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**FOOD &
AGRICULTURE
SECTOR
FRAMEWORK
& PROXY
VOTING
GUIDELINES**

What makes good climate-related company financial disclosure?

While the changing climate will impact most companies, not all climate-related risks are of equal financial materiality. Some relate to maximising the benefit to our wider society. And others, while important, are unlikely to impose costs on the company sufficient to put its financial sustainability at risk. These risks are well analysed by organisations including the WBA, CA 100+, the IIGCC, the TPI, and food industry-specific groups such as [Table & Fairr](#). [Climate Arc](#) provides a good resource for identifying relevant research.

Our analysis takes the work of these organisations and adds to it by considering the small number of climate-related risks and opportunities that could materially impact the long-term financial viability of a company. Failure to plan an appropriate transition in relation to these issues exposes investors to financial risk. Given this, how a company manages these risks should be of concern to all shareholders.

These include continuing with activities for which there will likely be no viable long-term future, plus those emerging opportunities that could create significant future value. Demand for these goods and services is often driven by events external to the company, including regulation, changing end customer needs, the emergence of new technologies, and actions by competitors. Our evaluation seeks to identify if the companies provide disclosures on these issues, in sufficient detail, to enable shareholders to:

1. determine if the company is properly considering the material climate-related risks and opportunities they face, and the financial consequences of the actions and investments they plan to undertake.
2. make informed judgements as to the ability of the company to deliver on its climate-related transition strategy, including how well aligned the climate transition plans are with the company's wider long-term financial strategy.
3. clearly understand the climate-related goals and targets of the company with regard to alignment with the Paris Agreement, and understand the financial impact that a regulatory environment aligned with a 1.5C pathway could have.

This and related reports seek to demonstrate how material climate disclosures can be integrated into proxy voting decisions and corporate engagement. Given this work is in its initial stages, we are actively seeking and would welcome comments on the framework, analysis and recommendations. If you have any comments, please email paul.hunter@pirc.co.uk.





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1. Financial relevance of material climate-related disclosures

One key objective of climate-related financial disclosure by companies is to enable shareholders to make better investment decisions, by providing them with the information they need to evaluate (and if required challenge) management decisions. This in turn enables them to develop a constructive programme of engagement to actively encourage the company to move toward a more sustainable and financially viable future.

To quote the IFRS S1 standards - a company should “*disclose information about its sustainability-related risks and opportunities that is useful to users of general purpose financial reports in making decisions relating to providing resources to the entity. This should include information that could reasonably be expected to affect the entity’s cash flows, its access to finance or cost of capital over the short, medium or long term*”.

Climate-related disclosures are changing

For most companies, changes in shareholder requirements, growing societal pressures, and new consumer demands, combined with increasing regulation and carbon pricing, and a growing recognition of the physical climate risks to supply chains and infrastructure, mean that developing and delivering a meaningful climate transition strategy is imperative if they are to survive as profitable entities.

Many companies have set long-term ‘net zero’ targets. But many do not translate these into concrete actions. And often the analysis used to create the targets is presented as an end conclusion, with the input assumptions either missing or only briefly discussed. As a result, they do not provide the level of detail that shareholders and potential shareholders need to critically review the strategy, and specifically to identify if:

- the company has adequately considered all of the financially material climate-related scenarios, not just those that allow business as usual to continue.
- the company has set meaningful targets to mitigate and/or manage its material climate-related risks and opportunities, including its impacts on the wider society and ecosystem.
- targets are linked to the company’s wider financial strategy and are deliverable in a financially viable way,
- the company has analysed and disclosed the financial impact of the potential outcomes, and the company’s related investment decisions, and
- company auditors have reviewed the plans in sufficient detail so that shareholders can have confidence in their validity and deliverability.



This is especially important for companies in the high carbon-emitting sectors, such as agriculture and food production/processing. These companies face material risks from the changes that the climate-related transitions will bring. Ignoring such risks could result in a misallocation of capital, lower profits, higher investment needs, and potential asset write-downs. These could lead to a loss of shareholder value. In some cases, this could be material.

As a result, shareholder climate-related disclosure requirements are shifting from a focus on net zero alignment and carbon emissions reduction targets (i.e. a high-level climate strategy) to one that also provides better financial disclosure. This should encompass the different outcomes that could occur, the underpinning assumptions of the company's selected climate-related strategy, the concrete actions they plan to take, how well these are aligned with the wider company strategy and the financial implications of the choices they are making.

Each sector has distinct issues and requirements. Our analysis starts with a sector framework, which then informs the proxy voting and engagement guidelines, and individual company analysis and recommendations.

Disclosures now reflected in accounting standards

This shift in sustainability disclosure emphasis is increasingly being reflected in the setting of accounting and reporting standards. Accounting standard bodies such as IASB (International Accounting Standards Board) have confirmed the requirement to include material climate-related matters when preparing and auditing the accounts. These requirements have also been reflected in the IFRS (International Financial Reporting Standards Board) Sustainability Standards S1 and S2, which are expected to become integrated into the various global financial reporting frameworks in the coming years.

Furthermore, regulators such as the SEC (Securities and Exchange Commission), ESMA (European Securities and Markets Authority), the UK FCA (Financial Conduct Authority), the UK FRC (Financial Reporting Council), and the US PCAOB (Public Company Accounting Oversight Board) also recognise the importance of such matters in financial reporting and audits.

The disclosure of material financial matters is not new for companies. It is something that they already do as part of their annual financial reporting, and in their presentations to capital markets. So, the process is familiar to them, just not in the context of material climate-related matters and the related transition strategy. That needs to change.

