

**Richard Moriarty**

**CEO**

UK Financial Reporting Council

16 December 2025

Dear Richard,

We write to you on behalf of the Principles for Responsible Investment – which holds 5000+ signatories with USD 120 trillion assets under management – and Institutional Investors Group on Climate Change, an investor-led membership organisation with 400+ members across 20+ countries.<sup>1</sup>

We welcome the recent publication by the IASB of [illustrative examples](#) (IEs) clarifying expectations on how entities should report on the effects of uncertainties in their financial statements under IFRS Accounting Standards, and in particular those which relate to climate.

For some time, there has been concern amongst investors that the effects of uncertainties, such as those related to climate, are potentially not being properly reported, and that financial statements are therefore not meeting the requirements of the IFRS Accounting Standards. We share the UK Endorsement Board's [view](#) that the IASB's IEs provide helpful guidance for companies in applying existing IFRS requirements, providing investors with material information they need to support decision-making.<sup>2</sup>

**We are therefore writing to better understand what actions the FRC, as a key regulatory body, will take to support the IE's and ensure proper interpretation of the IFRS Accounting Standards.<sup>3</sup>**

**Climate matters can be financially material, but are often not appropriately reflected in the financial statements**

For some companies, climate-related risks—and steps taken to mitigate them and adapt to a lower-carbon economy—will be financially material and significant to how they prepare their financial statements. These may affect key accounting judgments, including but not limited to:

- Whether a carbon-intensive or climate-exposed asset is impaired.
- The estimated useful life over which an asset is depreciated.

<sup>1</sup> This letter was developed by PRI with input from IIGCC but does not necessarily represent the views of their entire memberships, either individually or collectively.

<sup>2</sup> See the PRI [comment letter to the IASB](#) on the consultation regarding the IEs. This was also highlighted in comment letters to the IASB from the CFA Institute and CFA Society United Kingdom, Ceres, the Institutional Investors Group on Climate Change (IIGCC), the International Corporate Governance Network (ICGN), the Corporate Reporting Users Forum (CRUF), EOS at Federated Hermes, Sarasin & Partners and the Investment Association, among other investment community organisations.

<sup>3</sup> We note that the illustrative examples are non-mandatory guidance that accompany IFRS Accounting Standards. Their purpose is to illustrate how the requirements in the Standards should be implemented by companies. Therefore, they should guide and aid reporting pursuant to the principles-based accounting requirements and enforcement thereof, but are not on their own a basis for enforcement.

- The estimation of the amount and timing of cash flows required to meet asset retirement obligations, among other considerations.

For example, fossil fuel companies may need to fulfil asset retirement obligations earlier than previously anticipated due to transition-related policies, potentially increasing balance sheet provisions.<sup>4</sup>

Such considerations may negatively or positively affect the profitability and financial position reported in the financial statements of companies across a wide range of sectors that have climate or emissions-related exposure, depending on their circumstances. Ensuring that these have been properly accounted for by applying current IFRS Accounting Standards is, of course, essential for promoting sustainable growth, not an incremental regulatory burden. Furthermore, in most jurisdictions, companies are obliged to ensure that the assumptions underlying their financial statements are consistent with other information they are presenting to their investors – particularly that contained elsewhere in their annual report. Investors are increasingly seeing companies referencing transition-related impacts in business strategies, yet even when such impacts are financially material, disclosure of material information on how they were addressed in the financial statements often remains absent.

In short, climate risks and uncertainties have increasingly significant accounting implications for a growing number of companies, both in terms of financial statement materiality and consistency with information across the annual report. As the IEs demonstrate, where material, investors need to understand how such considerations are reflected in the financial statements, in order to inform their investment and stewardship decisions.

