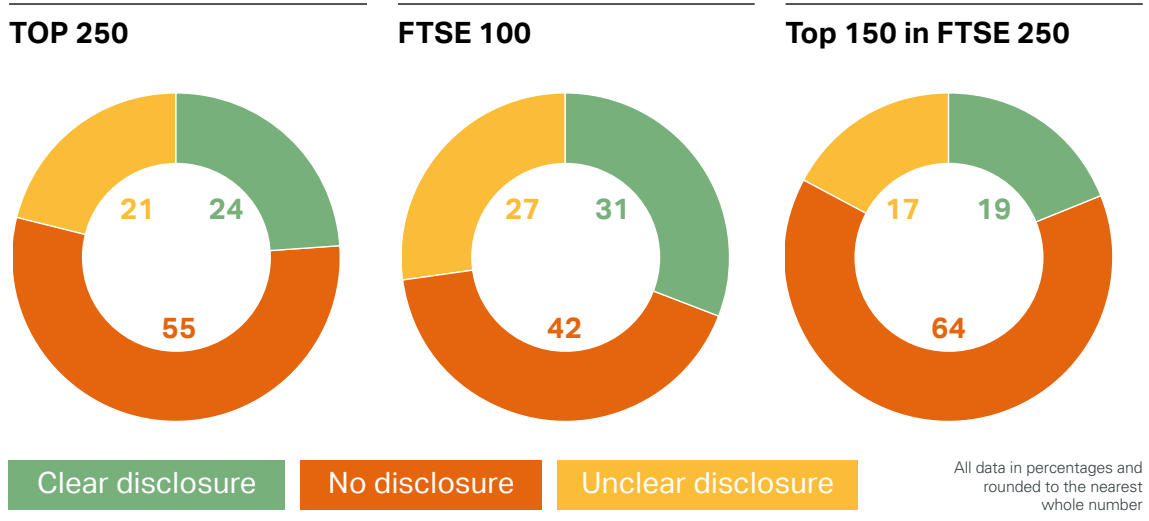
Impact on business model: findings

Of the 250 companies reviewed, just 24% made a clear reference to climate change in disclosures associated with their discussion of their business model. A further 21% made unclear or very limited disclosures. The remaining 55% provided no disclosure of climate change-related factors in relation to their discussion of their business model. A slightly higher percentage of FTSE 100 companies addressed this issue than did FTSE 250 companies, however the difference was not substantial.

In order to simplify the analysis, we did not seek to distinguish in quantitative terms the quality or detail of disclosures in relation to business models. However, one reason for the high percentage of companies in the ‘Unclear Disclosure’ category is that many failed to adequately signpost the section of their Annual Report where they discuss their business model and/or clearly link this to their discussion of climate change-related risks and impacts.

More generally, while a small proportion of companies did provide extensive detail about climate change-related implications for their business model, often accompanied by clear targets and metrics connected to their core strategy, in the majority of cases, companies provided only minimal detail.

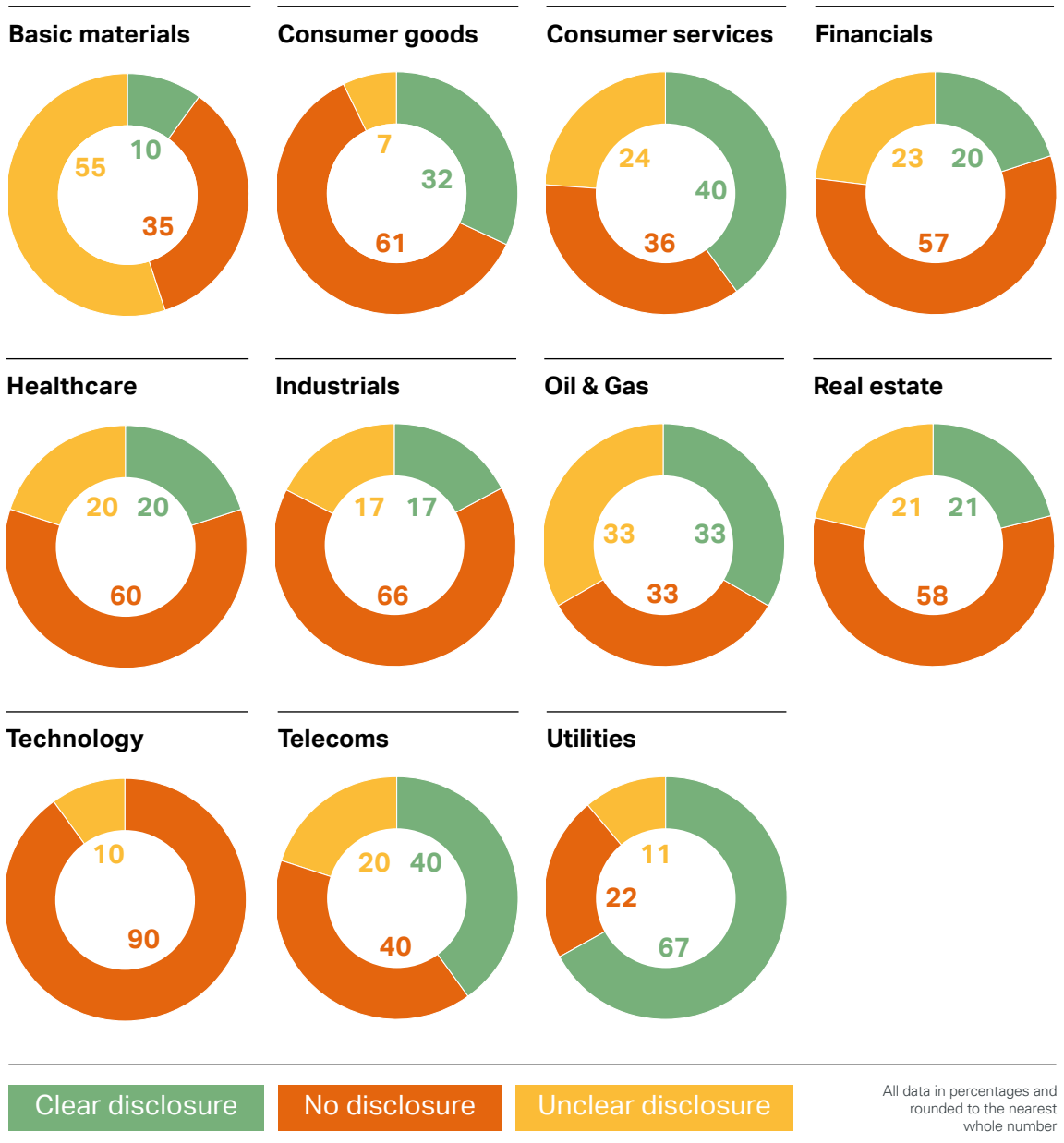
In light of the high percentage of companies disclosing information about their climate change-related impacts (66%, see page 30), it is also notable that there is a significantly lower percentage of companies that follow through with clear information about the implications of these impacts for their business model (24%).



Sector-specific results

In relation to disclosures across different industries, the 'Utilities' sector is the clear frontrunner, with over two thirds (66%) of companies disclosing some form of climate change-related information within their discussion about their business model. Given the clear and immediate implications of the energy transition for this sector, this is to be expected.

Somewhat more surprising however is the limited number of companies in the 'Industrials' (18%) and 'Basic Materials' (10%) sectors that provide a clear link between climate change-related risks that they might be facing and what the implications of these are for their strategy and operations. Notably, the 'Technology' sector is the clear laggard, with not one company (out of ten) providing a clear link to climate change-related factors in its discussion of its business model.



Impact on business model: disclosure examples

Clear disclosure

Mondi plc Annual Report 2019 (year ending 31 December 2019)

Mondi plc is a global packaging and paper group employing approximately 26,000 people with around 100 production sites across more than 30 countries, predominantly in Europe, Russia, North America and South Africa. Alongside disclosing detailed information about its climate change-related risks and impacts, Mondi provides some discussion about how these matters are integrated into its business model and strategy (pg 24).

“Delivering value accretive growth sustainably

Sustainability lies at the centre of our strategy to drive value accretive growth. We believe that being part of the solution to global sustainability challenges will secure the long-term success of our business and benefit our stakeholders. Communicating openly and working together helps us to better understand and address risks and opportunities so that we can continue to generate value for our stakeholders long into the future and tackle the complex global challenges that no one organisation can solve in isolation.

Our Growing Responsibly model is the framework through which we respond to opportunities to address sustainability and societal challenges, especially by contributing to the UN Sustainable Development Goals and other global initiatives. It enables us to demonstrate, monitor and improve our sustainability performance across the value chain.

The model comprises 10 Action Areas which reflect the aspects of sustainability that are most relevant for us and our stakeholders. Within these Action Areas we have made 16 public commitments running to the end of 2020. In addition, we have updated our science-based climate commitment in line with the Paris agreement to keep global temperature rise below 2°C. As we come to the end of our current sustainability commitment period, we are working on our post-2020 commitments to build on our achievements and enable our future success.”

Pearson plc Annual Report 2019 (year ending 31 December 2019)

Pearson plc (Pearson) is a multinational publishing and education company headquartered in London. Pearson provides content, assessment and digital services to schools, colleges and universities, as well as professional and vocational education around the world. It operates in 70 countries, with more than 22,500 employees.

In its Annual Report, Pearson discusses a range of climate change-related factors under a section titled 'Environmental Impact' (pg 23), including the following:

"Our environmental impact

We are committed to reducing our impact on the environment. Responsible environmental stewardship helps to create a healthy and sustainable planet for our learners and all of society. Our biggest direct impacts are carbon emissions from our use of energy, so we need to ensure we manage our own operations responsibly.

We continue to do our part to address the global challenges of climate change. In 2019, we calculated our Scope 3 GHG emissions and developed a proposal for the Science Based Target Initiative to establish our new long-term goal for carbon emissions in 2020.

We met our 2020 GHG and energy reduction targets achieving:

- 62% reduction in total (location based) GHG emissions (vs target of 50% reduction against 2009 baseline).
- 55% reduction in energy use in our buildings (vs target of 50% vs 2013 baseline).

In 2019, we installed LED lighting in three of our UK properties.

- We maintained our commitment to using 100% renewable electricity and offset our emissions from our energy and fuel consumption and business travel (through an Indonesian forestry conservation project and an Indian renewable energy project, both of which are certified to the VCS standard)."

Pearson does not include an explicit discussion of climate change-related factors in its section on Principal Risks and Uncertainties or in its discussion of its Business Model (although it does refer generally to its 'Sustainability Strategy', which refers to climate change-related concerns, the links to its risks and business model are unclear).