It is important to be clear. The purpose of our analysis is not to present solutions to the company's material climate-related challenges. This is a role for the company management and board. It is instead focused on setting out the questions that shareholders need answered by the companies through their disclosures.

The role of proxy voting and engagement in better disclosure



One mechanism by which shareholders can encourage companies to better consider sustainability issues and to improve disclosure is via the proxy items that companies propose for approval at their AGMs. These often cover 'sign off' on the actions of the management (and supervisory) boards, financial reporting, approval of the appointment of the auditor, and the appointment of directors. In many cases, shareholders can also vote on the company's climate-related action plan, although this is often 'just' advisory.

Where companies are not providing sufficient information for shareholders to make informed investment choices, one option is to abstain or vote against such items. It is obviously preferable that such voting takes place in parallel with detailed engagement, explaining to the company why these disclosures are important, exactly where there are shortcomings, and how they can best be remedied. This engagement best takes place well before the company's AGM, often starting a year earlier, when the Annual Report & Accounts, and Sustainability Transition Strategy, for the previous year is published.

Some asset owners and asset managers have red lines, issues on which they expect certain behaviours or commitments by the companies in which they are invested. Crossing these red lines is seen as a material shortfall in the company's strategy. For many investors, the absence of Paris-aligned mid- and long-term climate-related targets is such a red line. For these investors, the lack of meaningful targets in this regard would normally trigger an oppose vote on the relevant AGM item.

We recognise that there are a variety of views on this issue and that, as an individual shareholder, you may wish to take a weaker line (giving the company time to put targets in place and improve disclosure) or alternatively you may treat such disclosure shortfalls as sufficiently serious as to be a trigger for selling your shares (divestment).

Even if engagement on financial and sustainability disclosure is unsuccessful, it provides a solid base for shareholders to escalate action, including voting against the appointment of directors who the shareholder thinks are not considering the material climate-related risks and opportunities in enough detail, or with sufficient urgency. Shareholders may also vote against the appointment of auditors, where they consider that the analysis carried out is insufficient, or the scope of the audit mandate is too narrow.

There is an important role in this process for proxy voting agencies such as PIRC, providing analysis and recommendations for shareholders. While this is a new field, change is happening fast; change that this project aims to accelerate.

2. Our analysis framework

Our sector frameworks are based on our four-pillar analysis, which will apply across all of our sector assessments. This is designed to capture well-established



expectations on climate-related targets and disclosures, to enable investors to make informed investment and stewardship decisions.

The structures used in these sector frameworks are not new. They are taken, often word for word, from frameworks already in existence and widely used by companies and shareholders. What is new is how they are combined, giving shareholders a clearer and more complete picture of how companies are preparing for the climate-related changes we know are coming.

Our first two elements/pillars draw directly from the framework developed by the TCFD (now part of the work of the IFRS Foundation and increasingly already being included in company financial reporting), and the analysis undertaken by the WBA and CA 100+. These primarily refer to Paris alignment and related target setting and actions.



The second two elements/pillars incorporate the latest IFRS sustainability accounting standards S1 and S2 from the International Sustainability Standards Board (ISSB), the relevant IFRS financial reporting standards, and the work of the accounting team at Carbon Tracker. These focus on how climate-related targets and actions (or a lack of actions) are reflected in the company's financial disclosures.



By considering both aspects of the sustainability transition, we aim to provide a clearer link between those frameworks focused on risk identification, climate-related net zero targets, and actions, and those that have a financial perspective. How our analysis maps onto these frameworks is set out in the Annex at the end of this report.

The key elements of our analysis are:

The risk identification: has the company clearly identified and acknowledged the material climate-related risks that they face and the implications for their future operations. This should include scenarios about the possible future outcomes and the assumptions that underpin them.

The target and strategy setting: have they set clear targets to manage and mitigate the identified risks, do they describe the concrete actions that they will undertake (i.e. investments and production decisions), and the obstacles that need to be overcome? Plus, do they set out how the company's climate-related transition strategy integrates with the wider strategy and financial targets?

The financial disclosure: has the company disclosed, in detail, the financial implications of these decisions? While this should primarily be included within the audited financial report and accounts, it can also be supplemented where needed by climate action reports and capital markets presentations.

The auditing and review: shareholders need reassurance that the auditor (or otherwise qualified organisation) has properly reviewed the climate-related aspects of the company's risk analysis, strategy formulation, and financial disclosure, including comparing their climate-related transition strategy with the organisation's wider financial targets.

3. Food & agriculture companies - analysis framework

This section sets out how the general four-pillar framework has been applied to companies in the agriculture and food production industries. This covers everything from primary commodity processors such as Bunge Global and Kerry Group, through the branded food manufacturers such as Nestle and Danone, to food retailers such as Tesco and Carrefour. We note that while farming companies are not directly analysed (with few, if any, large, listed entities globally), they must be an integral part of most solutions to the material climate-related risks faced by the industry.

Shareholders should note that not all criteria and disclosures set out will apply to all companies, as the sector covers a wide range of activities.

The food and agricultural companies face a number of material financial



climate-related risks and opportunities. These include regulation (particularly in relation to GHG emissions but also on fertiliser and pesticide use), changing customer demands both as regards the healthiness of the food they purchase and its provenance, plus supply chain threats, particularly in relation to the physical and climate risks impacting many of their suppliers.

One risk stands out to us as being the most significant for the majority of financial investors: how the companies are responding to the long-term threats to their supply chains.