### **The need for improved market practice is evident, including in the UK**

We appreciate that the FRC has highlighted the importance of climate and how it is considered and disclosed in the financial statements over several years now. The 2020 [Climate Thematic Review](#) recognised that IFRS Accounting Standards “provide a clear framework for incorporating the risks of climate change into companies’ financial reporting”. However, the FRC’s Review found that consideration and disclosure of the effects of climate change on the financial statements lags behind narrative reporting, and identified instances of potential non-compliance with IFRS Accounting Requirements. Similarly, the UK Endorsement Board research on connectivity in annual reporting<sup>5</sup> found that companies often fail to appropriately reflect the effects of climate matters on the financial statements applying IFRS

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<sup>4</sup> See for example BNP Paribas AM, [The 856 billion clean-up bill: How decommissioning liabilities threaten corporate balance sheets](#) (June 2025) and Carbon Tracker Initiative, [Overlooked: Why oil and gas decommissioning liabilities pose overlooked financial stability risk](#) (December 2023).

<sup>5</sup> Captured in the 2023 reports “[A Study in Connectivity: Analysis of 2022 UK Company Annual Reports](#)” and “[Climate-Related Matters: Summary of Connectivity Research](#)”.

Accounting Standards – even where financially material climate-related matters are disclosed outside of the financial reports.

At the global level, a [study](#) by the Carbon Tracker Initiative found that less than 40% of 2022 year-end reports of [the world's largest emitting companies](#) provided any meaningful financial statement disclosure on such matters – even though the companies surveyed had been specifically identified by investors as those most exposed to climate issues. There is little evidence of improvement since this study was undertaken.<sup>6</sup>

### **Our ask to the FRC**

Given that the accounting requirements are clear but company practice still needs improvement, regulators have a central role to play in raising awareness on the IEs (alongside standard-setters) and enforcing the application of existing IFRS Accounting Standards that the IEs relate to. We commend the fact that the FRC has established a cross-discipline group to address climate across its remit of financial statements, audit, governance and stewardship. However, more is needed to ensure that companies report on the effects of financially material climate matters on the financial statements when applying IFRS Accounting Standards.

While we do not wish to raise issues of past compliance, we recommend that the FRC support the robust application of existing requirements in IFRS Accounting Standards, informed by the IEs, and with assistance from relevant standard-setters where needed on market education.

**In this regard, we encourage the FRC to issue a public communication to the market regarding the effects of uncertainties, such as those related to climate, in the financial statements:**

- Formally welcoming the IEs and clarifying that companies should consider the IEs and the requirements of the IFRS Accounting Standards they illustrate, in the context of their own circumstances, to determine the disclosures needed on how uncertainties, such as climate, were considered in the annual financial statements.<sup>7</sup>
- Re-emphasising its intention to engage with auditors to promote consideration of the IEs and consistent reporting across companies' financial reports.
- Providing further guidance on how the FRC will monitor reports of companies most likely to be affected, how it will engage with companies where uncertainties, such as climate, appear material but are not addressed in the financials where required by IFRS Accounting Standards, and potential supervision measures where this does not succeed.

<sup>6</sup> CTI's assessment of 2023 year end reporting showed only 2% of CA100+ focus companies made significant improvement, and its [latest assessment](#) also showed little to no year-on-year change. There are other studies confirming CTI's conclusions, for example the 2024 [EY Global Climate Action Barometer](#) surveyed 1,400 companies across 51 countries found that only 36% of them had even referenced climate-related financial impact in their financial statements.

<sup>7</sup> We understand that while the IEs alone are not a basis for company disclosure judgments, they can aid with this. It will be up to companies to interpret accounting rules in light of their own circumstances, considering the IEs and IFRS Accounting Standards but also exercising a degree of judgment and being clear on assumptions/rationale in their disclosures.

- Indicating how the FRC will collaborate with other UK regulators, including the FCA, to promote consistent expectations and messaging on the use of the IEs across financial reporting and audit supervision.

We would also welcome other action which you may wish to take to ensure that the IEs are acknowledged by companies, and given the FRC's regulatory responsibilities for audit as well, by auditors, and that they are committed to implementing the principles illustrated. We thank you for your time and consideration as this is a matter of concern to investors and we look forward to your response. Please do not hesitate to get in touch should you wish to discuss the matters raised in this letter and explore how we can support your efforts.

With kind regards,

***Nathan Fabian, Chief Sustainable Systems Officer, on behalf of the Principles for Responsible Investment (PRI)***

***Stephanie Pfeifer, CEO, on behalf of the Institutional Investors Group on Climate Change (IIGCC)***

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