4.5 Section 172 Statement

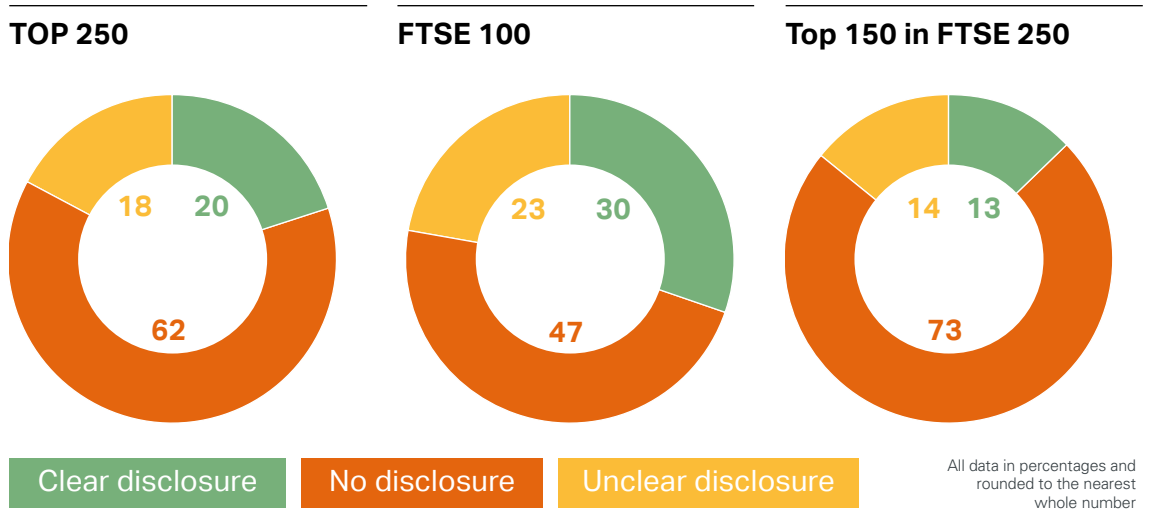
Under section 172 of the Companies Act, company directors are required to act to promote the success of the company for the benefit of the members as a whole, having regard to a number of matters, including the impact of the company’s operations on the environment.

In recent years, section 414CZA has been added to the Companies Act and requires the Strategic Report of listed (and other large) companies to include a statement which describes how the directors have had regard to certain matters when performing their duties (a ‘Section 172 Statement’). In particular, the matters required for consideration under section 172 include:

- the likely consequences of any decision in the long-term;
- the interests of the company’s employees;
- the need to foster the company’s business relationships with suppliers, customers and others;
- the impact of the company’s operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

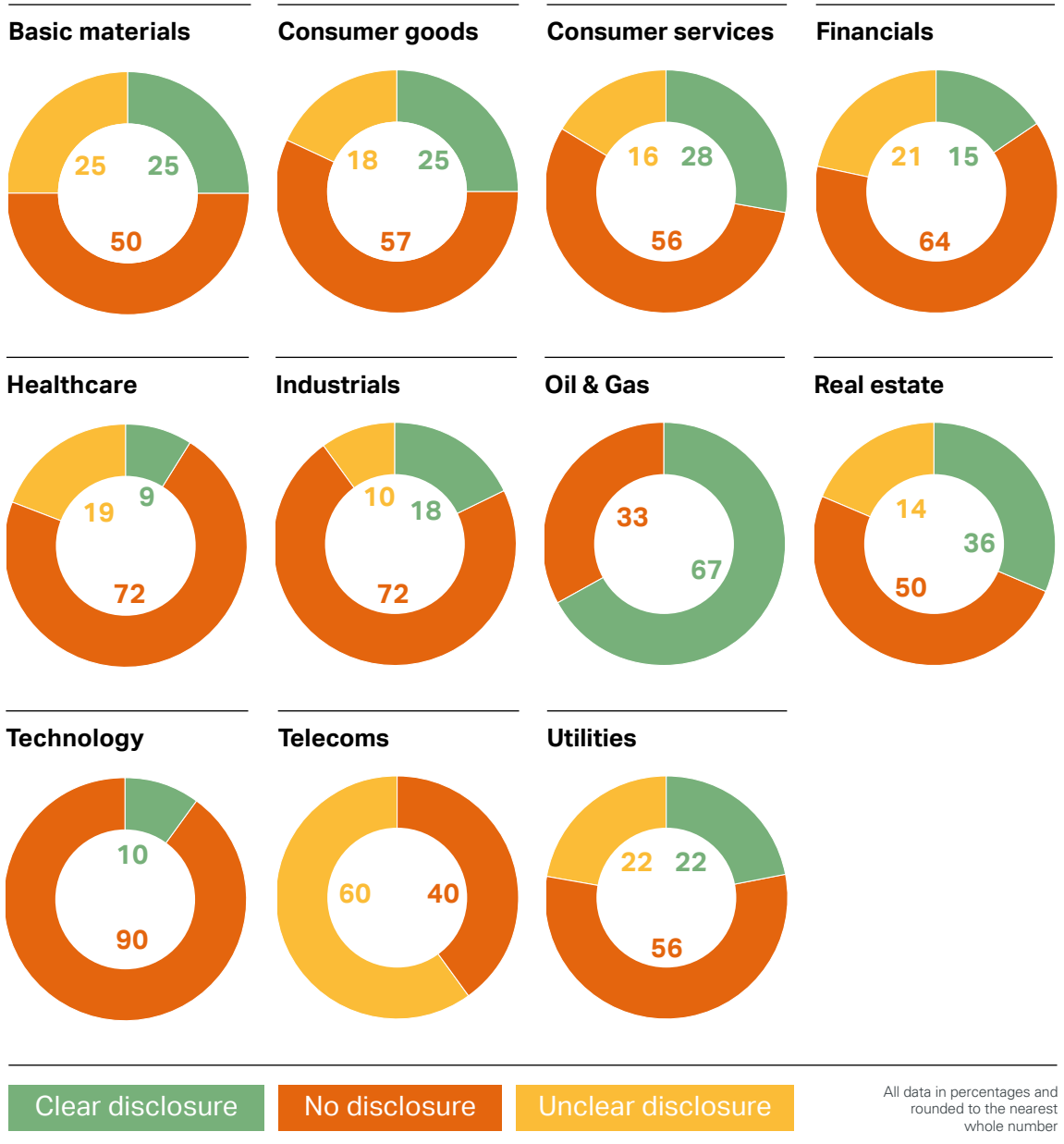
Section 172 Statement: findings

Of the companies reviewed, only 20% clearly referred to climate change-related matters in their Section 172 Statement. A further 17% made unclear or very limited disclosures. The remaining 62% made no mention of climate change in their Section 172 Statement. Notably, companies in the FTSE 100 were over twice as likely to clearly refer to climate change, than those in the FTSE 250. Perhaps not surprisingly, given the novelty of the requirement, the approach taken to disclosing this information and the level of information provided varied significantly between companies.



Sector-specific results

In relation to sector-specific results, companies in the 'Oil & Gas' sector were by far the most likely to refer to climate change in their Section 172 Statement (67%). Companies in the 'Telecoms', 'Healthcare', 'Technology' and 'Industrials' sectors were the least likely to do so (0%, 9%, 10% and 18%, respectively).



Section 172 Statement: disclosure examples

Clear disclosure

Lloyds Banking Group plc Annual Report 2019 (year ending 31 December 2019)

Lloyds Banking Group plc (Lloyds) is the UK's largest retail and commercial financial services provider. Its main business activities are retail and commercial banking, general insurance and long-term savings, provided through well-recognised brands including Lloyds Bank, Halifax, Bank of Scotland and Scottish Widows.

Lloyds provides a detailed Section 172 Statement, with an in-depth discussion of the matters that the directors have had regard to and articulating key board decisions in relation to these. Among other things, it includes a detailed description of the board's actions in relation to climate change, including its engagement process and cross references to other sections of the Annual Report (pg 23):

"Key Board Decision: Tackling Climate Change

Across the globe, action to combat climate change is needed. We support the Government's Clean Growth Strategy and are supporting our customers with a range of initiatives to help them become more sustainable and think about environmental impacts, including access to green finance.

The transition to a low carbon economy impacts us all and subsequently is a fundamental element of our strategy and core to Helping Britain Prosper.

In 2018 following a detailed review by the Board, we introduced a new sustainability metric to our Helping Britain Prosper Plan, signalling our intent and commitment and in January 2020, we announced an ambitious new goal to help reduce the carbon emissions we finance by more than 50 per cent by 2030.

Read more about our ambitious goal and other commitments on pages 28 to 31 or in our approach to ESG presentation online <https://www.lloydsbankinggroup.com/investors/financial-performance/>

Our engagement process

- In developing our proposals, various stakeholder groups have been engaged including customers, colleagues, shareholders, suppliers, government and regulators
- The annual responsible business materiality study specifically identified environmental sustainability and climate change as a critical issue and as a result further detailed analysis was undertaken by the Group sustainability teams
- The Responsible Business Committee, a sub-committee of the Board, provides direction and oversight, whilst at Executive level, the Group Executive Sustainability Committee (GESc), supported by divisional Governance Forums and working groups, provide oversight
- The Board were briefed on key climate related issues by external industry experts and also engaged on a number of external fronts."

Serco Group plc Annual Reports and Accounts 2019 (year ending 31 December 2019)

Serco Group plc (Serco) is a contract service provider headquartered in Hook, Hampshire and operating across five sectors: Defence, Justice & Immigration, Transport, Health and Citizen Services. It operates throughout the UK, Europe, North America, Asia Pacific and the Middle East.

In its Annual Report, Serco sets out a detailed Section 172 Statement (pg 96), which among other things, includes a description of how it takes into account its impacts on communities and the environment, as follows:

“Our communities comprise those living and working in close geographic proximity to our operations, those for whom we provide services on behalf of our government customers, and those who represent the needs of our communities, including charities and local government. Operating amongst and on behalf of our communities, we strive to maintain a deep understanding of the complex social challenges that impact them, whilst recognising our responsibility to contribute to the sustainability and wellbeing of society and the economy wherever we operate. We are also committed to limiting the impact of our operations on the environment through more sustainable business practices for our customers and stakeholders, including our communities”.

Serco then provides a cross reference to its Corporate Responsibility section (pg 84), which provides a very brief and general description of its areas of focus in relation to climate change. Serco does not however provide a description of how the directors have engaged with stakeholders or had regard to climate change-related factors in their decision-making.

4.6 Viability Statement

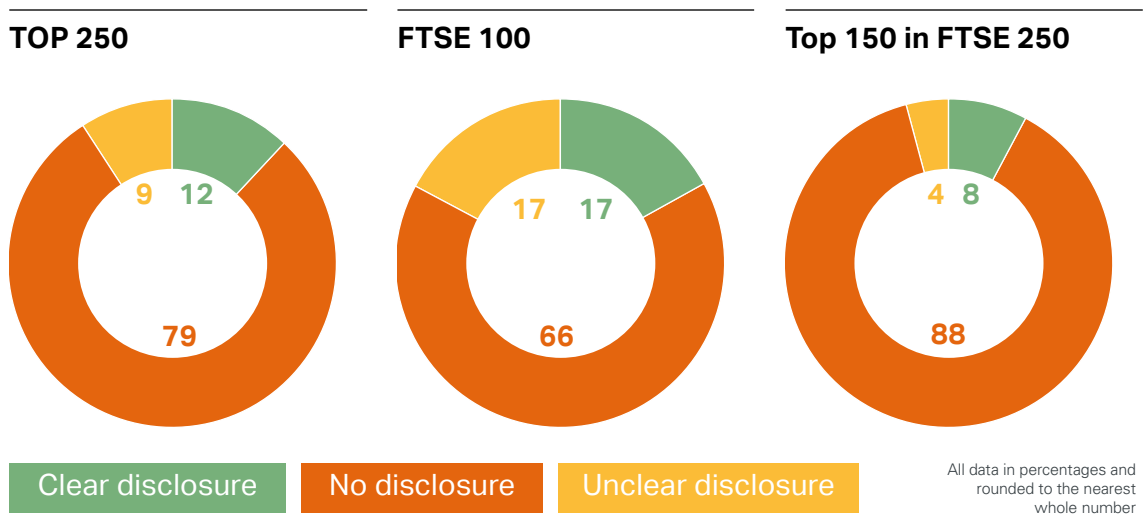
Under the UK Corporate Governance Code (the Code), directors are required to include in their Annual Report a statement about the long-term viability of the company.³¹ In preparing this statement, the directors are required to take into account the company’s current position and principal risks and explain how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate.³² The FCA Handbook also imposes requirements on listed companies to disclose a statement about its compliance with the Code (providing reasons for non-compliance).³³