This is a complex risk, with many linked elements covering topics as diverse as water scarcity and heat stress, farming and land use practices (including upstream risks relating to potential pesticide and fertiliser regulation), raw material waste reduction, reconfiguring supply chains, and changes to ingredients used/product formulation.

De-risking their supply chains and making them more resilient will involve companies thinking deeply about how they can bring a variety of tools to bear and how they will work with others, including farmers, intermediate processors and farm service providers such as fertilisers and pesticides. These are not challenges that the food companies can solve on their own.

The required actions to better manage supply chains are mainly related to the company's scope 3 (supplier) emissions, with linked issues such as reducing deforestation and soil degradation also being material. The relative scale of the industry scope 3 emissions is outlined in the section below. To give this context, for most food companies, scope 3 emissions are materially larger than their scope 1 and 2 emissions.

To be clear, we are not arguing that only scope 3 emissions from supply chains matter in this industry. As shareholders we also want companies in the sector to make other changes including improving the healthiness of the food sold (the end product). This includes better anticipating and responding to changing consumer demands. We note that while this issue is a key societal risk for the food processing companies, it is out of the scope of our analysis, which is directly focused on climate-related impacts.

While regulation is important in these transitions, the accelerating commercialisation of emerging technologies is playing an increasingly critical role. With a small number of exceptions, the technologies needed to reduce supply chain risk and improve resilience are already known and well proven. The key challenge is to get them in place on the ground, all along the supply chain. This must start with farmers, recognising that this group is often the worst placed in being able to afford to implement new farming techniques and processes.

The exception to this is animal-based methane, especially direct emission from enteric fermentation (or burping), primarily but not exclusively from cows. There is currently no easy scalable solution to this challenge, and the most likely substitute, artificial or lab-grown meat, is not yet at the stage where commercialisation at scale looks reasonable. As such, companies in the industry



should at least consider the possibility that the eventual solution may involve regulation to materially reduce meat consumption. Some societies are starting to slowly move in this direction, but we expect progress to take place over decades rather than months.

The good news for society is that the already known solutions could, over time, materially reduce the food industry's scope 3 GHG emissions. Failure to act exposes companies in the food supply chain to potentially material financial risk. We argue that how this transition is managed is the defining climate-related long-term financial challenge facing the industry and its investors. As such, the potential impact of these transitions should be a key focus of a company's climate risk analysis and strategy development.

The analysis for the sector frameworks is based on publicly available information. While it is not solely based on the scale of ambition of the sector's climate targets, it does outline an assessment of target alignment with the Paris Agreement's goals, which investors may wish to factor into their disclosure requirements, proxy voting, and engagement. The scope of this project is limited to company responses to financially material climate-related risks and opportunities. It is recognised that food companies face other environmental and societal challenges, including human rights, local environmental and social impacts, the healthiness of food, and potential impacts from natural disasters.

Background data - how material are food and agricultural company GHG emissions?

Agriculture is generally considered to be directly responsible for at least 26%, and up to 34%, of all global greenhouse gas (GHG) emissions. Exactly how much of our GHG emissions come from food production depends on where you draw the industry boundaries.

Research by [Crippa et al., 2021](#) using 2015 data puts the number at 34%. [And a recent report](#) from the World Bank (2024) comes in with a very similar number. The widely quoted Our World in Data analysis comes up with a slightly smaller number (26%), using a 2018 report from [Poore, J., & Nemecek, T.](#)

Regardless of the exact number, it is clear that the production of food is a material contributor to climate change, contributing somewhere between a quarter and a third of all global GHG emissions.

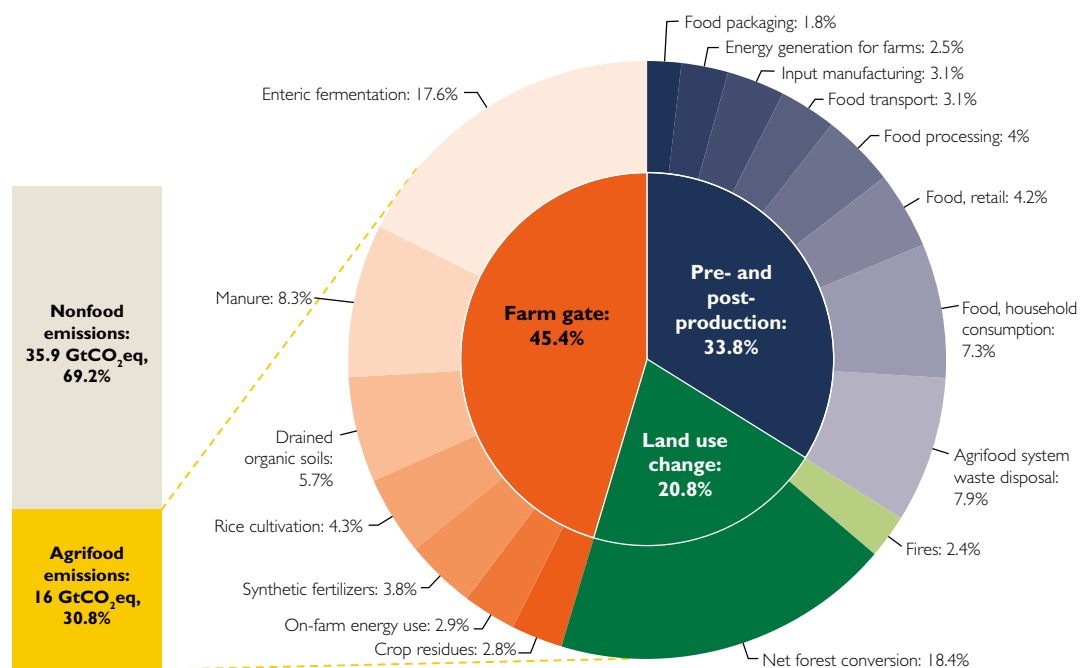
Within this total, Our World in Data (referenced above) estimates that c.30% comes from livestock farming (including fisheries). While not all of this comes from enteric fermentation, it still highlights the challenge the industry faces with regard to the impact resulting from the production of animal proteins.

