Climate Action 100+ Net-Zero Company Benchmark v1.1: March 2022

Climate Accounting and Audit Indicator (Provisional)[1] – *updated 24 November 2021*

This document contains the Framework and Assessment Methodology for how company disclosures are assessed for Climate Accounting and Audit as part of the Climate Action 100+ (CA100+) Net-Zero Company Benchmark[2] (the 'Benchmark'). This new Indicator is considered to be a hybrid of disclosure and alignment assessments. This document also contains a summary of how company assessments for this Indicator are presented via a 'traffic light system' in the Benchmark.

This document does not cover the Disclosure Framework of the Net Zero Company Benchmark (Disclosure Indicators 1-10) or the additional alignment assessments on capital allocation and lobbying. These are assessed by different data providers and use their own separate assessment methodologies.

This document should be read and used in conjunction with the other supporting materials relating to the Disclosure Framework and Alignment Assessments of the Net Zero Company Benchmark v1.1 available on the Climate Action 100+ website. These include:

• Information on the background and future development of the Benchmark.

• Overview of the framework and methodologies used.

• Frequently Asked Questions (FAQs).

Any additional questions or feedback can be directed to benchmark@climateaction100.org.

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[1] The Climate Accounting and Audit Indicator is considered Provisional. Information will be collected and publicly assessed as part of the Benchmark v1.1 expected to be published in March 2022. The Accounting and Audit Indicator will be subject to change in v2.0.

[2] The data referenced in this document is not intended to be used as a "benchmark" as defined in Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (the European Benchmark Regulation) and The Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019 (the UK Benchmark Regulation). The Benchmark is not a disclosure mechanism or database itself, rather an assessment tool.

Acknowledgements

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The Climate Accounting and Audit Indicator is assessed by Carbon Tracker Initiative (CTI) and the Climate Accounting Project (CAP). CTI is an independent financial think tank that carries out in-depth analysis on the impact of the energy transition on capital markets and the potential investment in high-cost, carbon-intensive fossil fuels. CAP is an informal team of accounting and finance experts drawn from the investor community. This document has been prepared by representatives from these organisations, as well as representatives from the investor networks who lead the Benchmark project for Climate Action 100+ (see below):

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Terminology

This Indicator uses the same terminology as the Benchmark's Disclosure Framework, Disclosure Indicators 1-10.

- **Indicator:** Specific area the company is being assessed on (e.g. this Indicator evaluates companies on their Climate Accounting and Audit).

- **Sub-indicator:** Component of an indicator that divides it into specific areas of interest (e.g. sub-indicators 1 - financial statements, 2 - audit report, and 3 - alignment (of financial statements and audit) with net zero by 2050 (or sooner) and no more than 1.5°C warming.

- **Metric:** Assessment that separates sub-indicators into components, creating the opportunity for evaluation across the subject of attention. Each is assessed as either 'Yes' when the requirements are met, or 'No' when they are not (e.g. Metric 1a focuses on whether the financial statements demonstrate how material climate-related matters are incorporated).

Climate Accounting and Audit Indicator - Framework

This Indicator will be used to assess whether a company's accounting practices and related disclosures, and the auditor's report thereon, reflect the effects of climate risk and the global move onto a 2050 (or sooner) net-zero greenhouse gas (GHG) emissions pathway and the Paris Agreement goal of limiting global warming to no more than 1.5°C.

'Climate Aware': Existing accounting and auditing standards already require that any material climate-related matters (climate matters) are taken into account when preparing financial statements and in the audits thereof.

'Net-Zero Aligned': Investors also expect companies and auditors to ensure visibility of how accelerating decarbonisation in line with achieving net-zero GHG emissions by 2050 (or sooner), impacts a company's financial position and profitability.

1 – Financial statements	
Sub-Indicator Text	The audited financial statements and notes thereto incorporate material climate-related matters.
Metrics	**a.** The financial statements demonstrate how material climate-related matters are incorporated. **b.** The financial statements disclose the quantitative climate-related assumptions and estimates. **c.** The financial statements are consistent with the company's other reporting.

2 – Audit report	
Sub-Indicator Text	The audit report demonstrates that the auditor considered the effects of material climate-related matters in its audit.
Metrics	**a.** The audit report identifies how the auditor has assessed the material impacts of climate-related matters. **b.** The audit report identifies inconsistencies between the financial statements and 'other information'.

