A version of the letter below has been sent to 36 of Europe's largest companies through the Institutional Investors Group on Climate Change (IIGCC), along with a version of the associated 'Investor expectations for Paris-aligned accounts'. See here for associated press release and here for relevant content on IIGCC's website. The investor signatories to the letter collectively represent over $9 trillion in assets under management or advice.

Companies receiving the letter:

- **Energy:** EDF, Endesa, Enel, Engie, EON, Equinor, Iberdrola, OMV, Repsol & Uniper.
- **Materials:** Air Liquide, Anglo American, Arcelor Mittal, BASF, BHP, Glencore, Lafarge-Holcim, Linde, Saint-Gobain and ThyssenKrupp.
- **Transportation:** Airbus, AP Moeller Maersk, BMW, Continental, Daimler, Deutsche Lufthansa, Fiat Group, Groupe PSA (Peugeot), Renault Group and Volkswagen.
- **Building on pre-existing engagement:** BP, CRH, Eni, Rio Tinto, Shell and Total. These companies received an amended letter, reflecting previous engagement on the topic.

Dear [Audit Committee Chair],

IIGCC investor expectations for Paris-aligned accounts

We are writing as a group of long-term investors and members of the Institutional Investor Group on Climate Change (IIGCC), to draw your attention to the enclosed investor expectations published today entitled: "*Investor expectations for Paris-aligned accounts*". As chair of [x]'s Audit Committee, we hope this document will provide a useful guide for ensuring material climate risks associated with the transition onto a 2050 net zero pathway are fully incorporated into the financial statements. We would ask that you share this with other members of the Audit Committee as well as the auditor, from whom we are also seeking independent assurance on Paris-alignment.

The enclosed paper builds on a 2018 IIGCC Briefing Paper outlining why financial statements must be adjusted to take account of material climate risks, and the role of Audit Committees and auditors in ensuring this happens[1]. It points to more recent guidance published by the International Accounting Standards Board (IASB) that clarifies how material climate risks must be considered under existing requirements[2]. A recent statement by a number of investor associations further reinforces that investors globally now expect Paris-aligned accounts[3].

As leading investors and IIGCC members we would like to underline that our expectation for Paris-aligned financial statements is additional (and complementary) to current demands for

[1] IIGCC, "Voting for better climate risk reporting: the role of auditors and audit committees", Discussion paper for investors, 2018. Available here: https://sarasinandpartners.com/wp-content/uploads/2020/09/IIGCC_2018_Voting_Accounts-and_Climate_Risk_Apr-2018.pdf

[2] https://www.ifrs.org/news-and-events/2019/11/nick-anderson-ifrs-standards-and-climate-related-disclosures/

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

narrative reporting in line with the Financial Stability Board's Task Force for Climate-related Financial Disclosures (TCFD).

Not only is it important that boards ensure consistency between their narrative disclosures on climate risks and their financial statements (i.e. it would not be consistent to emphasise climate risks in the strategic report but not consider these same risks in the accounts), but prudent capital allocation depends on 'Paris-aligned' accounts.

By providing vital information on performance and capital for an entity, the accounts are key to how capital is deployed by management as well as investors. If the accounts leave out material climate risks, too much capital will go towards activities that put shareholder capital at risk. Worse still, this puts all our futures at risk.

In calling for 'Paris-aligned' accounts, the paper sets out five steps we expect directors to take, as follows:

- *An Affirmation that the goals of the Paris Agreement have been considered in drawing up the accounts.*
- *Adjustments to critical assumptions and estimates*: An explanation for how critical accounting judgments are consistent with net zero carbon emissions in 2050, in line with the Paris Agreement. If directors choose not to use Paris-aligned assumptions, they must explain why in the Notes to the accounts (and, of course, incorporate any material physical impacts that flow from accelerating Global Warming).
- *Sensitivity analysis*: Results of sensitivity analysis linked to variations in these judgements or estimates. If the directors have chosen not to use Paris-aligned assumptions in their core accounts, they should provide details in the Notes of how Paris-aligned assumptions would impact the reported financial statements.
- *Dividend resilience*: Implications for dividend paying capacity of Paris-alignment (e.g. threshold assumptions that would trigger cuts to dividends). This is particularly important where companies have not used Paris-aligned assumptions in their core accounts.
- *Consistency*: Confirmation of consistency between narrative reporting on climate risks and the accounting assumptions, or an explanation for any divergence.

Members of the Audit Committee should furthermore detail the steps taken to ensure material climate risks are properly considered in the accounts and by the external auditor. While the focus of the paper is on risks associated with decarbonisation, any material physical impacts of climate change should naturally be considered in drawing up company financial statements.

We are sending you the investor expectations as we believe that [x] faces material headwinds from a move onto a 2050 net zero pathway. It is, therefore, of utmost importance as the Board prepares the forthcoming Annual Report and Accounts that it ensures the accounting assumptions have been tested against a Paris scenario, and that the auditors are instructed to do the same.

Recent steps by oil and gas majors BP, Shell and Total towards aligning their financial statements with Paris have demonstrated how, even in the most exposed sectors, this is not just feasible but can be done quickly[4]. Above all, there is no need for new regulatory requirements. Indeed, a failure to act may expose directors to regulatory scrutiny.

[4] Please refer to the Paper for a fuller discussion of these companies' accounting adjustments.

If you have any questions, please contact Natasha Landell-Mills at Sarasin & Partners LLP on [x].

Yours sincerely,

Sarasin & Partners LLP

On behalf of:

Aegon Asset Management

AP Pension

AP2

AXA Investment Managers

Bank J Safra Sarasin

Brunel Pension Partnership

Candriam

Church Commissioners for England

Church of England Pension Board

Committee on Mission Responsibility Through Investment of the Presbyterian Church U.S.A.

Danish Labour Market Pension Fund (PKA Ltd.)

DWS

Environment Agency Pension Fund

Fidelity International

Federated Hermes International and EOS at Federated Hermes (on behalf of stewardship clients)

Indep'Am

Insight Investment

J.P. Morgan Asset Management

Jupiter Asset Management

KBI Global Investors

Lægernes Pension

Lazard Asset Management

Local Authority Pension Fund Forum

LGPS Central

M&G Investments

MN

Nordea

Northern Trust

OFI Asset Management

Öhman

P+ Pensionskassen for Akademikere

Royal London Asset Management

Robeco Asset Management

RPMI Railpen

Strathclyde Pension Fund

The Central Finance Board of the Methodist Church and Epworth Investment Management Limited

UK Shareholders Association

Union Investment

USS Investment Management

Cc

Audit committee directors

Lead audit partner