It is also important to note that agriculture is a major emitter of those emissions that have a materially greater impact on short and mid-term global temperature rises, specifically CH₄ (methane) and N₂O (Nitrous Oxide). According to a [recent McKinsey report](#), agriculture produces 45% of global methane emissions (84x the impact of CO₂) and 80% of nitrous oxide (264x CO₂).



Scope 3 emissions make up a material percentage of the industry total. The World Bank report (referenced above) estimated that c.45% of total emissions are related to in farm production, c.21% come from land use changes including deforestation, and c. 34% come from the food production and distribution activities. This means c.70% of the industry's GHG emissions come, directly or indirectly, from the supply chains. We note (again) that enteric fermentation from livestock is material, being the second largest source of industry emissions, after land use changes.

Greenhouse gas emissions from the agrifood system



Source: Sutton, W et al, Recipe for a livable planet (World Bank, 2024); World Bank analysis based on data from FAOSTAT 2023a

Note: Left: Mean annual global greenhouse gas (GHG) emissions from the agrifood system as a share of total GHG emissions, 2018–20. Right: Emissions broken down by the three main subcategories and their individual components. GtCO₂ eq = gigatons of carbon dioxide equivalent.

This data reinforces the point that reducing industry-wide emissions is largely about sorting out supply chains. And that the industry is complex, with food supply chains being complex and interconnected. As such there is a need for multiple solutions applied together, rather than a single overarching fix. It also emphasises the importance of working with farmers. As a group these are often financially stretched (i.e. low per head incomes), and as such poorly placed to make the investments needed to make food production more sustainable, and supply chains more resilient.



4. Using the proxy voting guidelines

The proxy voting guidelines map the material climate-related strategy and disclosure issues identified in the Sector Framework above with the upcoming standing items at a company AGM. This provides an overarching framework to assist investors in preparing for engagement, and the AGM proxy voting season. A more detailed analysis of the issues faced by, and disclosures required, from specific companies and/or subsectors is planned to be prepared closer to the individual AGM dates.

Each pillar highlights key actions and disclosures that shareholders reasonably expect of companies. Where a material shortfall in disclosure is identified within one pillar, this would normally be sufficient to be translated into an oppose or abstain vote on the respective AGM agenda item.

An oppose recommendation is proposed for two situations. The first is where the shortfall in financial disclosure is sufficiently material to make it challenging or even impossible for shareholders to make informed investment decisions. This would normally be limited to a failure to disclose sufficient analysis or information that relates to a material risk to the company's future profits, cash flows, access to finance, or cost of capital.

The second situation that warrants an oppose recommendation is where the company does not commit to working toward net zero by 2050 and where it does not provide meaningful intermediate targets that would enable a shareholder to measure and monitor progress against the long-term target. While it is sometimes claimed that companies alone cannot, on their own, reduce industry-wide scope 3 emissions, in the case of food and agriculture, companies are able to make a real difference. And it's often financially beneficial for them to do so in a very direct way.

An abstain recommendation is proposed for those situations where a continuing failure to disclose would be considered material, but where the shareholder has a reasonable expectation that the disclosure shortfalls could be addressed and improved in the near future. This is expected to particularly apply in relation to the application of the new IFRS Sustainability Standards, and recent clarifications in relation to IFRS Financial Reporting Standards (including IAS 36 on asset impairment)

We recognise that some of the disclosures we are seeking differ from those that many companies would normally provide in their 'traditional' financial report and accounts, and related audit reports. Rather than seeing this as an obstacle, we see this as an opportunity for shareholders and companies to engage on exactly how the respective shortfalls could be best addressed, with the aim of improving disclosure for the next AGM season. Alternatives include better narrative disclosure and/or non-audited disclosure via capital markets presentations. This may result in shareholders voting to support an AGM item, on the condition that change is put in place for future disclosures.

For the first stage of this project, the focus is on standing items relating to the signing off of actions by the management/supervisory board, approval of the



climate transition plan, and the appointment of the auditors. Future stages of the work plan to consider the appointment of directors, including the important chairs of the audit and remuneration committees.

PILLAR 1

Climate risk identification

Criteria: do the company's disclosures show that they understand how they may be impacted by climate-related transitions, and do they have appropriate policies and objectives that will guide how they manage them?

This pillar draws extensively on the frameworks developed by the now-disbanded Taskforce on Climate-Related Financial Disclosure (TCFD).

Why this pillar matters: an appropriate and thorough analysis of the climate-related risks and opportunities the company faces is the foundation for all other climate-related actions. This should not be a static process, rather it's something that the board and management should be reviewing and updating on a regular basis. Additionally, it should not be a stand-alone appraisal, it must be an integral element in the company's wider business strategy and financial planning process.

It is unlikely that the company will examine a single pathway or set of outcomes. There is a high degree of uncertainty around how future political, regulatory, social and technological change will occur. Given this it is appropriate for companies to use scenario-based analysis, providing that at least one scenario is aligned with globally accepted obligations and targets, such as the Paris Agreement (limiting global temperature increase to well below 2 degrees Celsius, while pursuing efforts to limit the increase to 1.5 degrees). And it should also consider the impact on the company of being required to deliver a 1.5C aligned scenario.