3 - Alignment with net zero by 2050 (or sooner)	
Sub-Indicator Text	The audited financial statements and notes thereto incorporate the material impacts of the global drive to net-zero greenhouse gas (GHG) emissions by 2050 (or sooner) which for the purpose of this assessment is considered to be equivalent to achieving the Paris Agreement goal of limiting global warming to no more than 1.5°C.
Metrics	**a.** The financial statements use, or disclose a sensitivity to, assumptions and estimates that are aligned with achieving net-zero GHG emissions by 2050 (or sooner). **b.** The audit report identifies that the assumptions and estimates that the company used were aligned with achieving net zero GHG emissions by 2050 (or sooner) or provides a sensitivity analysis on the potential implications.

Climate Accounting and Audit Indicator - Assessment Methodology and Guidance

1 – Financial statements	
Sub-Indicator Text	The audited financial statements and notes thereto incorporate material climate-related matters.
Metrics	**a.** The financial statements demonstrate how material climate-related matters are incorporated. **b.** The financial statements disclose the quantitative climate-related assumptions and estimates. **c.** The financial statements are consistent with the company's other reporting.

Detailed Guidance

a. The financial statements demonstrate how material climate-related matters are incorporated.

To meet the requirements of this Metric, the company must either:

- **clearly indicate how it incorporates the effects of climate matters into the financials, providing sufficient detail for an understanding of how climate matters relate to the accounting for material relevant items. Boilerplate wording is not sufficient; disclosures must be company specific; or**
- **if the company does not consider climate matters to be quantitatively material to its financial reporting, it must explain why, and how it considered this for the potentially relevant financial statement items.**

Financial statements assessed as 'Yes' for this Metric will demonstrate the following characteristics:

- **Clearly identify the material relevant assets, liabilities, and/or cash flows considered, the related accounting issues and judgements made, and the outcome of the consideration for the reporting period (such as a change in asset lives or an accounting adjustment); and**
- **Provide a comprehensive description of how the financial impacts of climate were considered as appropriate for the company:**
  - **For some, this will include multiple assets and/or liabilities, or extend across several related items, such as fixed assets that have corresponding retirement obligations.**
  - **Consideration should incorporate not only transactions or events occurring in the current period, but also include longer-term considerations that impact current accounting and disclosure, for example, consideration of how climate impacts estimates of future cash flows included in asset impairment tests, estimates of useful lives and residual values of long-term assets, and/or climate-related liabilities, contingencies or commitments.**

Additional guidance

This Metric assesses how, under currently applicable accounting requirements, the company demonstrates consideration of the financial effects of climate-related matters in preparing its financial statements. Such climate-related matters may include the physical impacts of climate change and/or transition impacts from climate mitigation on the company's market, sector, business environment, and drivers of its costs and revenues. It also includes the company's own response, for example any emissions targets set and the company's strategy on decarbonisation.

Most CA100+ companies prepare their financial statements with reference to International Financial Reporting Standards (IFRS) (including local adoptions thereof) or U.S. Generally Accepted Accounting Principles (US GAAP), as applicable. The standard setters have made it clear that the effects of climate matters must be considered in preparing financial statements under IFRS and US GAAP[3].

[3] The following confirm the application of existing accounting requirements to consider climate matters:

In addition to overall considerations, such as the company's ability to continue as a going concern, examples of relevant assets and liabilities include (but are not limited to):

- property plant and equipment (PPE) assets;
- goodwill and other intangible assets;
- inventory;
- asset retirement or decommissioning obligations;
- deferred tax assets and liabilities;
- investments, including joint ventures and associates; and/or
- provisions and loss contingencies.