According to guidance provided by the FRC, it is expected that the time period selected should be aligned with a company’s investment and planning period.³⁴ For many companies, this may require consideration of risks facing the business over five, ten or even twenty-year time horizons. In these circumstances, for many companies, climate change-related factors may be highly relevant.³⁵

Viability Statement: findings

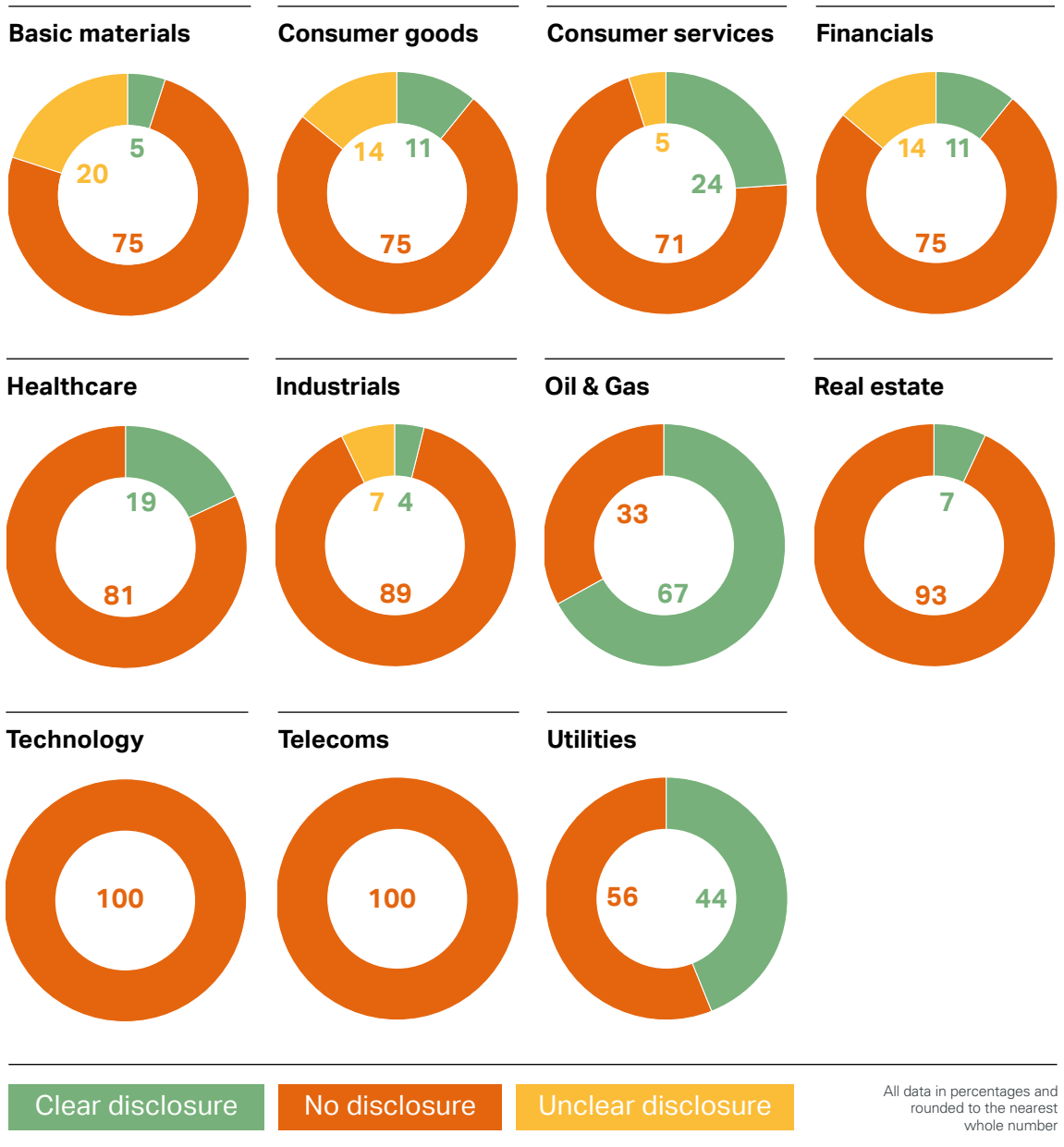
Only 12% of companies clearly referred to climate change-related matters in their Viability Statement. A further 9% made unclear or very limited disclosures. The remaining 79% made no mention of climate change in their Viability Statement. Notably, companies in the FTSE 100 were over four times as likely to clearly refer to climate change, than those in the FTSE 250.

Increasingly, as recommended by the TCFD, some companies are conducting scenario analysis across a range of different climate change-related scenarios and linking this to their discussion about risks which might be associated with their viability. This is now emerging as best practice. However, frequently very little detail is provided regarding the scenario analysis that has been carried out and the key assumptions and methodologies that have been used. This lack of transparency makes it very difficult to assess the credibility of the companies analysis and therefore their claims regarding long-term viability.



Sector-specific results

In relation to sector-specific results, companies in the 'Oil & Gas' and 'Utilities' sectors were the most likely to disclose climate change-related information in their Viability Statements. At the other end of the spectrum, no companies in the 'Technology' or 'Telecoms' sectors made any reference at all to climate change in their viability statements.



Viability Statement: disclosure examples

Clear disclosure

Burberry plc Annual Report 2019/20 (year ending 28 March 2020)

Burberry plc (Burberry) is a luxury fashion house headquartered in London. It currently designs and distributes ready to wear clothing, including trench coats, leather goods, footwear, fashion accessories, eyewear, fragrances, and cosmetics.

In its Strategic Report, Burberry provides a detailed risk and viability report. Within this section, it includes six pages of discussion of the climate change-related risks facing its business, how these risks might impact its longer-term viability and how it manages them, including through the application of scenario analysis (pg 110). The formal Viability Statement section of the Annual Report does not specifically refer to climate change-related factors but does refer directly to the immediately preceding risk and viability section.

"Climate Change

The success of our business over the long-term will depend on the social and environmental sustainability of our operations, the resilience of our supply chain and our ability to manage the impact of any potential climate change on our business model and performance. As the global climate crisis becomes more critical we recognise the importance of addressing long-term sustainability challenges and the potential impacts of climate change on our business, in reputational, operational and financial terms. Failure to implement appropriate cross-functional action plans, incorporating the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and Science Based Targets initiative, could hinder efforts to mitigate long-term risks and future-proof our business.

Risk movement and outlook

The risk of climate change has increased and will continue to increase incrementally year on year without significant global effort, including our network of suppliers, and adaptation across companies and countries.

Actions taken by management

Physical risks

- To help identify future areas for focus to mitigate climate-related physical risks we completed three scenario analysis workshops, which assessed long-term environmental, social and technological trends.
- In the short term, we are conducting specific analysis of the acute risk of our locations and operations.
- We have assessed the climate change risk in our finished goods and raw material supply chain by evaluating the exposure, vulnerability and readiness of the countries we operate in and where our key supply chain partners are located.

Transition risks

- Through our memberships with various industry bodies, associations (for example, The Climate Group) and external assurance partners, we contribute to consultations and are kept informed of upcoming environmental legislative changes.

Burberry plc Annual Report 2019/20 continued

- Environmental sustainability matters are reported to the Sustainability Steering Group, the Ethics Committee, the Risk Committee and the Board.
- Our longstanding responsibility programmes, coupled with our 2022 Responsibility goals, are driving continuous improvements in moving beyond social and environmental compliance.
- In FY 2019/20 we assessed the potential impact of commodity price changes over the medium term.
- In FY 2019/20 we introduced our product sustainability messaging to make customers aware of our improved sustainability credentials. We also increased sustainability messaging in brand-related communications.
- As part of scenario analysis workshops we assessed long-term technological trends that could significantly impact our business model."

No disclosure

Marks & Spencer Group plc Annual Report 2020 (year ending 28 March 2020)

Marks and Spencer Group plc (M&S) is a major British multinational retailer with headquarters in London that specialises in selling clothing, home products and food products, mostly under its own label.

Unlike other companies in its sector, M&S makes no explicit reference to climate change in its disclosure of its principal risks and uncertainties or in its Viability Statement.

While further research indicates that M&S has introduced a sustainability strategy, which includes efforts to reduce GHG emissions, only very limited information about this is disclosed within the Annual Report itself, and the links to its business plan, risks, strategy and viability are unclear.

4.7 Greenhouse gas reporting

Under Part 7 of Schedule 8 to the Companies Act 2006, listed companies are required to disclose in their Directors' Report, the annual quantity of emissions in carbon dioxide equivalent from actions for which they are responsible, including:

- the direct combustion of fuel, including company vehicles and fugitive emissions ('Scope 1'); and
- the generation of purchased electricity, steam, heating and cooling consumed by the reporting entity ('Scope 2').

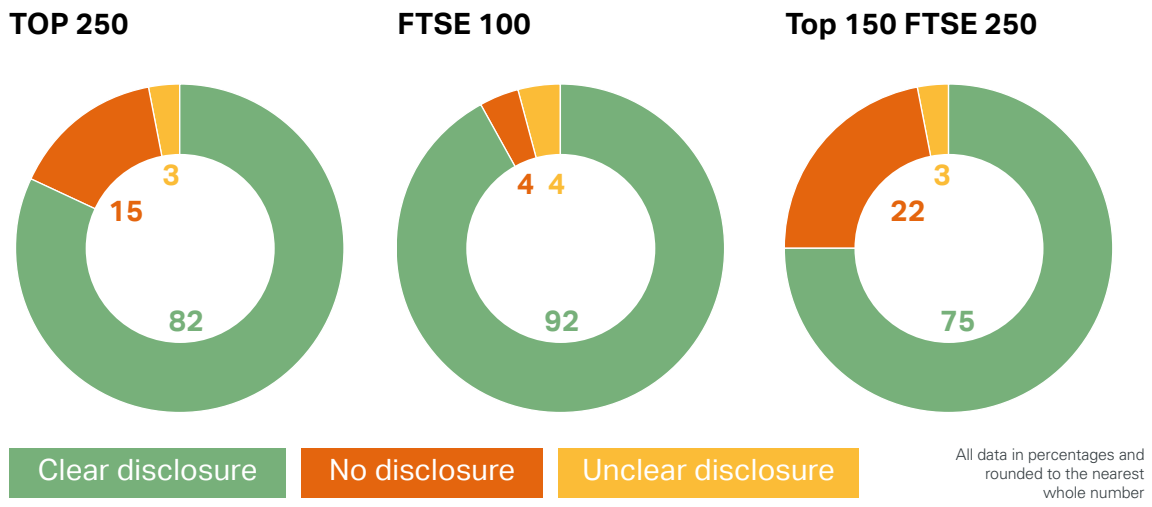
The Directors' Report must also disclose the methodologies used to calculate this information and at least one intensity ratio, as well as the underlying global energy use data that was used to calculate the emissions.

In 2019, the Department for Environment, Food and Rural Affairs (DEFRA) issued guidance on how companies should approach this new disclosure requirement.³⁶ This Guidance provides detailed information and expectations on how companies should go about calculating their emissions.