It is important that the scenarios consider all realistic outcomes. This should not be treated as an exercise in supporting 'business as usual'. As part of our analysis, we will review how a company's scenarios match with those used by others in the same industry.

Suggested disclosure

As set out in the TCFD framework, now part of the IFRS Sustainability Standards, this pillar involves a number of linked disclosures (the Governance, Strategy, and Risk Management elements of the TCFD framework) including describing:

1. the company's processes for identifying and assessing climate-related risks. This should include management's role in assessing and managing climate-related risks and opportunities and the board's oversight of this process.



2. how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management.
3. the climate-related risks and opportunities the company has identified over the short, medium, and long term.
4. the impact of these climate-related risks and opportunities on the company's businesses, strategy, and financial planning
5. the resilience of the company's strategy, taking into consideration different climate-related scenarios, including a 2C or lower scenario.
6. who on the board has principal oversight of climate governance, and how material climate-related matters are considered including their contribution to overall company strategy.
7. remuneration - how management will be incentivised to ensure delivery.

*Failure to sufficiently disclose the required information is likely to normally lead to a recommendation for an **abstain** vote, with the expectation that disclosure in future years will reach the required standard. We note that for those companies that are already using the TCFD disclosure framework, these disclosures should become standard.*

*The exception to this is where the company has, in its processes for identifying and assessing climate-related risks (items 3 & 4), not explained how scenarios have been selected as being most likely outcomes or it appears to have only selected scenarios that support 'business as usual' despite other viable scenarios also being possible. Failure in this regard is a material shortcoming in terms of disclosure to shareholders and it is likely to lead to an **oppose** vote.*

PILLAR 2

Detailed targets, strategy and its delivery

Criteria: has the company set detailed climate-related transition plans and targets, do they have a clear strategy for delivering them, are they well linked to the scenarios identified in pillar 1, and do they provide enough practical detail to judge if they are credible or not?

This pillar draws extensively on frameworks and analysis developed by various bodies including CA 100+ and the World Benchmarking Alliance (WBA), especially as it relates to the setting of climate-related targets, how they fit with the objectives of the Paris Agreement (including the work of the Science Based Targets initiative), and the companies' progress against them.

Our analysis considers if the company is clear in its disclosures as to the **detailed and specific actions** they will take to deliver on their climate-related



targets, and are they clear in their disclosure about the assumptions that underpin them? The company should also disclose how the linkages to their wider company strategy and related financial targets set out in pillar 1 are reflected in their climate-related investment choices and key financial metrics.

Why this pillar matters: this indicator not only relates to targets. It also shows how aligned the company's climate-related plans are with their wider strategy, the assumptions that underpin their strategy, and how it is being translated into concrete investments and actions. For a strategy to be reviewable by investors, they need company disclosures that go beyond high-level targets.

We see this pillar as expanding existing climate-related transition strategy disclosure and reporting and making it more aligned with corporate strategy setting and financial reporting. The various financial regulators and accounting standard setters are clear that this change should become a requirement for all companies in the near future. This includes the recent IFRS S1 and S2 standards, which are anticipated to become a legal reporting requirement in many jurisdictions in the coming years. We expect that shareholders will look to companies to implement the necessary disclosure in advance of the implementation of new rules and regulations.

Actions to be taken in the short and medium term should be set out in some detail. By contrast, for the longer-term actions, the higher level of regulatory and technology uncertainty means that the use of scenarios may be appropriate.

This pillar is one where there are some material gaps between emerging investor expectations and company delivery, and hence where there is a need for better disclosure.

Suggested disclosure

1. **Key disclosure:** do they have a net zero target/commitment by no later than 2050, in line with global commitments to cap global warming to below at least 2C. And do they have intermediate targets that put them on a pathway to a realistic delivery of their longer-term targets? Do the targets have clear actions for delivery?

*Failure to commit to net zero by 2050 or to provide meaningful intermediate targets is likely to lead to a recommendation for an **oppose** vote, as this is considered by many shareholders and asset owners as being the baseline for any action on climate-related matters.*

2. **Key disclosure:** have they set out the assumptions made in setting climate-related targets (including associated regulatory requirements and incentives) covering the company's own objectives **and** those actions expected from governments, suppliers, and customers? Shareholders will want to see that



the company has a clear plan to manage any roadblocks and barriers. In addition, the company should provide a clear linkage between their climate-related transition strategy and the wider company strategy including medium- and long-term financial guidance

*Failure to sufficiently disclose the required information is likely to lead to a recommendation for an **oppose** vote, as this information is viewed as being critical in enabling shareholders to make considered investment decisions.*

PILLAR 3

Financial disclosure

Criteria: does the company disclose, in its Annual Report & Accounts and related documents including its capital markets presentations, the impact on the company's key financial metrics of the anticipated material climate-related matters and targets set out in pillars 1 & 2?

This should include analysis of how the company is expected to be financially impacted by anticipated climate changes, and the financial impact of delivering the company's climate-related targets.

Shareholders will expect a detailed discussion on the potential costs and investments needed to reconfigure and adapt supply chains, including projects carried out with suppliers and other groups. Where relevant this should also include possible future write downs in asset values (including intangible assets such as brands) and/or earlier than anticipated asset decommissioning. Plus, the company should disclose, via the notes to the accounts, the expected financial impact if they were required to align with the 1.5C scenario.