While accounting policy disclosure can incorporate some elements on how the company considers climate matters in its accounting, additional information relating to specific financial statement items is typically used to explain how those policies are applied in the current period. For example, disclosures that would contribute to meeting the requirements of this Metric include information on to how climate was considered in the context of:

- separate categories (or classes) of PPE assets such as: exploration and production assets related to fossil fuel reserves, productive assets used in the manufacture of inventory that uses fossil fuel sourced power (for example internal combustion engines), or assets that are specific to processes that use fossil fuel-based raw materials or produce high levels of emissions (for example, production of cement), including disaggregated disclosures;
- depreciation of long-lived fixed assets by category/class: estimates of remaining asset lives and residual values, for example of oil, gas and coal-fired plants or airplanes or trucks that will be retired early to meet emissions targets, or a lessor's assets where it is assumed that the value will be partially recovered through sale at the end of the lease;
- impairment of fixed/intangible assets, or investments in joint ventures or associates, including indicators of impairment, estimates of future cash flows, and/or estimates of fair values. This may include climate-related drivers of sales, for example market risks associated with lower expected demand or prices, or higher expected regulatory, supply chain or other costs including those related to reducing the company's emissions. In addition to explaining how the forecast of cash flows takes account of climate related drivers, it may include explanations of why a forecast period of greater than five years is justified (under IFRS);
- decommissioning (asset retirement) costs: gross future cost estimates and their timeframes, and the extent to which the accounting criteria for recognising a liability has (or has not yet) been met;
- deferred taxes: the recoverability of deferred tax assets through estimates of future profits and how this relates to the amount included on the balance sheet, and on deferred tax liabilities, for example, how the pattern of liabilities relating to accelerated depreciation of PPE is affected by early retirements; or
- provisions and disclosure of commitments for example: existing onerous contract liabilities, or contracts that will (or could) become onerous due to changing prices or under plans to meet emissions targets.

IFRS (and local adoptions thereof): *in-brief-climate-change-nick-anderson.pdf (ifrs.org)* and *Effects of climate-related matters on financial statements (ifrs.org)*; *AASB-AUASB Joint Publication on Consideration of AASB Practice Statement 2 and its Application to Climate-related Disclosures;*
US GAAP: *FASB Staff Educational Paper—Intersection of Environmental, Social, and Governance Matters with Financial Accounting Standards (March 19, 2021).*

b.	The financial statements disclose the quantitative climate-related assumptions and estimates.
	
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		To meet the conditions of this Metric, the company must have disclosed the quantitative climate-related assumptions and estimates that it used in its financial statements.
		
		The assumptions that are disclosed should be sufficiently comprehensive to provide a meaningful picture of climate-exposed amounts, in the context of the company's climate risks, emissions targets and strategy.
		
		It should also be clear how the assumptions and estimates can be understood in the context of the associated accounting amounts; their use in relation to reported asset, liability, and earnings amounts should be made clear.
		
		Additional guidance
		
		Disclosure of the actual quantified climate-sensitive inputs used in the financial statements can provide further evidence of the extent to which the effects of climate matters were incorporated in relevant inputs. It can also help investors assess resilience and make appropriate adjustments. It provides a starting point for quantitatively assessing risk associated with assumptions and estimates made in the current financial statements, and considering the financial impact of further climate-related developments.
		
		This Metric is assessed independently from Metric 1a on how the company has considered climate matters.
		
		The assumptions and estimates will often relate to longer-term assumptions and estimates that are exposed to climate matters, such as estimates of future cash flows used in impairment testing of long or indefinite-lived assets.
		
		Examples of climate-related assumptions and estimates that would contribute to meeting the requirements of this Metric include, but are not limited to, quantification of:
		
		• assumptions used to estimate the expected future cash flows used in impairment testing or fair value estimates, including:
		    o projected interim and long-term commodity prices used in forecasting revenues, for example oil, gas and coal prices;
		    o CO_2 prices used in forecasting costs;
		    o estimated costs of carbon capture, usage and storage, or of other potential mechanisms (e.g., carbon offsets, operational improvements) that the company intends to use to reduce overall emissions from the use of existing assets in planned activities; and/or
		    o estimates of other program costs for steps to be taken toward achieving targets, for example R&D costs to develop new low-carbon technologies or to update equipment and processes, or incremental costs of collaborating with suppliers and end users to reduce emissions;
		• adjustments to cash flow growth rates or alternatively, to the discount rates applied in estimating recoverable values or fair values;
		• the remaining useful lives, particularly of climate-exposed assets such as those used in fossil fuel exploration and production, those powered by internal combustion engines, or used in manufacturing emissions-intensive products (such as internal combustion engines);
		• the discount rates, and undiscounted estimated costs and their timing, used to calculate asset retirement obligations;
		• the assumptions used to estimate the residual values of assets, for example an assumption of X% of the original cost of the asset; and/or
		• the prices and volumes of activities used to determine onerous contracts (such as fossil fuel-based take-or-pay contracts).

