

The Rt. Hon Alok Sharma MP  
COP26 President  
Cabinet Office  
70 Whitehall  
London  
SW1A 2AS

14th September 2021

Dear Rt. Hon Alok Sharma,

**Re: Investor call for Governments to mandate net zero accounting disclosures**

We are writing as a group of global investors representing just over \$2.5 trillion in assets under management or advice to request your support for the attached Position Paper. It calls for Governments to set a clear and urgent timeline for companies to produce accounts that consider the global transition onto a 1.5C pathway. We also seek requirements for auditors to ensure they call out companies that fail to do this. Such requirements would provide clarity on the financial consequences to a net zero pathway and, critically, would provide market incentives to drive financial flows towards delivering the Paris Agreement goals as required under Article 2(1)c.

The UK is well-placed to lead on net zero accounting – not just because it has set a statutory 2050 net zero target, and thus needs to ensure financial flows are aligned with this; but the UK's position as home to one of the largest global financial centres gives it a particular responsibility. Furthermore, ensuring all companies' financial statements are aligned with delivering a stable planet is clearly supportive of the UK's efforts to be a leader in green finance, including plans to make TCFD reporting mandatory. Conversely, permitting companies to draw up accounts that ignore the climate crisis undermines these vital policy goals.

Our letter today builds on earlier correspondence with you in March seeking your support to obtain detailed disclosures of assumptions and forecasts linked to the International Energy Agency's NZE2050 scenario. Your support for that request, and subsequent publication of key economic data points, has provided investors and companies with critical information to enable net zero-aligned accounting and audit.

The challenge now is one of implementation. As noted in the attached Position Paper, global investors representing over \$100 trillion in assets have explicitly called for net zero-aligned



accounting. However, as we know from the Financial Reporting Council's recent review of accounts, as well as third-party reviews such as that conducted by Carbon Tracker being released this week, the vast majority of companies make little or no reference to climate-related matters in their financial statements<sup>1</sup>. Often this is the case even where they explicitly identify climate risks as a principal risk affecting their business, for instance within TCFD reporting. More concerning still, we see companies that have set net zero targets failing to use a net zero pathway in their accounts.

These findings for the UK are similar to our own analysis of large carbon emitters' latest financial statements in Europe and the US. Most continue to use assumptions that presume little or no decarbonisation, and thus report financial results predicated on governments failing to implement their stated commitments and, in some cases, legal targets.

If we choose to wait for companies to respond to investor pressure, it could take years to deliver the numbers we require to invest in a way that is aligned with the Paris goals. Following on from the IPCC's Sixth Assessment Report published in August, such delays should be avoided. This is especially true where the policy lever we propose would be straightforward to implement, and entirely consistent with other government efforts.

Most obviously, a requirement that companies ensure their financial statements set out the financial consequences of a net zero pathway, and their auditors call out where they have not done this, could be included alongside narrative reporting requirements under TCFD. This might also be something that could be explicitly flagged by the G20 at their forthcoming Summit in Italy.

We would welcome your reactions to this letter and attached paper. Please feel free to contact us with any questions or points for clarification via Natasha Landell-Mills on [natasha.landell-mills@sarasin.co.uk](mailto:natasha.landell-mills@sarasin.co.uk). We look forward to hearing from you.

Yours sincerely,

Natasha Landell-Mills, Partner  
Sarasin & Partners LLP

Åsa Mossberg, Senior Sustainability Analyst  
Andra AP-fonden (AP2)

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<sup>1</sup> [Summary-FINAL.pdf \(frc.org.uk\)](#); Carbon Tracker, "Flying Blind: The glaring absence of climate risk in financial reporting", September, 2021.



Faith Ward, Chief Responsible Investment Officer  
Brunel Pension Partnership Limited

Wim Van Hyfte, Global Head of ESG Investments & Research  
Candriam

Bess Joffe, Head of Responsible Investment  
Church Commissioners for England

Bruce Duguid, Head of Stewardship  
EOS at Federated Hermes (on behalf of its stewardship clients)

Craig Martin, Chief Pensions Officer  
Environment Agency pension Fund

Eoin Fahy, Head of Responsible Investing  
KBI Global Investors

Peter Rasmussen, Head of ESG  
Laegernes Pension

Cllr Doug McMurdo, Chair  
Local Authority Pension Fund Forum (UK)

Anna Maria Fibla Moller, ESG Senior Manager  
P+ (Pensionskassen for Akademikere)

Dewi Dylander, Deputy Executive Director, ESG  
PKA Ltd (Danish Labour Market Pension Fund)

cc. Mr. Mark Carney, UN Special Envoy for Climate Action and Finance

