

**Verona Ross**

**Chair**

European Securities and Markets Authority (ESMA)

16 December 2025

Dear Ms Ross,

We write to you on behalf of the Principles for Responsible Investment, which holds 5000+ signatories with USD 120 trillion assets under management; Ceres, which holds 175 members representing USD 48 trillion AUM; 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. We share ESMA's [view](#) that the IASB IEs helpful guidance for companies in applying existing IFRS requirements, providing investors with material information they need to support decision-making.<sup>2</sup>

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 ESMA's [view](#) that the IASB IEs provide helpful guidance for companies in applying existing IFRS requirements, providing investors with material information they need to support decision-making.

**We are therefore writing to better understand what actions ESMA, 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**

As noted in the 2024 European Systemic Risk Board publication [Climate-related risks and accounting](#), climate-related risks – and steps taken to mitigate them and adapt to a lower-carbon economy – will be financially material and significant to how some companies prepare their financial statements. This may affect determination of

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<sup>1</sup> This letter was developed by PRI with input from IIGCC and Ceres 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 Member State regulators and accounting standard-setters. Further, the IEs were supported in comment letters from investors as well as the European Federation of Financial Analysts Societies, the French Society of Financial Analysts, the Spanish Institute of Analysts, Ceres, the Institutional Investors Group on Climate Change (IIGCC), the International Corporate Governance Network (ICGN) and the Corporate Reporting Users Forum (CRUF) and other investment community organisations.

<sup>3</sup> 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.

whether a carbon-intensive or climate-exposed asset is impaired, the assessment of the useful life over which an asset is depreciated, or 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, to inform their investment and stewardship decisions.

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

ESMA has already [confirmed](#) that it expects issuers and auditors to consider how to assess and disclose the degree to which climate-related matters play a role in the preparation and auditing of financial statements.

However, there is strong evidence that many companies are not doing this in practice. The [2024 EFRAG Secretariat Briefing: Climate-related risks in the financial statements](#), which summarises EFRAG's outreach and engagement with stakeholders on this topic, highlights that this information is often too high-level and inadequate, and that companies reporting no material risks in the financial statements seldom explain why this is the case.

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

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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).

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>5</sup>

### **Our ask to ESMA**

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 ESMA has repeatedly included climate in the financial statements in its top priorities for reviews of financial statements by its Member Regulators across the EU, and the Authority's 2023 [guidance](#) on presenting climate-related matters in the financial statements. 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.

As EFRAG noted in its [comment letter to the IASB](#), the IEs have the potential to improve reporting, auditing, supervision and enforcement of information on climate-related and other uncertainties in the financial statements. While we do not wish to raise issues of past compliance, we recommend that ESMA 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 ESMA to issue a public communication to the market regarding the effects of uncertainties such as those related to climate in the financial statements, and to urge Member State regulators to do the same in their respective markets:**

- 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>6</sup>
- Clarifying ESMA's intention to engage with auditors to promote consideration of the IEs and consistent reporting across companies' financial reports.
- Providing further guidance on how Member State regulators will monitor reports of companies most likely to be affected, how they will engage with companies where uncertainties, such as climate, appear material but are not addressed in the

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<sup>5</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>6</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.

financials where required by IFRS Accounting Standards, and potential supervision measures where this does not succeed.

- Indicating how ESMA will collaborate with other EU regulators 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 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)**

**Steven M. Rothstein, Chief Program Officer, on behalf of Ceres**

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

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