c.	The financial statements are consistent with the company's other reporting.	**To be assessed as 'Yes' for this Metric, the company must have been assessed as 'Yes' for Metric 1a.** **This Metric builds on the assessment of Metric 1a, to ensure that the financial statements also adequately reflect the climate-related risks and emissions targets stated in other reporting, and so appear to present a consistent narrative. Other reporting includes other sections of the annual report (or similar filing) and may also include separate reporting such as in a sustainability report, TCFD reporting, analyst presentations, and on the company's website.** **If the company considers inconsistencies between its other reporting on climate risks and emissions targets and the financial statements to be immaterial, or has a reason for using different assumptions or estimates outside versus within the financial statements, it is expected to disclose this conclusion and the basis for it.** <u>Additional guidance</u> The aim of this Metric is to assess whether the financial statements reflect the company's other reporting on climate matters, for example on risks and strategy/targets, made outside of the financial statements. This Metric focuses on the financial statements; the company's other reporting on climate will be read as it provides the context for assessing the financial statements, but is not assessed. Topics that are discussed in reporting outside of the financials, such as climate risks and strategies or targets to reduce emissions, all have the potential to drive accounting consequences, for example the value of assets and liabilities and a company's profitability. Regulators also require levels of consistency in company reporting, for example to ensure that there is no material misstatement in the financial statements.[4] The financial statement information identified in assessing Metrics 1a and 1b will be considered in order to assess the extent to which the company demonstrates consideration of the other information outside of the financial statements in preparing its financial statements. Examples of how companies might demonstrate consistency include, but are not limited to, how the company considered: • the financial effects of climate-related risks identified by the company, such as climate-related physical risks of changing weather patterns on a company's manufacturing facilities or supply chain, and transition risks including changes to regulation, reduced demand, or changes to product mix, and their timing in relation to useful lives of relevant assets or assumptions used to value those assets; • use of the same commodity or carbon prices in the financials as those that are used for planning and investment decisions; • incorporation of the extent to which the company expects to use carbon offset technologies to meet its commitments, and the expected timing and costs of investing in such technologies, in impairment cash flow forecasts; and • the effects of the company's own emissions targets and steps described in its decarbonisation strategy, on the expected useful lives of its high emissions assets. Specific confirmation of how elements of risk and/or emissions targets have been considered may also help provide linkage, for example through cross references, or explicit confirmation of what has been included in best estimates of cash flows or other accounting considerations. Interconnected impacts, such as between shortened asset lives, impairments and asset retirement obligations, may also provide a consistent picture, for example, disclosure of how the timeframe used to calculate asset retirement obligations aligns with the remaining useful lives of relevant assets, and with the timing of transition risks and company targets. The use of different assumptions or estimates (inputs) will not be considered inconsistent for this Metric if the company makes clear why the other information disclosed outside of the

[4] For example: UK Financial Reporting Council Climate Thematic. The SEC staff also expect that "forecasts made for [impairment testing] purposes be consistent with other forward-looking information prepared by the company." SAB Topic 5.CC, Codification of Staff Accounting Bulletins - Topic 5: Miscellaneous Accounting (sec.gov). Coherence between the financial statements and the management commentary is also one of the fundamental building blocks of the IASB's best practice guidance for narrative reporting that accompanies IFRS financial statements. See Management Commentary (ifrs.org).

financial statements differ from inputs that meet the accounting requirements. For example, a company may use certain oil, gas or carbon prices to test the resilience of its portfolio to a low-carbon scenario and disclose this in its sustainability report. If management's best estimate is that these same prices are unlikely to occur given certain policy or regulatory measures, the company may have used different prices in its financial statements. A company may also use more challenging assumptions in its new product approval process, for example more punitive carbon costs than it expects to arise, in order to shift its new product approvals toward lower carbon initiatives. In such circumstances, the company would be expected to clearly explain the differences in its reporting.