This pillar draws extensively on the framework developed by Carbon Tracker and the recommendations of the International Sustainability Standards Board (ISSB) and the clarification notes on sustainability published by the International Accounting Standards Board (IASB).

Why this pillar matters: appropriate financial disclosure is essential if investors are to make informed investment decisions based on their understanding of a company's strategy regarding material climate-related matters. Future supply chain volatility and a loss of resilience could materially impact a company's long-term profitability, cashflows, its ability to raise future capital including debt, and its cost of capital. Additionally, how the company reports the value of its assets, especially intangibles, can tell investors a lot about the company's views on their assets' long-term earnings capability, and if the climate-related transition will diminish this potential.



Pillar 3 is where the impacts of the plans set out in the earlier pillars are translated into the company's financial statements. This is not an excessively demanding task. It's an activity that companies already carry out for other risks. As Carbon Tracker says in their April 2023 Flash Note ([Driving in the Dark](#)) "expectations for climate consideration in financial reporting do not have to be complicated: the information that companies should be providing is fairly straightforward."

We note that the reported impacts would normally appear in the Balance Sheet (and the related Notes), as this is where changes in expectations around demand, pricing, and asset utilisation, are included. Additionally, this is where companies report changes to the useful lives of their plant and equipment and other assets, which would normally result in changes to reported depreciation.

Outside of this, particular attention should be given to a possible reduction in the value of brands and other intangible assets.

Shareholders will also expect relatively detailed disclosures on anticipated future capex (investment) requirements. This should include the assumptions that underpin the estimates.

This disclosure is essential, not just to enable shareholders to identify how viable the transition strategy is, but also to evaluate if the company's plans offer good value for money. Shareholders will specifically want to be reassured that the company is making sensible provisions for future changes in the supply of their key raw materials and that they are not unreasonably planning for 'business as usual'.

Where the company's assumptions and inputs differ materially from those used elsewhere in the industry, more detailed disclosure is likely to be required.

Suggested disclosure

1. Key disclosure: a detailed discussion of the investments needed to mitigate risks to the company supply chains, including but not limited to key raw materials. This should include, where relevant, any projects undertaken in association with suppliers and other agencies. Included in this analysis should be measures relating to the expansion of regenerative agriculture (and other actions taken to improve soil health and resilience) by suppliers, measures to reduce waste in the supply chain, mitigation measures targeting supplier exposures to water shortages and heat stress, measures to reduce or reverse deforestation, and actions taken to make sources of supply more resilient including the reformulation of products. Where relevant they should also discuss and disclose any changes to the remaining useful asset lives for Property, Plant and Equipment and intangible assets (including key brands), and the underlying assumptions (including those relating to future volumes produced, the costs of production, and expected pricing) used to make these calculations.



*Failure to sufficiently disclose the required information is likely to lead to a recommendation for an **oppose** vote, as this information is viewed as being critical in enabling shareholders to make considered investment decisions and to construct meaningful engagement programmes.*

2. Taking the material climate-related risks the company faces as set out in earlier pillars, describe how the company has considered these risks in preparing the financial reports, and the assumptions and inputs used to identify the impact on the balance sheet and/or the company's contingent liabilities including future profitability, investment needs, implications for debt levels and intangible asset/Property, Plant & Equipment values.

*Failure to sufficiently disclose the required information is likely to lead to a recommendation for an **abstain** vote, with the expectation that disclosure in future years will reach the required standard.*

3. The financial implications if they were required, via regulation or other mechanisms, to deliver at a materially earlier point in time (normally no later than 2050), a transition strategy that is aligned with the 1.5C scenario.

*Failure to sufficiently disclose the required information is likely to lead to a recommendation for an **abstain** vote, with the expectation that disclosure in future years will reach the required standard.*

PILLAR 4

Audit disclosure

Criteria: do the auditors show, through their audit report and via other means, that they have fully reviewed and tested the assumptions used by the company in identifying the impact on their financial position from their material climate-related matters? Furthermore, have they validated that the assumptions and climate-related targets are consistent across all of the company's disclosures, and with the wider company strategy and financial targets? This should include an evaluation of the long-term resilience of the company's business model in the face of likely climate-related changes.

Why this pillar matters: companies do not normally disclose all of the analysis and assumptions that go into their future strategy, as much of it remains commercially sensitive. Instead, shareholders rely on the auditors to check this analysis on their behalf.

This is an area where better disclosure is needed. As Climate Tracker



highlighted in their recent report Flying Blind: In a holding pattern, of the 140 CA 100+ company audit reports, only one provided all of the information sought across the audit metrics. An additional 27 provided just some of the information sought.

This meant that c.80% provided little to no information about whether they assessed the impacts of climate in their audits, despite 81% of reports identifying climate as being a material matter that the company considered in preparing its financial statements.

This means that investors do not have clarity over whether there was an independent assessment of management's assumptions when estimating the impacts of climate risk.

We recognise that some of the disclosures we are seeking go outside of the normal scope of a traditional audit, at least in some jurisdictions. Shareholders should remain open to these disclosures being provided outside of the main audit report, with the analysis carried out either by the auditor or another suitability qualified organisation.

Expanding the role of the auditor is not a new idea. Professional bodies such as the Institute of Chartered Accountants in England and Wales (ICAEW) have been considering this for some time. As they said in a report as part of the Future of Audit back in 2019 "while the current audit model does not involve any form of assurance or commentary on the full annual report – none of these things are impossible". (reference: What auditors do: the scope of audit).