GHG reporting: findings

82% of companies clearly disclosed their Scope 1 and Scope 2 GHG emissions in their Annual Report. A further 3% made unclear or very limited disclosures and the remaining 15% did not disclose their Scope 1 and Scope 2 GHG emissions. Notably, the significant majority of those that did not disclose were members of the FTSE 250.

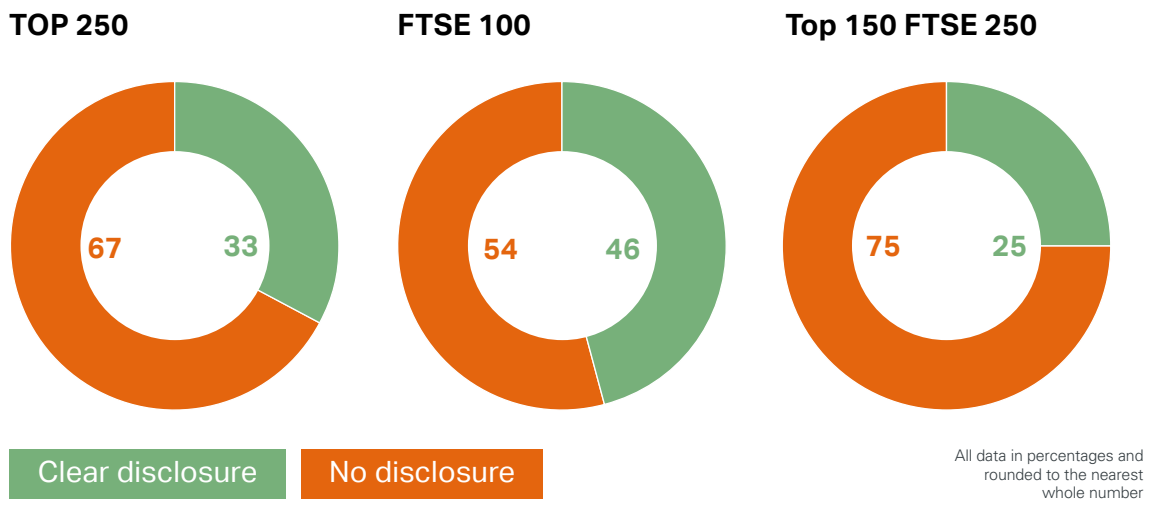
Disclosure of Scope 1 and Scope 2 GHG emissions



Although there is no specific legal requirement to do so, a third of companies are now also disclosing a portion of their Scope 3 GHG emissions (33%). This generally includes indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions. This may indicate that information about Scope 3 emissions is now increasingly considered to be material by investors and a large cross section of industry.

One significant challenge in relation to Scope 3 emissions is that methodologies for calculating them are less well-developed and standardised. In many cases companies do not appear to be fully transparent about the methodology they have used or any exclusions that they have applied in their calculations. This makes it difficult to assess company emission reduction targets and progress in a consistent and comparable way.

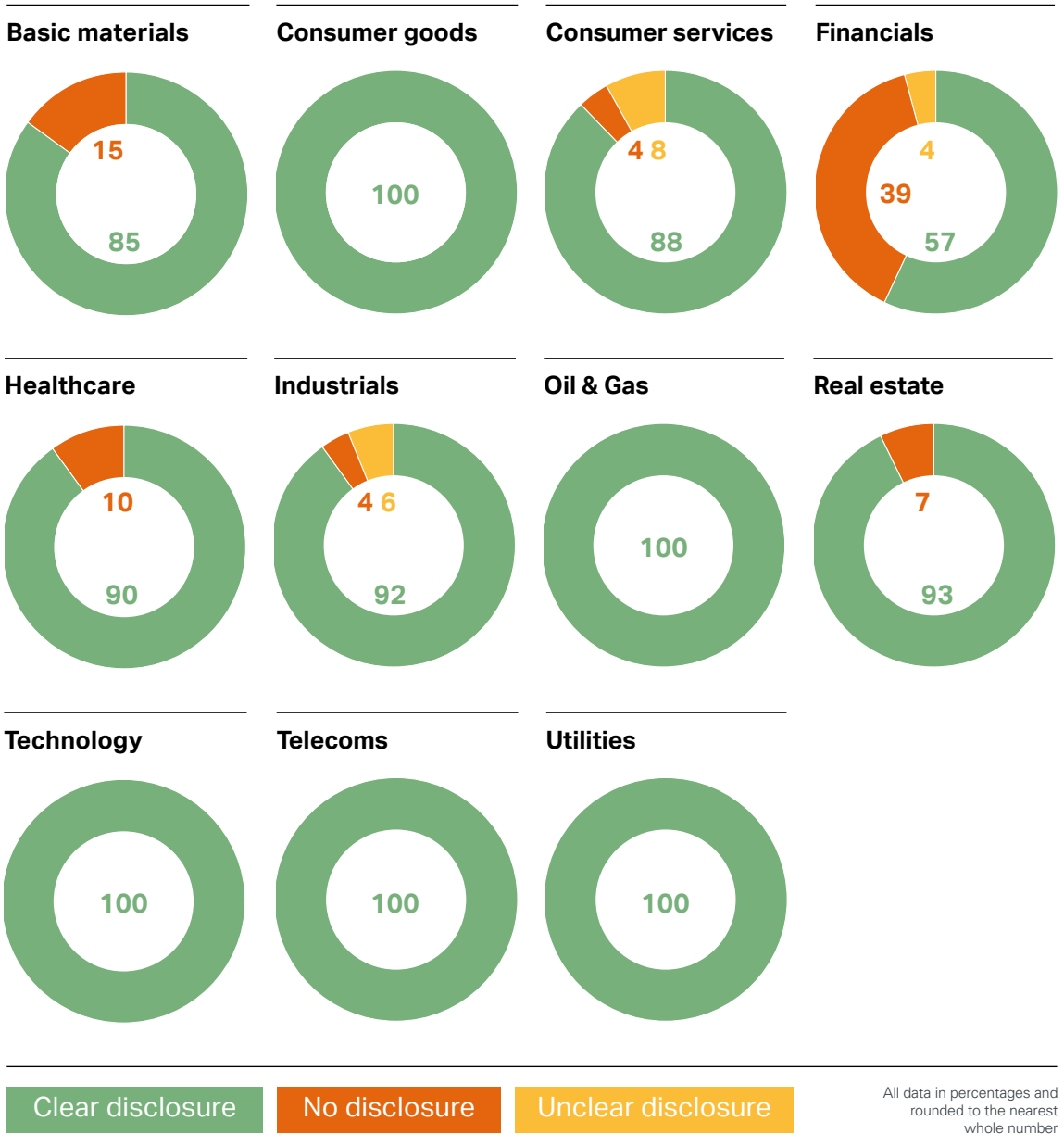
Disclosure of Scope 3 GHG emissions



Sector-specific results

In general, companies across most of the sectors clearly disclosed their Scope 1 and Scope 2 GHG emissions. Companies in sectors that were least likely to disclose their emissions were 'Financials' and 'Basic Materials'. Based on our review, the primary reason for the absence of GHG disclosures in these sectors appears to be that a high proportion of these companies are not subject to the requirements of the Companies Act, either because they are incorporated in another jurisdiction or because they are structured as an investment trust.

This lack of disclosure creates a significant data gap for a large portion of UK listed entities which should urgently be addressed. Even in the absence of a specific legal requirement however, it is surprising that so many entities have decided that information about their GHG emissions is not material to investors, and therefore does not need to be disclosed in order to satisfy some of the more general disclosure requirements in the FCA Handbook.



GHG reporting: disclosure examples

Clear disclosure

Fresnillo Annual Report 2019 (year ending 31 December 2019)

Fresnillo plc is an Anglo-Mexican precious metals mining company incorporated in the United Kingdom and headquartered in Mexico City. Fresnillo is the world’s largest producer of silver from ore (primary silver) and Mexico’s second-largest gold miner.

In its Directors’ Report section of its Annual Report, Fresnillo clearly states its Scope 1 and Scope 2 GHG emissions and the methodology it has used for calculating this (pg 77). It does not disclose any Scope 3 emissions.

“Global GHG emissions for the period 1 January 2019 to 31 December 2019

	GHG emissions (tonnes of CO2e)			Energy (MWh)		
	Reporting year 2019	Previous year 2018	Comparison year 2012	Reporting year 2019	Previous year 2018	Comparison year 2012
Scope 1 (direct emissions)	513,282	530,377	375,121	1,976,828	2,009,237	1,385,448
Scope 2 (indirect emissions)	335,202	278,224	329,245	1,046,824	950,547	420,615
intensity measurement	0.018	0.0160	0.013	0.067	0.059	0.034

Methodology: We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors’ Reports) Regulations 2013. These sources fall within our operational control. We do not have responsibility for any emission sources that are not included in our Consolidated Statement.

We have used the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition).

Scope 1: All direct GHG emissions.

Scope 2 Indirect GHG emissions from consumption of purchased electricity.”

No disclosure

Centamin plc Annual Report 2019 (year ending 31 December 2019)

Centamin plc is a gold mining company focused on the Arabian-Nubian Shield. It has offices in the UK, Australia, and Egypt. Its registered office is in Jersey. In its management review section of its Annual Report (pg 15), Centamin states that:

“Centamin is committed to leaving a strong legacy for the benefit of our local, regional and national hosts – it is with excitement that we embark on significantly lowering our carbon footprint through increased operational efficiencies as well as the construction of the Sukari hybrid solar power plant.”

However nowhere in the Annual Report is there any information provided about Centamin's current or past GHG emissions or its carbon footprint. As a company registered in Jersey, Centamin is not subject to the GHG reporting requirements contained in the Companies Act. But, it is still required to ensure that information that it discloses to the market does not omit material information, in accordance with the requirements of the FCA Handbook.