It is helpful but not sufficient for a 'Yes' on this Metric for the company to explain actual inconsistencies related to an incomplete consideration of climate matters in the financial statements. For example, the company may explain that thus far, consideration of some matters in the financial statements has been more limited than the scope of the risk or target described in other reporting. Such limitations may relate to having only considered accounting implications related to a particular timeframe (i.e. three year business forecast period), or to particular asset classes, geographic locations, or business units. Limitations may also relate to only certain targets or steps to meeting targets, having been considered. Exclusions from full consideration on these or similar bases, will result in an assessment of 'No', until the company completes its consideration.

2 – Audit report

Sub-Indicator Text	The audit report demonstrates that the auditor considered the effects of material climate-related matters in its audit.
Metrics	a. The audit report identifies how the auditor has assessed the material impacts of climate-related matters. b. The audit report identifies inconsistencies between the financial statements and 'other information'.

Detailed Guidance

a. The audit report identifies how the auditor has assessed the material impacts of climate-related matters.

This Metric is based on the expectation that for CA100+ companies, climate matters will be material and subject to significant judgments and uncertainties, and accordingly, they will be included within the auditor's disclosure of Key or Critical Audit Matters (K/CAMs) as applicable under the International/US auditing standards, respectively[5]. Discussions may either be in a separate climate-related K/CAM or those focusing on specific accounting topics.

For this Metric to be 'Yes', the auditor's K/CAMs should be comprehensive in addressing accounting topics sensitive to climate-related judgements and uncertainties.

If the auditor considers the risk in relation to the financial reporting to not require reporting in the K/CAMs, this Metric may be achieved through reporting of how climate was considered in assessing risk and determining the audit approach.

Additional guidance

This Metric assesses how, under current auditing requirements, the auditor demonstrates consideration of the financial effects of climate matters in its audit of the company's financial statements. Most audits of the financial statements of CA100+ companies are conducted under International Standards on Auditing (ISAs) (including local adoptions thereof) or U.S. Public Company Accounting Oversight Board Auditing Standards (PCAOB standards)[6].

The accounting topics considered in Sub-indicator 1 are also relevant to the auditor's consideration of climate as reported in the K/CAMs. The climate-relevant discussions in the K/CAMs should provide:

- a description of the significant climate-related inputs and complex judgments around these inputs, including how specific climate-related risks and/or company commitments affect consideration of these inputs, and
- the methods and procedures used for audit testing, when applicable.

Examples of how audit reports might incorporate information on how climate was considered include, but are not limited to disclosure that:

- clearly identifies the climate matters that formed part of the auditor's consideration (e.g., changes to regulations or the company's strategy or planning, to include consideration of emissions targets), and the accounting topics to which they relate;
- discusses the work and testing performed, including how the auditor assessed the effects of climate matters on inputs used in the company's accounting (such as cash flow estimates used in impairment testing and assessing the underlying commodity price assumptions against external long-term climate scenarios);
- indicates whether the estimates or judgements appropriately reflect the effects of

[5] See: International Standard on Auditing (ISA) 701 (NEW), Communicating Key Audit Matters in the Independent Auditor's Report | IFAC (iaasb.org), and AS 3101, The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion.

[6] In addition to the accounting standard setters having made it clear that financial statements must include the effects of climate matters, the International Auditing and Assurance Standards Board has made clear that the effects of material climate-related matters must be considered in auditing company financial statements. See "The Consideration of Climate-Related Risks in an Audit of Financial Statement | IFAC (iaasb.org). The PCAOB has not published its own clarification about addressing climate risks in audits. However, following the first year of implementing CAMs under US audit standards, a member of the PCAOB called for an increasing focus on ESG CAMs, including those focused on climate-matters.

<table>
<tr><td></td><td></td><td>material climate-related risks and the company’s climate-related commitments, when applicable, and how the auditor assessed this. For example, descriptions could include how the energy transition assumptions that the company used in its planning and impairment testing reflected the company’s emissions reduction commitments and relevant costs of carbon, or whether the useful lives of the company’s productive assets are reasonable given the company’s emissions reduction targets and the pace of the energy transition;
describes how the auditor assessed the company’s long-term assumptions and estimates against third-party credible climate scenarios or other sector specific sources (when applicable); and/or
describes the type of external, independent third-party information used, or the use of a climate-related specialist by the auditor.</td></tr>
<tr><td>b.</td><td>The audit report identifies any inconsistencies between the financial statements and ‘other information’.</td><td>If Metric 1c is assessed as ‘Yes’ because the company appears to present a consistent narrative across its reporting, this Metric will likely result in a ‘Yes’ for the auditor.