As a recent Accounting for Sustainability (A4S) contribution to The Investor Forum set out, there is already a desire by companies for investors to be more assertive in their expectations, while recognising the complexity that arises from changing regulation, diverse stakeholder expectations, and emerging technical issues. (reference: The Investor Forum 2023 Review page 32).

Given this, we anticipate that some of the disclosure we are seeking will take place outside of the normal audit report. It is also possible that companies may choose to use other, suitably qualified, outside experts to provide these appraisals. We also remain open to this information being presented separately to the company's sustainability reports, possibly via a document or presentation specifically targeted at investors.

Suggested disclosure:

- 1. Key disclosure:** clear disclosure in the audit report section of the Report & Accounts that the auditors have considered the material climate-related matters, preferably with them listed as a Key Audit Matter.

*Failure to sufficiently disclose the required information is likely to lead to a recommendation for an **oppose** vote, as this information is viewed as being critical in enabling shareholders to make considered investment decisions.*



2. Confirmation (possibly outside of the format audit report) that they have reviewed the company's climate-related targets, checked the assumptions that went into the targets and the transition strategy, and ascertained that the targets, strategy, and the assumptions, are consistent with the wider company financial strategies and company guidance.

*Failure to sufficiently disclose the required information is likely to lead to a recommendation for an **abstain** vote, with the expectation that disclosure in future years will reach the required standard. Where it is the intention of the company to expand the brief of the auditor or to bring in a suitably qualified party to review these disclosures, then the abstain vote could be delayed.*

3. Where they consider that there is a reasonable risk that supply chain pressures including cost increases could reasonably lead to reduced demand for some of the company's products, or to unsustainable price volatility, they should ensure that an appropriate contingent liability or provision is clearly set out, including the assumptions used.

*Failure to sufficiently disclose the required information is likely to lead to a recommendation for an **abstain** vote, with the expectation that disclosure in future years will reach the required standard.*

4. Set out that they have reviewed the financial implications if the company was required, via regulation or other mechanisms, to deliver at a materially earlier point in time (normally no later than 2050), a transition strategy that is aligned with the 1.5C scenario. And that they have reviewed the resilience of the company's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

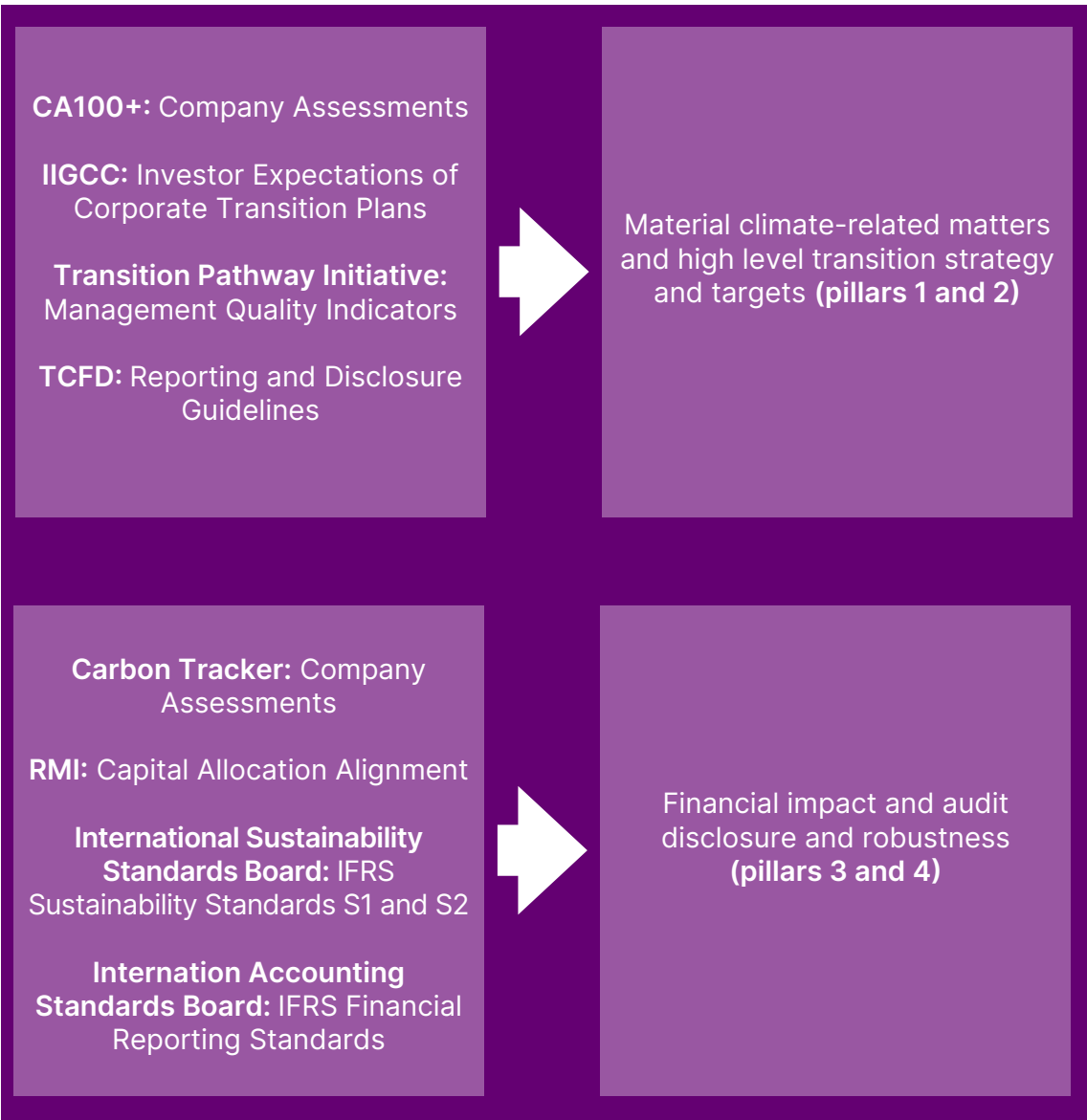
*Failure to sufficiently disclose the required information is likely to lead to a recommendation for an **abstain** vote, with the expectation that disclosure in future years will reach the required standard.*



