

Key findings



1. Context of the project

All literature reviewed was published between 2016 and September 2022. Given the lag in the publication process of academic papers, most of these studies use data from the periods between 2008 and 2016, with the latest year covered being 2020. As a result, the studies reviewed drew their samples mostly from voluntary reporting settings that allowed companies to engage with relevant climate change disclosures while exercising discretion as to the depth and length of these disclosures.

2. Firms provided voluntary disclosures of low or, at best, moderate quality

Many companies were not disclosing key information related to scenario analysis, financial-related disclosures or the volume of their carbon emissions. Further, although unsurprising given the period of the data reviewed, they tended to remain silent over important issues such as their endeavours towards a net zero carbon economy, the amount of their potentially stranded assets and their response to environmental scandals. However, climate change reporting quality was improving over time.

3. Companies with specific governance characteristics exhibited higher quality of voluntary reporting

Having more gender- and ethnic-diversified boards was associated with better climate change reporting quality. However, no evidence was reported in support of directors' age or length of tenure being associated with climate change reporting practices.

4. Companies' country of domicile was associated with disclosure quality

The higher a country's environmental performance, the better the quality of climate change reporting by firms being domiciled in that country, and the higher the likelihood of those firms choosing to have their reporting assured by third party providers. Similarly, the stronger the public pressure and media exposure (especially negative), and employee and customer pressure faced by firms, the better quality their climate change reporting is. However, some evidence exists that firms in specific industries tend to demonstrate mimicking behaviours of reporting practices across countries.

5. Capital market participants perceived high levels of emissions as a risk

Evidence in capital markets literature indicated that the higher a listed firm's level of carbon emissions is, the lower its share price. The same association is found between firms' levels of carbon emissions and share price return. Additionally, firms with higher carbon emissions are found to face higher cost of debt.

6. Regulation and capital market consequences of climate change reporting

New regulation appears to strengthen the association between capital market outcomes (e.g., cost of debt, cost of equity capital, share price returns) and climate change reporting (i.e., firm specific information), indicative of regulation enhancing the information environment of listed companies in a capital market.

7. The importance of corporate governance

The review highlights encouraging evidence for companies to develop relevant corporate governance mechanisms (for instance, through the appointment of more independent directors), to adopt a more integrated thinking approach for their operations, and to actively include their shareholders/stakeholders in their sustainability and climate change-related activities.

8. Sustainability assurance

Scope exists for audit firms to expand their sustainability assurance activities, particularly for companies in low rule of law countries where companies more frequently seek to have their climate change-related disclosures assured, choosing audit firms as their assurance provider.

9. Financial vs. double materiality

On reflection of the findings of this review, we concur that the quality of climate change reporting may be jeopardised if companies solely focus on financial materiality. Hence, we welcome the recent endeavours of the IFRS Foundation for developing interoperability guidelines between IFRS-S and GRI Standards as well as between IFRS-S and ESRS for preparers and users of climate change reporting.