If Metric 1c is assessed as ‘No’ and:
the information that is inconsistent is in the company’s other reporting that is subject to the consistency review by the auditor, then this Metric can still be ‘Yes’ if the auditor has drawn attention to the discrepancy; if it has not, this Metric will be ‘No’; or
the information that is inconsistent is in the company’s other reporting that is outside the scope of the auditor’s consistency review, this Metric will likely be assessed as ‘Yes’.
<u>Additional guidance</u>

An inconsistency between the discussion of climate matters outside the financial statements and consideration in the financials could mean a material misstatement of information in one or both of these components of reporting.

This Metric assesses the auditor’s consistency check. It is based on the requirement for the auditor to read certain ‘other information’ provided by the company outside of the financial statements, for consistency with the audited financial statements. Information that comprises such ‘other information’ is specified under the relevant auditing standards[7].

The ‘other information’ may be a subset of the company’s other reporting that is assessed for consistency under Metric 1c. This Metric is assessed as relating to either:
the scope of reporting that is identified in the audit report; or
if this is not stated (as is often the case in reports produced under PCAOB standards), it is assumed to include the information within the same document as the audited financial statements, for example within the Form 10K of a US SEC registered company.</td></tr>
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[7] PCAOB standards generally limit the review to information in the same filing as the financials.
In contrast, IAASB guidance states that if climate-related information is presented outside the annual report, ”it may be important to determine whether the document containing the climate-related information nevertheless forms part of the annual report as defined for purposes of ISA 720 (Revised). An example of a document which is not always part of the Annual Report is a Sustainability Report, which some jurisdictions are seeing an increase in entities issuing.” See ‘The Consideration of Climate-Related Risks in an Audit of Financial Statement | IFAC (iaasb.org)’, ISA 720, The Auditor’s Responsibilities Relating to Other Information, and AS 2710: Other Information in Documents Containing Audited Financial Statements.

3 - Alignment with net zero by 2050 (or sooner)	
Sub-Indicator Text	The audited financial statements and notes thereto incorporate the material impacts of the global drive to net-zero greenhouse gas (GHG) emissions by 2050 (or sooner), which for the purpose of this assessment is considered to be equivalent to achieving the Paris Agreement goal of limiting global warming to no more than 1.5°C.
Metrics	**a.** The financial statements use, or disclose a sensitivity to, assumptions and estimates that are aligned with achieving net-zero GHG emissions by 2050 (or sooner). **b.** The audit report identifies that the assumptions and estimates that the company used were aligned with achieving net zero GHG emissions by 2050 (or sooner) or provides a sensitivity analysis on the potential implications.

Detailed Guidance

a.	The financial statements use, or disclose a sensitivity to, assumptions and estimates that are aligned with achieving net zero by 2050.	**This Metric requires that the company either uses assumptions and estimates that are in line with a net-zero by 2050 (or sooner) pathway, or provides a sensitivity analysis using such assumptions and estimates.** <u>Additional guidance</u> This Metric builds on assumptions and estimates used in preparing the financial statements as assessed in Sub-Indicator 1. It focuses upon the use of assumptions and estimates that can be assessed as appropriate 'best estimates' relative to relevant price decks or published scenario assumptions that are aligned with the goal of achieving net zero by 2050 ("aligned assumptions"). Scenario assumptions should be complete relative to a company's business, for example, the use of aligned commodity prices and product demand may not be sufficient; estimates of the costs and effectiveness of carbon capture technologies, and the costs of carbon or other undertakings that are significant to achieving net zero may be needed to complete the picture. Currently, the International Energy Agency's Net Zero by 2050 scenario and related price deck are used for this assessment, where applicable. However, additional updated reference scenarios may become available over time. Additionally, if the company has performed quantitative risk analysis based on a 1.5°C scenario, the same assumptions would be expected to be used in meeting the requirements of this Metric.
b.	The audit report identifies that the assumptions and estimates that the company used were aligned with net zero by 2050 or provides a sensitivity analysis on the potential implications.	**If Metric 3a is assessed as 'Yes', then for this Metric to be assessed as 'Yes', the auditor should have assessed as part of its audit work, whether the relevant assumptions and estimates used in the financial statements (or used in the company's sensitivity analysis) are 'aligned assumptions', based on the relevant reference assumptions. In doing so, the auditor should have indicated the ways in which it made the assessment, including the sources of third-party information relied upon.** **If Metric 3a is assessed as 'No', then for this Metric to be assessed as 'Yes', the auditor should have indicated what reasonably aligned and quantitative assumptions and estimates would be, and provided a sensitivity analysis of relevant financial reporting amounts using those assumptions and estimates.** <u>Additional guidance</u> This Metric is independent of Metric 3a, as the auditor is asked to take an independent role in assessing the assumptions used by the company (either directly or through sensitivity analysis), or to provide its own sensitivity analysis.