4.8 Audit

Because of the clear relevance of climate change-related risks and impacts for corporate reporting, both in relation to the narrative section and the financial accounts, auditors must now carefully consider the implications for their own work. ClientEarth first drew attention to the significance of climate change for auditors' existing legal and professional duties in our 2017 'Risky Business' report.³⁷ Subsequently, this has been confirmed by the International Auditing and Assurance Standards Board (IAASB) in a recent Practice Alert,³⁸ and more recently by the FRC, in its thematic review on climate change.³⁹ Investors have been demanding that auditors consider climate change-related factors when carrying out their audit for a number of years,⁴⁰ and are now also requesting Paris-aligned audits.⁴¹

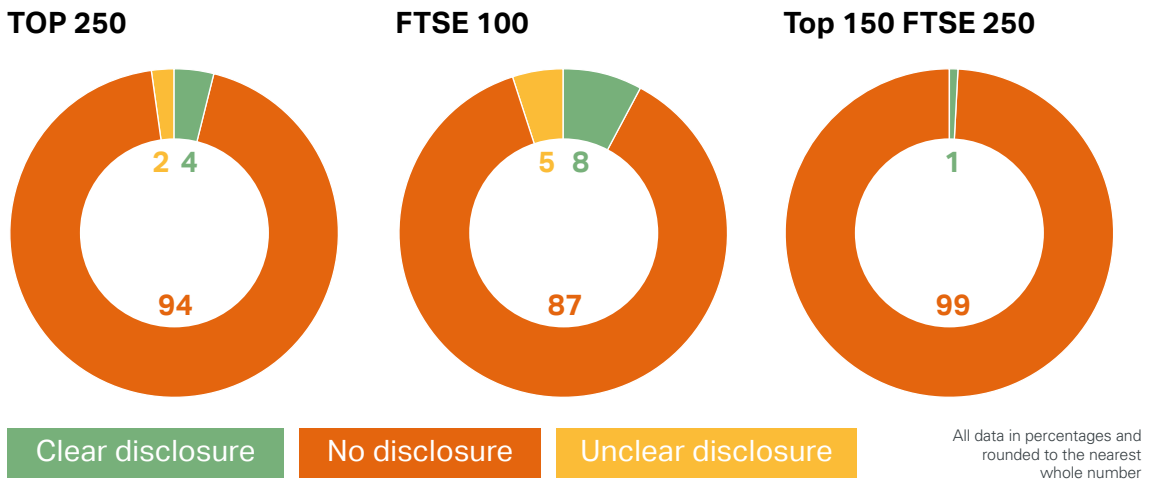
As explained in the IAASB Practice Alert, under the International Standards on Auditing (ISAs), climate change-related factors will need to be considered by auditors in relation to the financial accounts, 'other information' included in the narrative reporting, and the consistency between the accounts and the narrative.⁴² The Practice Alert provides detailed information on how climate change-related factors will be relevant for the application of specific ISAs. However, most relevant among these are likely to be the following:

ISA	Explanation
ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement	The auditor may need to consider the implications of climate change-related risks when obtaining an understanding of the entity and its environment, including: the entity's business model; industry factors; regulatory factors; and other external factors.
ISA 330, The Auditor's Responses to Assessed Risks	The auditor may need to design and perform further audit procedures whose nature, timing and extent are based on, and are responsive to, the assessed risks of material misstatement resulting from any climate change-related factors.
ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures	The auditor may need to consider the implications of any climate change-related factors for the entity's accounting estimates. This could include: impairment of property, plant and equipment; intangible assets and goodwill; fair value of financial assets (investments and receivables); fair value of financial liabilities; certain provisions and contingent liabilities; and mineral resources and reserves.
ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information	The auditor is required to review the 'other information' included in the Annual Report (including the Strategic Report) and consider whether: there are any material inconsistencies between that information and the financial accounts; whether that information contains any material misstatements; and whether that information has been prepared in accordance with the relevant legal requirements.

Audit: findings

Despite these clear statements of expectation from the standard setters, regulators and investors, very few of the audit reports that we reviewed made any reference to climate change-related factors. Aside from a few standout examples, even where the audit report did refer to climate change-related factors, the information was often highly general and non-specific, making it difficult to assess the relevance and implications.

Of the audit reports reviewed, just 4% clearly referred to climate change. A further 2% of auditors made unclear or very limited references to climate change-related factors. The remaining 94% of audit reports made no reference at all to climate change-related factors. In some cases, even where companies had included a discussion about climate change-related factors in their financial accounts, the auditors failed to communicate if or how they had taken this into account in their work.



In the course of reviewing the audit reports, we also identified which audit firms were responsible for audit reports where climate change was referred to. Deloitte stands out as the audit firm with the most significant number of audit reports referring to climate change. However, even then, it is only 6 out of a total of 56.

Audit firm	Number of companies audited in Top 250	Number of audit reports clearly referring to climate change
Deloitte	56	6
EY	45	2
KPMG	68	1
PwC	73	1
Other	8	0

Audit: disclosure examples

Clear disclosure

Glencore plc Annual Report 2019 (year ending 31 December 2019)

Glencore plc (Glencore) is an Anglo-Swiss multinational commodity trading and mining company with headquarters in Baar, Switzerland, its oil and gas head office in London and its registered office in Saint Helier, Jersey. Glencore's auditor is Deloitte.

Glencore's Annual Report includes a substantial discussion of climate change-related risks and impacts in the narrative section and a very brief mention of climate change-related factors in the notes to its financial accounts, in relation to its discussion of impairments. Deloitte's corresponding audit report includes an extended discussion about how climate change-related factors were considered in the audit (pg 129).

"Climate-related audit response:

- We worked with internal environmental experts in considering potential climate change risk factors such as stranded assets, green taxes, the potential impact of activities of investors and other stakeholders, environmental legislation, loss of customers or demand, and loss of sources of-and access to-funding.
- We challenged management's assertion on the impact of climate-related risks relating to its thermal coal portfolio by comparing management's impact assessment with reputable public industry projections of demand into the future, such as the International Energy Agency's (the "IEA") Stated-and Sustainable Development Policy Scenarios and using management's impairment models to perform sensitivities on long-term price assumptions based on external broker consensus price projections and IEA projections.
- We reviewed the time period through which coal CGUs are valued to assess if the assumptions are consistent with management's long-term investment plans, public disclosures and external evidence about energy transition timing and effects.
- We considered whether management's sensitivity and estimation uncertainty disclosures were adequate in the context of climate change risks and uncertainties.

Key observations

- Based on the results of our testing, we concluded that management's assessment of impairment indicators was appropriate, including in the context of climate change.
- We concluded that key commodity pricing, foreign exchange and discount rate assumptions were in line with third party evidence and our specialists' acceptable ranges. We concluded that reasonable considerations and weight had been given by management to the possible impacts of climate change on its thermal coal impairment assessments.
- We found management's disclosures on key assumptions and impairment sensitivities to be in compliance with IFRS requirements."

Centrica plc (year ending 30 June 2020)

Centrica plc (Centrica) is a British multinational energy and services company with its headquarters in Windsor. Its principal activity is the supply of electricity and gas to businesses and consumers in the United Kingdom, Ireland, and North America.

Throughout the narrative section of its Annual Report, Centrica makes frequent reference to the risks that climate change poses to its business, as well as its ambition to enable the transition to a low carbon economy. The catchphrase on the front cover of the Annual Report is 'Satisfying the changing needs of our customers; enabling the transition to a lower carbon future'.

In the notes to its financial accounts, Centrica also identifies that in relation to potential impairments of its upstream oil and gas assets (pg 132):

"[L]ong-term price assumptions derived from third-party market comparator median curves are deemed best aligned with pricing that a reasonable market participant would use, due to inclusion of certain data points, e.g. the impact of climate change."

However, in the accompanying audit report, Deloitte make no explicit mention about the extent to which they have taken risks and impacts associated with climate change and the low carbon transition into account in their audit.

4.9 Task Force on Climate-Related Financial Disclosures

The recommendations of the TCFD are the baseline industry standard for making climate change-related disclosures in financial reporting.⁴³ Although there is currently no explicit requirement for listed companies to use the TCFD Recommendations, in light of clear investor demand indicating its materiality, all listed companies should be using the TCFD to satisfy their existing reporting obligations.⁴⁴ This position has been implicitly endorsed by the FRC in its 2019 review of corporate reporting, which analysed corporate reporting practices based on the TCFD framework.⁴⁵

Following a consultation earlier in 2020,⁴⁶ the FCA has now confirmed that all companies with a premium listing will be required to report in line with the TCFD Recommendations, on a comply or explain basis, from 2021 onwards.⁴⁷ The Department for Business, Energy and Industrial strategy (BEIS) also plans to consult early in 2021 on TCFD-aligned disclosure obligations in the Companies Act 2006 for certain UK-registered companies.

The framework established by the TCFD recommends disclosures around four pillars: governance, strategy, risk management, and metrics and targets. These four 'pillars' are underpinned by eleven more specific 'Recommended Disclosures', as set out below. The TCFD reports and supplemental material provide further guidance and detail about how disclosures should be made in practice, including with specific supplemental guidance for key sectors, including: Energy; Transportation; Materials and Buildings; Agriculture Food and Forest Products; and Finance.⁴⁸

Recommendations and Supporting Recommended disclosures			
Governance	Strategy	Risk management	Metrics and targets
Disclose the organisation's governance around climate change	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material	Disclose how the organisation identifies, assesses and manages climate-related risks	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material
Recommended disclosures			
a) Disclose the organisation's governance around climate change	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term	a) Describe the organisation's process for identifying and assessing climate-related risks	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process
b) Describe the management's role in assessing and managing climate-related risks and opportunities	b) Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning	b) Describe the organisation's process for managing climate-related risks	b) Disclose Scope 1, Scope 2 and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks
	c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

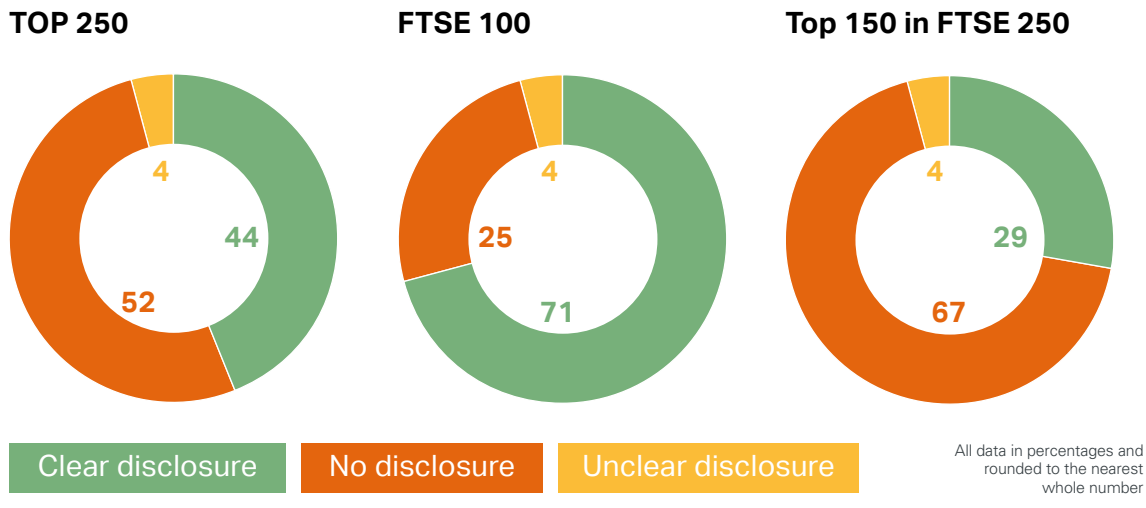
In our analysis of companies' climate change-related reporting we assessed whether or not companies disclosed having taken the TCFD Recommendations into account in preparing their disclosures. This was a very high-level assessment, which did not aim to quantify the completeness or adequacy of companies TCFD-related disclosures.

TCFD: findings

44% of companies clearly referred to having taken the TCFD Recommendations into account in preparing their disclosures. A further 4% made unclear or only very limited reference to the TCFD Recommendations. The remaining 52% of companies made no mention of having taken the TCFD Recommendations into account in preparing their Annual Reports.

