Boundaries and Connectivity of Climate-related Financial Disclosures in Annual Reports: Current Practice, Perspectives and Standard-setting Implications

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Purpose of the research

To enhance conceptual understanding and practical operationalisation of boundaries and connectivity of climate-related disclosures in annual reports.

What is a boundary?

Source: richiebilling.com

‘what is included and what is not included’

Examples:

- Map drawing
- Distinguishing disciplines
- ‘Firm’

What is connectivity?

https://www.futureagenda.org/foresights/everything-connected/

‘the state of being connected or interconnected’

Corporate annual report context:

'reporting boundary' :

"connotes the **dividing line** between **information** (i.e., information on an entity's transactions, activities, conditions and impacts) **included and excluded within different corporate reports** (i.e., financial statements, management report, the sustainability statement/disclosures, and other reporting sections in the AR)" (EFRAG, 2024, p. 70)

https://www.picnbooks.com/pnb/word/view.do?id=1102&page=111

Corporate annual report context:

‘connectivity’ :

“the **attribute of** [...] **information** that supports the provision of a **holistic and coherent set of information within and across different AR** [Annual report] sections”
(EFRAG, 2024, p. 11)

We focus on connectivity **across** different annual report sections.

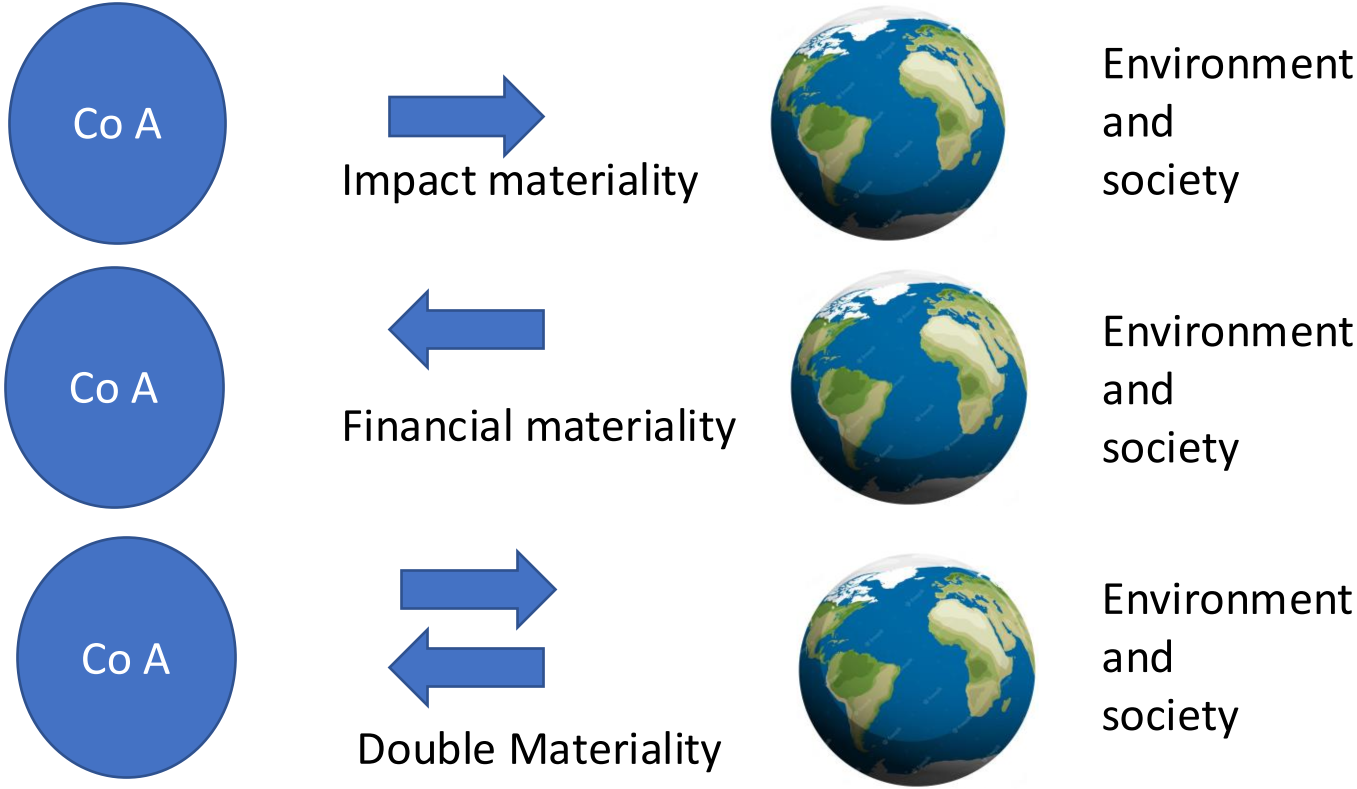
https://www.picnbooks.com/pnb/word/view.do?id=1102&page=111