Assessment Presentation: Traffic light system

Each Metric is assessed with a binary 'Yes' / 'No' based on information and evidence published by the company.

Aggregation shown for the published Benchmark at the Sub-indicator and Indicator levels then use the following system (consistent with the aggregation used for the other Benchmark Disclosure Indicators):

- Yes = When all Metrics for a Sub-indicator or Indicator are 'Yes'
- No = When all Metrics for a Sub-indicator or Indicator are 'No'
- Partial = All other combinations of Metrics individually assessed as 'Yes' or 'No'

Assessment combinations for the Climate Accounting and Audit Indicator

CLIMATE ACCOUNTING AND AUDIT INDICATOR

Indicator text

Sub-indicator 1 - Financial statements: The audited financial statements and notes thereto incorporate material climate-related matters.
Metric a … demonstrate how material climate-related matters are incorporated.
Metric b … disclose the quantitative climate-related assumptions and estimates.
Metric c … are consistent with the company's other reporting.

Sub-indicator 2 - Audit report: The audit report demonstrates that the auditors considered the effects of material climate-related matters in its audit.
Metric a … identifies how the auditor has assessed the material impacts of climate-related matters.
Metric b … identifies inconsistencies between the financial statements and 'other information'

Sub-indicator 3 - Alignment with net zero by 2050 (or sooner): The audited financial statements and notes thereto incorporate the material impacts of the global drive to net-zero GHG emissions by 2050 (or sooner).
Metric a The financial statements use, or disclose a sensitivity …
Metric b The audit report identifies that the assumptions used were aligned … or provides a sensitivity analysis.

Contingency: Metric 1c cannot be 'Yes' unless Metric 1a is 'Yes.

The three Sub-indicators have either two or three metrics (a, b, and c). Below is a summary of the possible combinations for the three Sub-indicators.

Sub-indicator 1

a	b	c	Sub-indicator assessment
Y	Y	Y	Y
Y	Y	N	Partial
Y	N	N	Partial
Y	N	Y	Partial
N	Y	N	Partial
N	N	N	N

Sub-indicators 2 and 3

a	b	Sub-indicator assessment
Y	Y	Y
Y	N	Partial
N	Y	Partial
N	N	N

The same approach to aggregation applies to the overall Indicator.

• Yes = When all seven Metrics are ‘Yes’

• No = When all seven Metrics are ‘No’

• Partial = All other combinations of the seven Metrics individually assessed as ‘Yes’ or ‘No’.

Accounting and Audit Indicator

1a	1b	1c	Sub-Indicator 1	2a	2b	Sub-Indicator 2	3a	3b	Sub-Indicator 3	Indicator assessment
Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Y	Y	Y	Y	Y	Y	Y	Y	N	P	Partial
Y	Y	Y	Y	Y	Y	Y	N	Y	P	Partial
Y	Y	Y	Y	Y	Y	Y	N	N	N	Partial
Y	Y	N	P	N	N	N	N	N	N	Partial
Y	N	N	P	N	N	N	N	N	N	Partial
										Partial
Note this table does not illustrate every metric combination of ‘Y’ or ‘N’										Partial
All other combinations result in an overall Indicator assessment of ‘Partial’										Partial
										Partial
										Partial
Y	N	N	P	Y	N	P	N	N	N	Partial
Y	Y	N	P	Y	N	P	N	N	N	Partial
N	Y	N	P	N	N	N	N	N	N	Partial
N	N	N	N	N	N	N	N	N	N	N