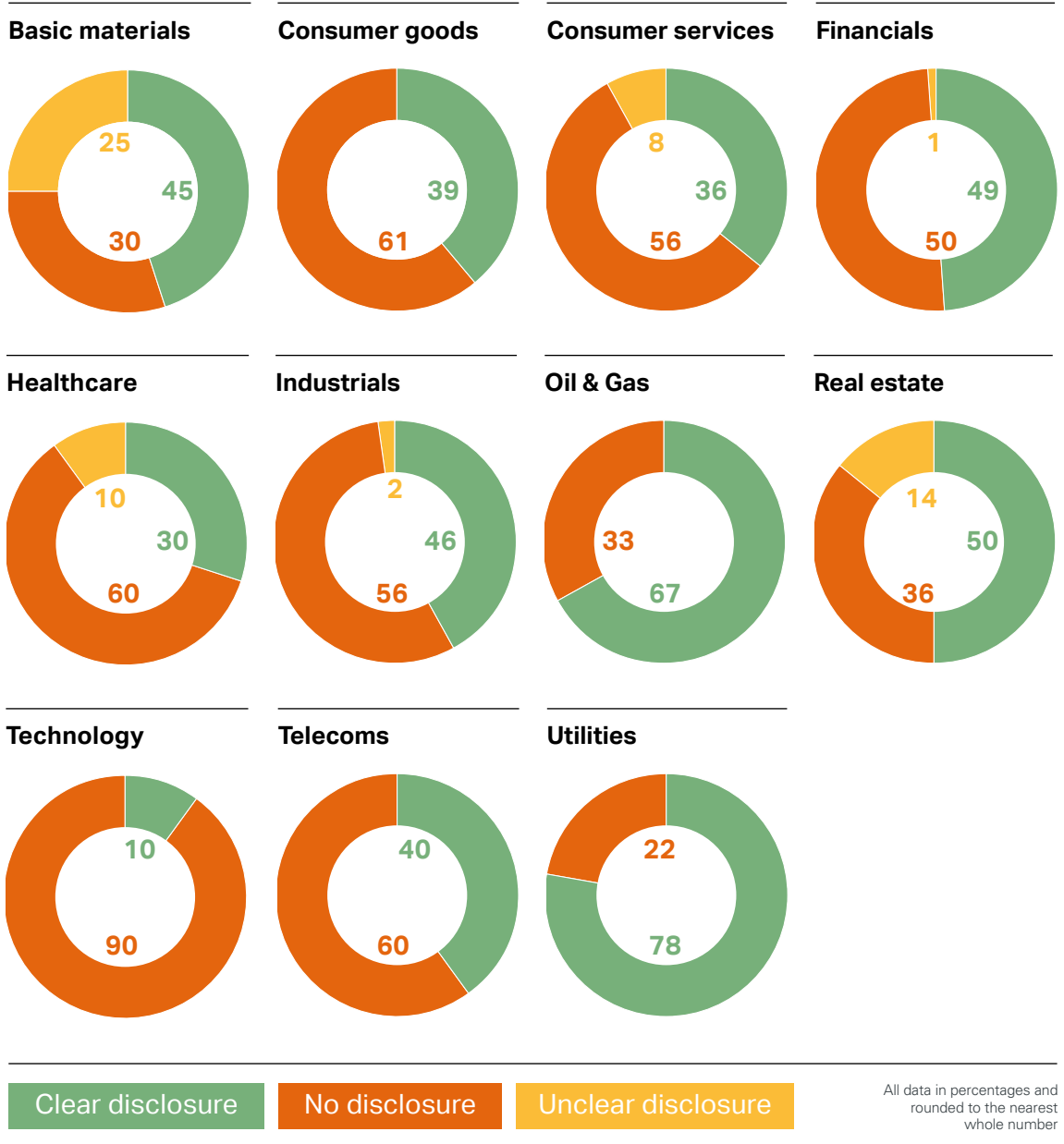
Notably, there was a very significant difference between the FTSE 100 and the FTSE 250. For the FTSE 100, 71% of companies made a clear reference to the TCFD Recommendations in their Annual Report. However, for the companies reviewed from the FTSE 250, only 29% did so.

In the course of our review, we identified a very wide range of approaches which companies took to their TCFD-related disclosures. While some companies provided detailed commentary for each of the eleven Recommended Disclosures, closely following industry specific guidance and cross-referencing to other relevant sections of their Annual Report, many companies provided only a cursory mention of the fact that they had considered the TCFD Recommendations in preparing their disclosures, and/or provided only minimal detail.



Sector-specific results

In relation to sector-specific results, companies in the 'Oil & Gas' and 'Real estate' sectors were the most likely to clearly refer to the TCFD Recommendations in their Annual Report. Companies in the 'Technology', 'Telecoms', 'Healthcare' and 'Consumer goods' sectors were the least likely to do so. In terms of the level of detail given, companies in the 'Oil & Gas' and 'Basic materials' sectors generally provided the most granular information in their TCFD disclosures.



TCFD: disclosure examples

Clear disclosure

GlaxoSmithKline plc (GSK) Annual Report 2019 (year ending 31 December 2019)

GlaxoSmithKline plc (GSK) is a British multinational pharmaceutical company headquartered in Brentford. It aims to discover, develop and manufacture innovative pharmaceutical medicines, vaccines and consumer healthcare products. It has over 99,000 employees across 95 countries.

GSK's Annual Report includes a detailed discussion of climate change-related risks and impacts, including under each of the four pillars established by the TCFD Recommendations (pg 46).

"Climate-related financial disclosure

Here we provide GSK's first voluntary disclosure against the recommendations of the Taskforce for Climate-related Financial Disclosure (TCFD), an initiative of the Financial Stability Board, which promotes the disclosure of climate change risk.

Governance

The Board has oversight and responsibility for the management of climate change risks with support from the CET. The Board's Corporate Responsibility Committee (CRC) oversees GSK's Environmental Sustainability enterprise risk and progress against our environmental targets (see CRC Report on page 109). Regis Simard, President, Pharmaceuticals Supply Chain, has management responsibility for environment, health & safety and sustainability (including climate change risk). He is on the CET and reports directly to the CEO.

- We reviewed the time period through which coal CGUs are valued to assess if the assumptions are consistent with management's long-term investment plans, public disclosures and external evidence about energy transition timing and effects.
- We considered whether management's sensitivity and estimation uncertainty disclosures were adequate in the context of climate change risks and uncertainties.

Strategy

Trust is one of our three long-term priorities and reducing our environmental impact is an important part of the Trust priority (see metrics and targets). To gain a better understanding of how climate change might impact our business, in 2019, we completed scenario analyses for five key products from across our Vaccines, Pharmaceuticals and Consumer Healthcare businesses. The two scenarios were:

- business-as-usual: we assumed little to no mitigation leading to 3-5°C of warming by 2100;
- low-carbon: we assumed that the global temperature increase by 2100 is limited to well below 2°C by rapid changes in legislation and technology.

Risk management

In 2019, Environmental Sustainability, which includes climate change risks, became a standalone Principal Risk to the business for 2020 (previously managed as a sub-risk of Environment, Health & Safety and Sustainability) (see page 43). Risks related to climate change are managed at different levels of the organisation, depending on the nature of the risk. Risks and opportunities associated with GSK's energy, water and waste reduction programmes are managed by the Climate Change and Energy Reduction Team, with representatives from each of GSK's three business units and relevant support functions meeting quarterly. Operational risks and opportunities at asset or site level are identified, assessed and managed by GSK's business units through their risk management teams.

GlaxoSmithKline plc (GSK) Annual Report 2019 continued

Metrics and targets

Our goal is to reduce our environmental impact by one quarter by 2030. This goal is underpinned by five environmental targets for carbon (Scopes 1, 2 and 3) renewable electricity sources, water and waste (see pages 41 and 42). We have been accredited by the Science Based Targets Initiative for a set of Scope 1, 2 and 3 targets in line with the decarbonisation required to keep global temperature increases to 2°C. We are also committed to moving towards deforestation-free sourcing for all key commodities and are working with partners such as the Roundtable for Sustainable Palm Oil and the Rainforest Alliance. More detail on the progress we are making towards achieving our targets can be found on page 42, and in our public response to the CDP questionnaire."

Unclear disclosure

Smith & Nephew plc Annual Report 2019 (year ending 31 December 2019)

Smith & Nephew is a multinational medical equipment manufacturing company headquartered in Watford, Hertfordshire. It is an international producer of advanced wound management products, arthroscopy products, trauma and clinical therapy products, and orthopaedic reconstruction products. Its products are sold in over 120 countries.

In the 'Sustainability' section of its Annual Report, Smith & Nephew includes a brief discussion of the climate change-related risks and impacts facing its business (pg 33). It also includes a very brief mention of how it is considering the TCFD Recommendations. It does not however provide detailed disclosures against each of the TCFD Recommended Disclosures.

"The impact of climate change

One of the United Nations' Sustainable Development Goals (SDGs), is to 'take urgent action to combat climate change and its impacts'. It is widely recognised that continued emission of greenhouse gases will cause further warming of the planet and this warming could lead to damaging social and economic consequences. During 2019, we have continued to consider, and mitigate against, the potential impact of climate change on our business operations.

Our physical assets and supply chains are vulnerable to weather and climate change (eg sea level rise, increased frequency and severity of extreme weather events, stress on water resources). In our Orthopaedics business, mineral-based raw materials are dependent upon energy-intensive processes (smelting). Patient populations are vulnerable to a potential rise in infectious disease propagation. Governments and corporations alike are under increasing pressure to mitigate the expected effects of climate change, potentially resulting in infrastructure projects which would require large capital outlays, further increasing the pressure on healthcare payment.

Future Focus

We will enhance how we adhere to the principles set out by the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD structured its recommendations around four areas that represent core elements of how organisations operate: governance, strategy, risk management, and metrics and targets.

Smith & Nephew plc Annual Report 2019 continued

These overarching themes will guide our assessment of climate-related risks and opportunities.

- Governance: Consideration of short, medium and long-term climate-related issues.
- Strategy: Ensuring that the new sustainability strategy addresses the risks and opportunities of climate change.
- Risk Management: Full consideration given to climate-based impacts on business continuity and recovery.
- Metrics & Targets: Commitment to implement 100% renewable electricity at our strategic manufacturing sites by 2025."

4.10 'Paris-alignment'/'net-zero' targets

Currently, there is no explicit requirement on companies to disclose information about aims, ambitions or targets to reduce their GHG emissions in line with goals of the Paris Agreement or 'net-zero' objectives. Nonetheless, many companies are increasingly doing so, motivated by a combination of enlightened self-interest, increased awareness of systemic risks and impacts associated with climate change, and renewed concern for broader stakeholder interests.⁴⁹

Significantly, there is also now a coordinated and concerted demand from many of the world's biggest investors that companies articulate their strategy to align their business with the Paris Agreement emissions reduction goals, which require achieving 'net-zero' emissions across the global economy by 2050.⁵⁰ This may indicate that investors increasingly consider that this information is material to their decision-making.

While many companies now set some form of targets for reducing their GHG emissions, for this component of our review, we only sought to categorise companies based on whether or not they specifically refer to some form of 'net-zero' target or ambition, or otherwise to align their emission reduction objectives with the goals of the Paris Agreement.* In doing so we have not made any qualitative assessment about the adequacy of the targets or ambitions set by companies or the information they have disclosed in relation to these.

ClientEarth – Position Paper on Principles for 'Paris-alignment' (October 2020)

In October, ClientEarth published its Position Paper on Principles for 'Paris-alignment',⁵¹ which articulates three key principles and eleven corresponding 'red lines', required for a credible 'Paris-alignment' or 'net-zero' strategy:

- **Principle 1: Reasonable** – Paris-aligned targets, assumptions and methodologies must be reasonable, precautionary, evidence-based and regularly updated in line with the best available science.
- **Principle 2: Transparent** – Targets, assumptions, uncertainties, methodologies, performance and impacts must be transparently disclosed.
- **Principle 3: Accountable** – Decision-makers must be incentivised and accountable for meeting targets.

This year we have not systematically assessed the extent to which the targets and strategies disclosed by companies align with these principles and the additional 'red lines' set out in the Position Paper. However, in general we have identified very few, if any, companies that meet all of these criteria in a comprehensive way.