Appendix: the four-pillar framework

Our analysis structure is designed to be appropriate to all sectors. It very deliberately does not create a new framework (there are already many of these) but instead it draws extensively upon existing frameworks including those developed by CA 100+, the Transition Plan Taskforce (TPT), the Transition Pathway Initiative (TPI), the World Benchmark Alliance (WBA), and the Institutional Investors Group on Climate Change (IIGCC). It also incorporates the latest IFRS sustainability accounting standards S1 and S2 from the International Sustainability Standards Board (ISSB), which includes the work of the Task force on Climate-related Financial Disclosures (TCFD).

The framework has two main elements, which lead into the proxy voting and engagement topics and recommendations.



The first section, pillars 1 (material climate related matters) and 2 (transition strategy and targets), reports how well the company has identified the material climate related impacts, the strategy they have set to manage and mitigate them, and the resultant targets and objectives. These sections mirror the traditional sustainability evaluation process of identifying how well the company is aligned with net zero and with 1.5C or 2C emission reduction pathways. As such they extensively use data and/or analysis provided by others.

The second section, pillars 3 (financial disclosure) and 4 (audit disclosure), considers how well the company has disclosed the financial implications of its climate transition strategy and targets. And how well the report from the auditor, and other associated reports, give shareholders confidence that any material undisclosed analysis and assumptions that the company has used have been independently reviewed.

Frameworks and reporting/disclosure standards used

CA 100+ Company Assessments

Investor Expectations of Corporate Transition Plans: From A to Zero

Transition Pathway Initiative Global Climate Transition Centre

Task Force on Climate-related Financial Disclosures (now incorporated into the IFRS Foundation)

Science Based Targets initiative: Forest, Land & Agriculture (FLAG)

Carbon Tracker Initiative

Rocky Mountain Institute/RMI

World Benchmarking Alliance - Climate and Energy Benchmark reports

ISSB and IFRS Sustainability Disclosure Standards

IFRS Financial reporting standards including IAS 16, 36, 37 and 38

For the purpose of our analysis of pillars 1 and 2, we directly use the data etc reported by CA 100+, WBA, and other NGO's. We do not validate or look to replicate the data or the underlying analysis. We provide links to the relevant reports in our company-specific reviews. We accept no responsibility for errors or omissions in the analysis carried out by others.



A key element of our extended analysis is that we additionally identify the small number of climate-related risks and opportunities that could materially impact the financial viability of a company. We then analyse, via a detailed review of the company's report and accounts (including the notes), relevant sustainability reports, results presentations, and any capital markets days etc, how well the company discloses their strategy for dealing with these risks and their potential financial impact.

This review is carried out via traditional financial statement analysis, identifying if the company has identified the material risks, and how they flow through the report and accounts via provisions, asset write downs, accelerated depreciation, and contingent liabilities. We include in this a review of the resilience of the company's business model in the face of the new challenges that the material climate-related transitions could bring.

We finish the financial analysis by considering how well the work of the auditor, as reflected in the audit report (and in the future potentially elsewhere), reviews both the key assumptions made by the company and the conclusions drawn.



PROXY VOTING ON MATERIAL CLIMATE DISCLOSURES



21 February 2025

About the project

This sector framework forms part of a project providing climate-related analysis and recommendations on how investors could be exercising their votes on standing items. The project is focused on ensuring issuers in high-emitting sectors, such as food and agriculture companies, are providing investors with sufficient material information on their climate strategies to make informed investment and stewardship decisions.

As material information will differ by sector, this document outlines the overarching framework but also the specific disclosures that investors should be expecting from food and agriculture companies. The sector frameworks will be used to produce company specific reports setting out recommendations on how investors may want to vote. Given the work is focused on financial disclosures, the reports will make recommendations on items relating to the annual reports and accounts and audits.

About PIRC

PIRC protects and enhances the long-term returns of major investors by promoting the highest corporate standards. Pensions & Investment Research Consultants Ltd (PIRC) is Europe's largest independent corporate governance and shareholder advisory consultancy with over 30 years' experience in providing stewardship and proxy research services to institutional investors on environmental, social and governance issues. For more information, please visit: www.pirc.co.uk or contact Paul Hunter (paul.hunter@pirc.co.uk).

Project commissioning

ShareAction is an independent charity and an expert on responsible investment. They work to build a world where the financial system serves our planet and its people.

ShareAction sets ambitious standards for how financial institutions, through their investment decisions, can protect our planet and its people and campaign for this approach to become the norm. They convene shareholders to collectively push companies to tackle the climate crisis, protect nature, improve workers' rights and shape healthier societies. In the UK and EU, they advocate for financial regulation that has society's best interests at its core.

Find out more at shareaction.org | Search @shareaction on LinkedIn, X, Instagram and Facebook.

The analysis and recommendations contained within this report may not reflect the views of ShareAction.

Disclaimer

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