

The Institute's Executive Director on the profession's role in providing transparency and insights on the financial impacts of climate change



The impact of climate risk on corporate reporting

The accounting profession's focus on and role in sustainability, and environmental, social and governance factors as core consolidations in business risk identification and management, strategic planning, financing and corporate reporting has grown significantly over a number of years. In the last 18 months, the prominence and pace of development of this trend has increased dramatically.

During the 2021 United Nations Climate Change Conference (COP26), held earlier this month in Glasgow, the IFRS Foundation announced that the International Sustainability Standards Board (ISSB) would be established to develop and maintain global sustainability reporting standards as proposed and the first standards would be issued next year, focusing on climate-related risk and general disclosure requirements. The prioritization by the ISSB of climate risk is understandable given the global significance of the threat posed by climate change and the recognition by governments and regulators of the urgent need to address the risk. Another good example of this is how the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) recommendations on disclosure of climate-related information are in the process of being mandated in certain jurisdictions. In Hong Kong, the Green and Sustainable Finance Cross-Agency Steering Group announced in July that progress is being made towards mandating climate-related disclosures aligned with the TCFD framework by 2025 across relevant sectors.

So how does all of this affect the 2021 reporting cycle and the work and responsibilities of professional accountants?

IFAC statement

In September, the International Federation of Accountants (IFAC) issued a statement *Corporate Reporting: Climate Change Information and the 2021 Reporting Cycle*. This followed *Climate Action Point of View* issued in 2019 highlighting climate change as an urgent, global issue and the influence and responsibility accounting bodies and professional accountants have in driving climate-related reporting.

Although many jurisdictions are subject to a wide variety of statutory or regulatory requirements on non-financial reporting and despite the issuance of various guidance and educational materials by standard-setters, professional standards for reporting and assurance of climate and sustainability information have not changed. Nevertheless, as many companies are already taking action to assess and address climate risk and these actions result in material financial implications, they need to be reflected in a company's financial reporting.

The statement recognizes that increasing regulatory and investor scrutiny on businesses' response to the climate crisis is challenging professional accountants – both in business and in practice – to play an active role in determining the way climate change information is reported. This needs to be done within the existing reporting framework and in compliance with current professional standards. The statement covers three areas, explaining the “why, what and how” of climate-related information in corporate reporting.

Information concerns of investors, regulators and policymakers

Inevitably and understandably the potentially serious impact of climate-related matters on organizations' business models, financial performance and resilience has resulted in demands from investors, regulators and policymakers for more consistent, comparable, reliable and decision-useful climate-related financial disclosures.

Investors have been clear in their demands for greater transparency through groups such as Climate Action 100+ and statements by individual investment firms like BlackRock. Uptake of the TCFD framework and recommendations is monitored and reported annually. The European Commission has issued a proposed Corporate Sustainability Reporting Directive, while the United States Securities and Exchange Commission is consulting on climate change disclosures and China's central bank has plans to implement mandatory disclosures of climate and carbon emission information.

Standard-setter responses

To meet these demands, companies will need to consider whether they need to report additional information and disclosures to enable investors and others to understand the impact of climate-related matters on financial position and performance.

Standard-setters, including the International Accounting Standards Board and the International Auditing and Assurance Standards Board, have already provided helpful clarification and analysis of existing obligations in financial reporting and auditing standards in respect of climate-related matters.

How professional accountants can address these concerns

Transparency is at the heart of the public interest role played by all professional accountants. With respect to climate-related reporting, professional accountants can take a leading role in the following ways:

- Align and integrate climate-related information and disclosures in internal planning, decision-making and corporate reporting.
- Quantify, wherever appropriate, financial impact – translate risks and opportunities into numbers.
- Ensure climate-related disclosures comply with reporting requirements.
- Support global initiatives to enhance climate and broader sustainability-related reporting.

COP26 has brought the climate crisis to the forefront of media headlines, reporting that the danger it poses to society is irrefutable. The IFAC statement is written for the global profession and it is as relevant for Hong Kong as any other jurisdictions. It provides guidance and encouragement for the accounting profession to take a leading role in addressing this grave threat using skills and standards that are at the heart of being a professional accountant. The Institute recommends members use the statement to meet this challenge in the 2021 reporting cycle.