The limited and inconsistent information being disclosed by companies about their 'net-zero' and 'Paris-alignment' claims creates a significant risk of stakeholders being misinformed and exposes companies to potential accusations of 'greenwash'.

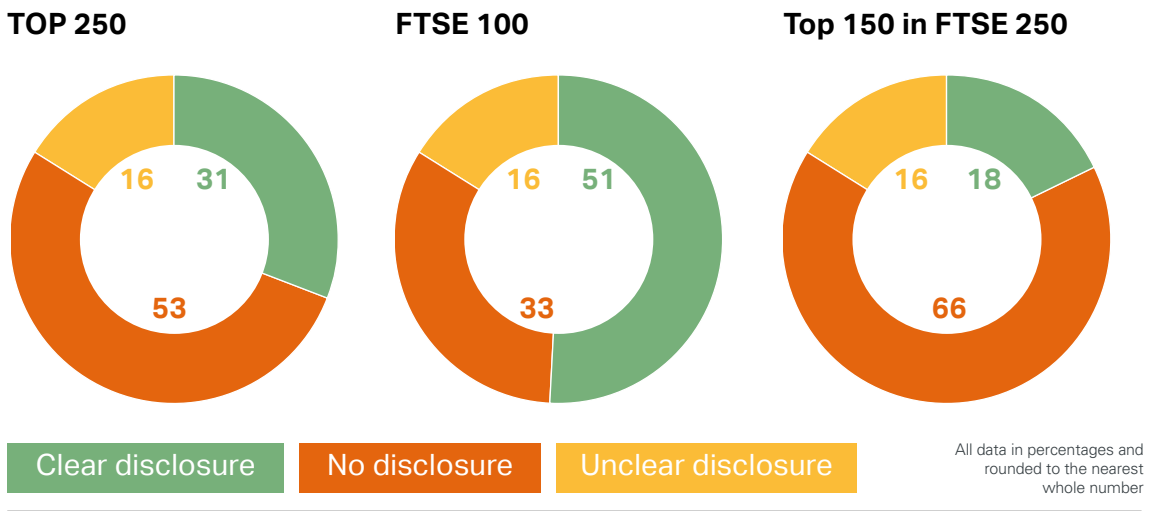
* For the purpose of our review, we also considered a reference to using a 'science-based target' in accordance with the methodology developed by the Science-Based Targets Initiative as constituting 'Paris-alignment' targets, despite the fact that this methodology does not currently require companies to set a 'net-zero' by 2050 pathway.

'Paris-alignment'/'net-zero' targets: findings

Of the companies reviewed, 31% clearly referred to having some form of target to reduce their emissions which referred to 'net-zero', or alignment with Paris Agreement objectives. For a further 16% it was unclear, or they provided only a very limited disclosure. The remaining 53% of companies made no reference to any 'net-zero' or 'Paris-alignment' aim or objective.

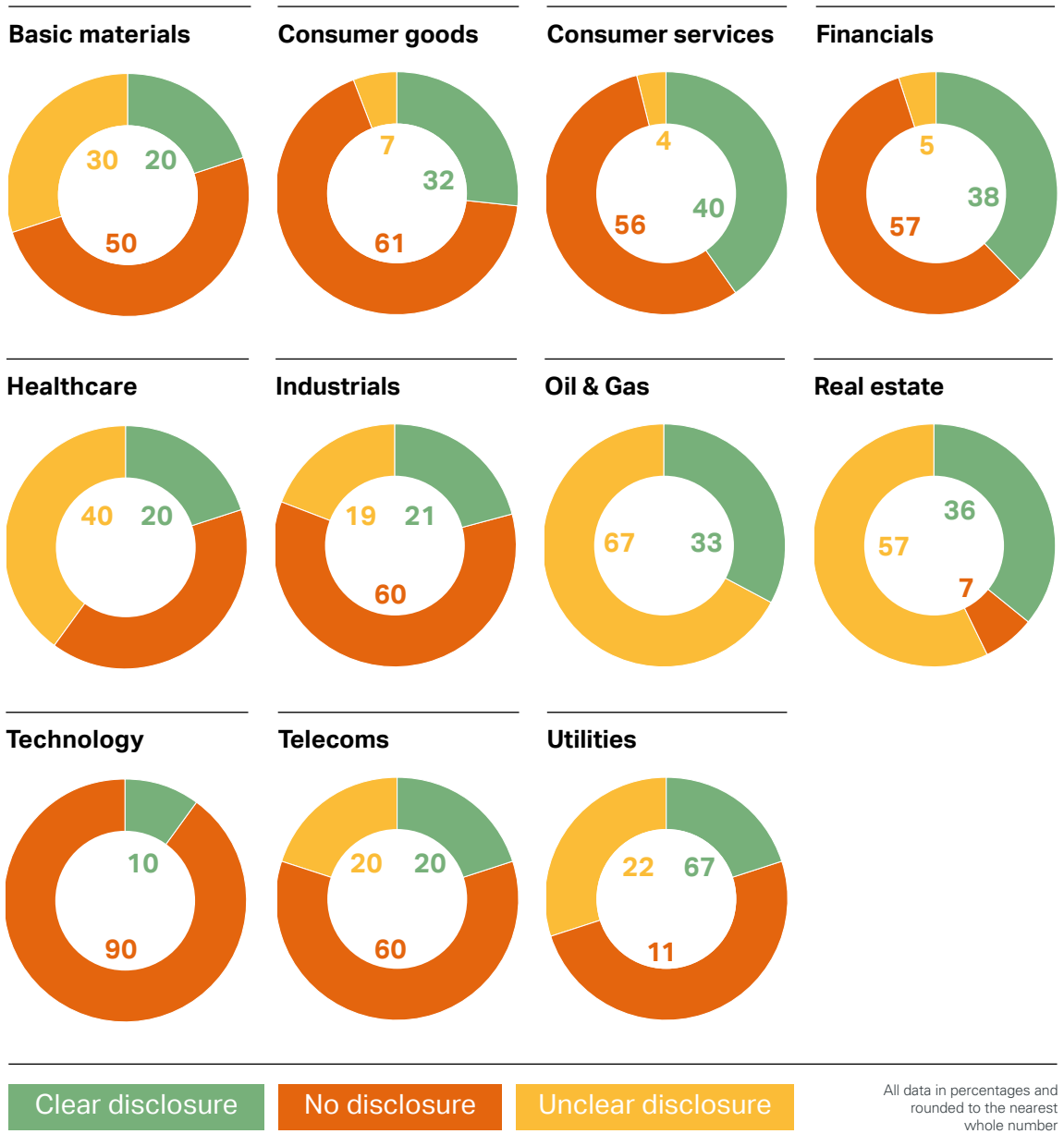
Notably, there was a very significant difference between the FTSE 100 and the FTSE 250. For the FTSE 100, 51% of companies made a clear reference to a 'net-zero' or 'Paris-alignment' objective in their Annual Report. However, for the companies reviewed from the FTSE 250, only 18% did so. In many cases, company disclosures about GHG emission targets were quite high-level and generalised, which partially explains the significant number of companies falling in the 'unclear' category.

In the course of our review, we identified highly divergent practices by different companies regarding the level of detail in their 'net-zero' and 'Paris-alignment' targets, as well as the methodologies and scenarios they are using to set, measure and report against them.



Sector-specific results

In relation to sector specific results, the 'Utilities' sector was the standout, with 67% of companies making a clear reference to 'Paris-alignment' or 'net-zero' targets or objectives. This was followed by the 'Consumer services' sector (40%) and the 'Financials' sector (38%). The laggard sector was the 'Technology' sector, with just 10% of companies adopting a clear 'Paris-alignment' or 'net-zero' target or objective. While a significant majority of companies in the 'Oil & Gas' and 'Real estate' sectors adopted some form of emission reduction targets, in many cases it was unclear whether this was tied to 'net-zero' or 'Paris-alignment' objectives, which partially explains the high number of firms in this category from those sectors.



Unilever Annual Report and Accounts 2019 (year ending 31 December 2019)

Unilever is a British multinational consumer goods company headquartered in London. It produces a wide range of consumer products, including food, energy drinks, baby food, soft drinks, cheese, ice cream, tea, cleaning agents, coffee, and beauty products. Its products are available in around 190 countries.

In the 'Risk' section of its Annual Report, Unilever includes a four-page discussion of the risks and impacts associated with climate change relevant to its business (pg 42). The discussion is structured using the framework established by the TCFD Recommendations into sections on 'Governance', 'Strategy and Risk Management' and 'Metrics and targets'. In the 'Metrics and targets' section, Unilever discloses detailed information about its targets and strategy to reduce its GHG emissions (including Scope 3), and links to other relevant sections of its report. It has also had two of its targets certified by the Science-Based Targets Initiative.

"Metrics and targets

We have been measuring and reporting on our energy and water consumption and carbon emissions since 1995. The USLP includes a number of stretching targets which relate to climate risks and opportunities across our value chain. Performance against key targets can be found on page 22 with commentary on page 18 and 19. Our website contains detailed commentary on our USLP targets as well as actions we are taking to achieve them. Two of our GHG reduction targets are recognised as science-based:

- Halve the greenhouse gas impact of our products across the lifecycle by 2030 (this is aligned with our USLP full value chain target and covers all the phases across the lifecycle of our products: ingredients/ raw materials, manufacturing, distribution, retail, packaging, consumer use and disposal).
- Reduce scope 1 and 2 greenhouse gas emissions by 100% from our own operations by 2030 (this is aligned with our ambition to become carbon positive in our manufacturing, where the majority of our scope 1 and 2 emissions occur).

We've created a detailed plan to annually assess the feasibility for Unilever to reach our target to halve the greenhouse gas impact of our products across the lifecycle by 2030, taking both external transitions towards a low-carbon economy as well as the latest available data and assumptions about our GHG footprint into account. See page 22 for our latest progress against these targets and page 19 for commentary."

Unilever has also recently announced its intention to put its climate transition action plan before shareholders and seek a non-binding advisory vote on its emission reduction targets and the plans to achieve them.⁵²

InterContinental Hotels Group plc Annual Report 2019 (year ending 31 December 2019)

InterContinental Hotels Group plc (IHG) is a multinational hospitality company headquartered in Denham, Buckinghamshire. IHG has about 889,582 guest rooms and over 5,900 hotels across nearly 100 countries. IHG owns several brands, including InterContinental, Regent Hotels, Six Senses Hotels, Kimpton Hotels and Resorts, Hualuxe, and Crowne Plaza.

In its Annual Report, IHG includes a brief discussion of the risks and impacts associated with climate change that are relevant to its business. In a section titled 'Our culture, responsible business and stakeholders', it refers to the fact that it has targets to reduce its carbon footprint and that it has recently set 'science-based targets'. While IHG does disclose information about some of its Scope 3 GHG emissions, and notes that it has set 'science-based' targets, it does not provide any clear detail about the scenario or assumptions it has used in doing so (pg 34).

Further research does indicate that IHG has registered its targets with the Science-Based Targets Initiative, which also provides more detail about the level of GHG emission reductions that are being pursued. However, unless relevant targets, methodologies and assumptions are clearly disclosed in the Annual Report itself, it is difficult to assess their accuracy and consistency with other elements of the company's business strategy and risk management practices.

"Climate change

With 5,903 hotels operating in more than 100 countries, we recognise the risks presented by climate change, which have the potential to impact our performance and growth, and our responsibility to keep adapting to meet the challenge. In 2019, the Board considered the Company's post-2020 environmental sustainability approach and ambitions, and the Corporate Responsibility Committee endorsed new sustainability commitments, including a science-based target for carbon reduction by 2030, and reporting in line with the Task Force on Climate-related Financial Disclosures.

Tackling climate change related issues involves collaboration with our key stakeholders to find solutions and innovations to drive positive outcomes. We are uniquely placed to educate and support behavioural change amongst our third-party hotel owners, suppliers and millions of guests, and will continue to develop our approach.

Carbon and energy

One of our Responsible Business Targets is to reduce our carbon footprint per occupied room by 6-7% over the period 2018-2020. Over a two year period, we have reduced our carbon footprint by 5.9% per occupied room, including a 3.7% reduction in 2019, from a 2017 baseline. As we look at our longer-term ambitions, we know that we have to do more, which is why we have set a 2030 science-based target to reduce greenhouse gas emissions."

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Conclusions and recommendations

Publicly-listed entities in the UK are subject to numerous legal disclosure requirements where material climate change-related risks, impacts and financial implications need to be considered and reported. Auditors must also address these matters in their work.

Despite these clear legal requirements and expectations, our review has exposed a system-wide failure by many of the UK's largest listed companies and their auditors to disclose meaningful and material climate change-related information in their most recent Annual Reports.

While some companies are aligning their disclosures with the TCFD Recommendations, setting targets to reduce GHG emissions in line with the goals of the Paris Agreement, and updating their financial accounting assumptions accordingly, the majority are failing to do so. Even where companies disclose basic climate change-related information, the material detail that investors are requesting is often missing.

In light of these findings, we strongly welcome recent announcements by the Government and financial regulators to introduce new climate change-related reporting requirements across the economy, including for listed companies, from 2021. Greater clarity around the detail and content of the climate change-related information, which companies should be disclosing, is sorely needed.

While we support these developments and welcome calls for greater action by industry, based on the clearly inadequate and inconsistent disclosure practices we have identified under existing requirements, we also strongly believe that further action must be taken by Government, financial regulators and investors to close the existing accountability gap.

With increasing risks of boilerplate reporting and 'greenwash', strong regulatory supervision and enforcement of non-compliance will be essential to ensure that all firms comply with new and existing requirements and disclose the material information that investors and other stakeholders are demanding.

Recommendations

Our recommendations to address the concerns we have identified include:

Law reform must level the playing field and meet investor expectations

The Government and financial regulators have recently announced plans to enhance existing climate change-related reporting laws by explicitly requiring companies to disclose in line with the TCFD Recommendations, initially on a limited 'comply or explain' basis.

The new laws or regulations implementing the Government's commitment to introduce mandatory TCFD-aligned reporting must:

- be introduced on a clear, mandatory basis, as soon as possible;
- ensure investors' expectations are met by explicitly requiring firms to disclose a strategy, with associated metrics and science-based targets (including interim targets), that is aligned with the Paris Agreement goals to achieve 'net-zero' global emissions by 2050 (Scopes 1-3); and
- provide shareholders with an advisory vote at company AGMs on the adequacy of climate change strategies and targets, to facilitate market-led improvements in accountability.

Strong enforcement is required to eliminate 'greenwash'

Alongside changes to the law to clarify and enhance existing legal requirements, there must also be a step-change in action by financial regulators. In light of increasing risks of boilerplate reporting and 'greenwash', strong regulatory supervision and enforcement of non-compliance will be essential to ensure that all firms comply with new and existing requirements and disclose the material information that investors and other stakeholders are demanding.

In particular, the Government, FRC and FCA must take urgent action to close the current enforcement and accountability gap and eliminate 'greenwash' by:

- properly resourcing and training enforcement teams to supervise and investigate the adequacy of companies' climate change-related reporting;
- taking clear and unambiguous enforcement action where companies and their auditors omit material climate change-related information; and
- issuing formal guidance to companies, directors and auditors on the legal and regulatory risks of 'greenwash' in financial reporting.

Investors have a duty to drive accountability

Finally, alongside the government and financial regulators, investors also have a critical role to play in ensuring that companies are disclosing the material information that they need to allocate and steward our capital through the transition to a 'net-zero' emission economy. In recent years, leading investors have already played an important role in clarifying expectations and engaging with companies to improve disclosures. However, the continued poor quality of climate change-related disclosures by a large portion of listed companies is clear evidence that investors must now take stronger action.

In particular, in order to meet their own fiduciary duties to manage climate change-related risks through their investment and stewardship decision-making, investors must:

- formally place companies, directors and auditors on notice of their expectations regarding the materiality of granular climate change-related financial information for their decisions;
- file and support robust shareholder resolutions at company AGMs to demand that companies set and implement a strategy, with associated metrics and targets (including interim targets), that is aligned with the Paris Agreement goals to achieve 'net-zero' global emissions by 2050 (Scopes 1-3); and
- set and implement a robust stewardship policy to vote against the reappointment of directors, audit committee chairs and auditors at companies that omit material climate change-related information.

Endnotes

- 1 See, e.g., Department for Business, Energy & Industrial Strategy, 'UK becomes first major economy to pass net zero emissions law' (2019); Prime Minister's Office, 10 Downing Street, 'PM outlines his Ten Point Plan for a Green Industrial Revolution for 250,000 jobs' (2020)
- 2 See, e.g., Keith Bryant QC and James Rickards, 'QC Opinion: The legal duties of pension fund trustees in relation to climate change' (2017)
- 3 ClientEarth, 'Intervention Update: UK financial regulators are missing in action on company failures to disclose material climate-related information' (2019)
- 4 HM Treasury, 'UK joint regulator and government TCFD Taskforce: Interim Report and Roadmap' (2020); FCA, 'PS20/17: Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations' (2020)
- 5 FRC, 'Climate Thematic Review' (2020)
- 6 See Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013; Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.
- 7 See, e.g., FCA Handbook, DTR 1A.3.2R, LR 1.3.3R; Market Abuse Regulation, art 17.
- 8 FRC, 'FRC Statement on the Government's Green Finance Strategy' (2019)
- 9 FCA, 'PS20/17: Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations' (2020), Appendix 2, Final Technical Note
- 10 IFRS, 'IFRS Standards and climate-related disclosures' (2019); see also, AASB & AUASB, 'Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2' (2019); IFRS, 'Educational material: the effects of climate-related matters on financial statements prepared applying IFRS Standards' (2020)
- 11 Allen & Overy, 'Climate change reporting: preparing for a zero-carbon future' (2019); KPMG, 'Climate in the Annual Report' (2019)
- 12 IIGCC, 'Institutional investors' expectations of corporate climate risk management' (2012); IIGCC, 'Leading investors call on Europe's largest companies to address missing climate change costs in financial accounts' (2020)
- 13 See, e.g., FCA Handbook, DTR 1A.3.2R, LR 1.3.3R; Market Abuse Regulation, art 17.
- 14 FRC, 'Guidance on the Strategic Report' (2018)
- 15 IFRS, 'IAS 1: Presentation of Financial Statements'
- 16 Because different companies have different reporting years and therefore different dates for publishing their annual reports, we analysed the most recent annual report available at the time of the review. This means that for some companies we reviewed their 2019 annual report, while for others we reviewed their 2019/2020 annual report.
- 17 Financial Times, 'Market Data, Sectors and Industries' (accessed June 2020)
- 18 Companies Act 2006, s 395.
- 19 TCFD, 'Recommendations of the Task Force on Climate-related Financial Disclosures: Final Report' (2017), p 37.
- 20 ClientEarth, 'Risky Business, Climate change and professional liability risks for auditors' (2017), p 9.
- 21 IFRS, 'IFRS Standards and climate-related disclosures' (2019); see also, AASB & AUASB, 'Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2' (2019); IFRS, 'Educational material: the effects of climate-related matters on financial statements prepared applying IFRS Standards' (2020)
- 22 FRC, 'FRC Climate Thematic: Reporting – How are companies developing their reporting on climate-related challenges?' (2020), p 6; see also FRC, 'FRC Statement on the Government's Green Finance Strategy' (2019)
- 23 IIGCC, 'Investor groups call on companies to reflect climate-related risks in financial reporting' (2020)
- 24 IIGCC, 'Leading investors call on Europe's largest companies to address missing climate change costs in financial accounts' (2020)
- 25 For example, Lancashire Holdings states in the notes to its Financial Accounts that "Some of the Group's business provides coverage for natural catastrophes (e.g., hurricanes, earthquakes, wildfires and floods) and is subject to potential seasonal variation and the effects of climate change... The Group's associate bears exposure to catastrophe losses and any significant loss event could potentially result in impairment in the value of the Group's investment in associate" (pg 119). Given the lack of specificity, this was categorised as "Unclear Disclosure" in our analysis.
- 26 Companies Act 2006, s 414CB.
- 27 FRC, 'Guidance on the Strategic Report' (2018) [7A.32].
- 28 ClientEarth, 'EasyJet among companies reported to regulator by ClientEarth' (2018)

Endnotes

- 29 Companies Act 2006, ss 414CA, 414CB.
- 30 See FRC, '[Climate-related corporate reporting – Where to next?](#)' (2019)
- 31 FRC, 'UK Corporate Governance Statement' (2016), [C.2.2].
- 32 FRC, 'UK Corporate Governance Statement' (2016), [C.2.2].
- 33 FCA Handbook, LR 9.8.6R (5) and (6); DTR 7.2.
- 34 See FRC, '[Guidance on Risk Management, Internal Control and Related Financial and Business Reporting](#)' (2014)
- 35 See Sarasin and Partners and ClientEarth, Investors expect fossil fuel companies' viability statements to address climate risk (29 January 2016)
- 36 DEFRA, '[Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance](#)' (March 2019)
- 37 ClientEarth, '[Risky Business, Climate change and professional liability risks for auditors](#)' (2017), p 14-17.
- 38 IAASB, '[The Consideration of Climate-Related Risks in an Audit of Financial Statement](#)' (2020); see also, AASB & AUASB, '[Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2](#)' (2019)
- 39 FRC, '[FRC Climate Thematic: Audit – How are auditors taking account of climate-related challenges?](#)' (2020)
- 40 IIGCC, '[Voting for better climate risk reporting: the role of auditors and audit committees](#)' (2018)
- 41 IIGCC, '[Investor Expectations for Paris-aligned Accounts](#)' (2020)
- 42 See also, Companies Act, ss 393(2), 495(3).
- 43 TCFD, '[Recommendations of the Task Force on Climate-related Financial Disclosures: Final Report](#)' (2017).
- 44 See, e.g., Blackrock, '[A Fundamental Reshaping of Finance](#)' (2020)
- 45 See FRC, '[Climate-related corporate reporting – Where to next?](#)' (2019)
- 46 FCA, '[PS20/17: Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations](#)' (2020)
- 47 HM Treasury, '[UK joint regulator and government TCFD Taskforce: Interim Report and Roadmap](#)' (2020)
- 48 TCFD, '[Recommendations of the Task Force on Climate-related Financial Disclosures: Final Report](#)' (2017), 15
- 49 See also UNFCCC, '[Race to Zero](#)' (2020)
- 50 IIGCC, '[Climate Action 100+ calls for net-zero business strategies and sets out benchmark of largest corporate emitters](#)' (2020)
- 51 ClientEarth, '[Principles for Paris Alignment](#)' (2020)
- 52 Unilever, '[Unilever to seek shareholder approval for climate transition action plan](#)' (2020)

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