Research questions

RQ1: What is the nature, extent, quality and consistency of climate-related risk disclosures reported as part of, and outside (in the annual report), the financial statements, of large listed companies in IFRS jurisdictions?

RQ2: How are boundaries and connectivity currently operationalised in climate reporting in annual reports, with a focus on the financial statements?

A note on materiality (what is included or not in reporting)

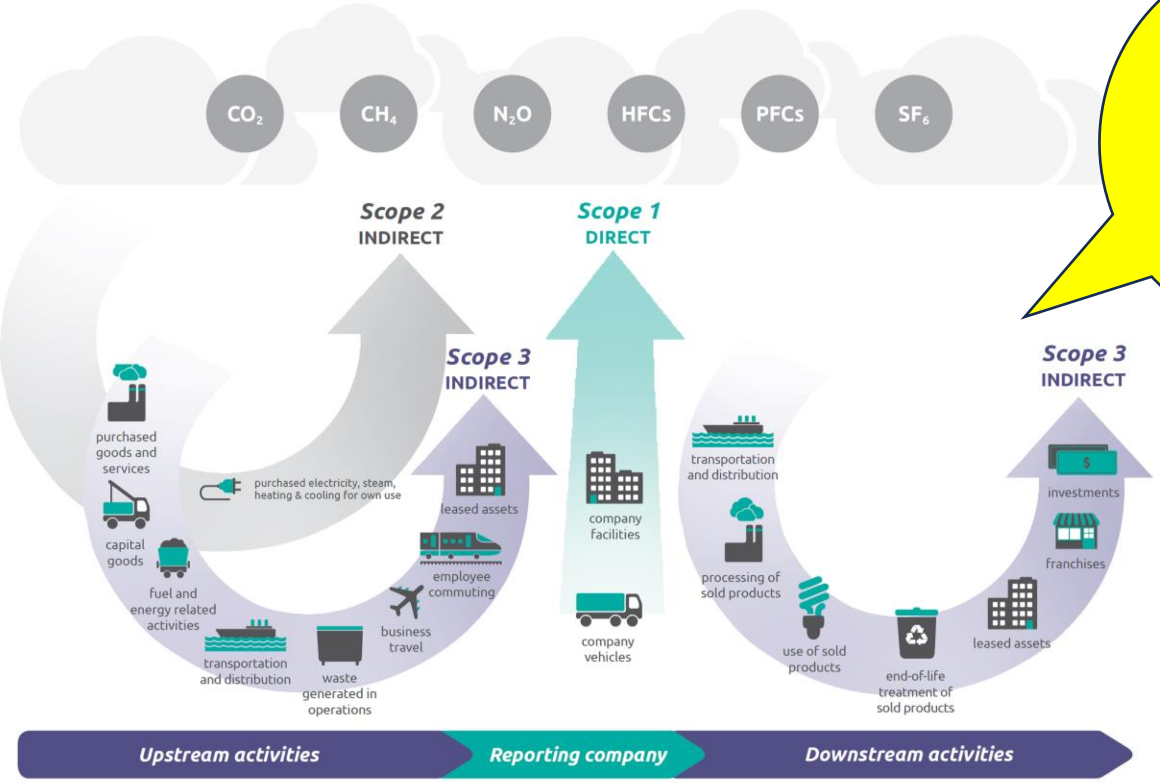


Important concept

Scope 1,2, and 3 GHG emissions

Burn
Buy
Beyond!

https://www.sustain.life/



BBB

https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporing-Standard_041613_2.pdf

BACKGROUND: Estimating GHG emissions

General rule for computing the CO2-e is as follows:

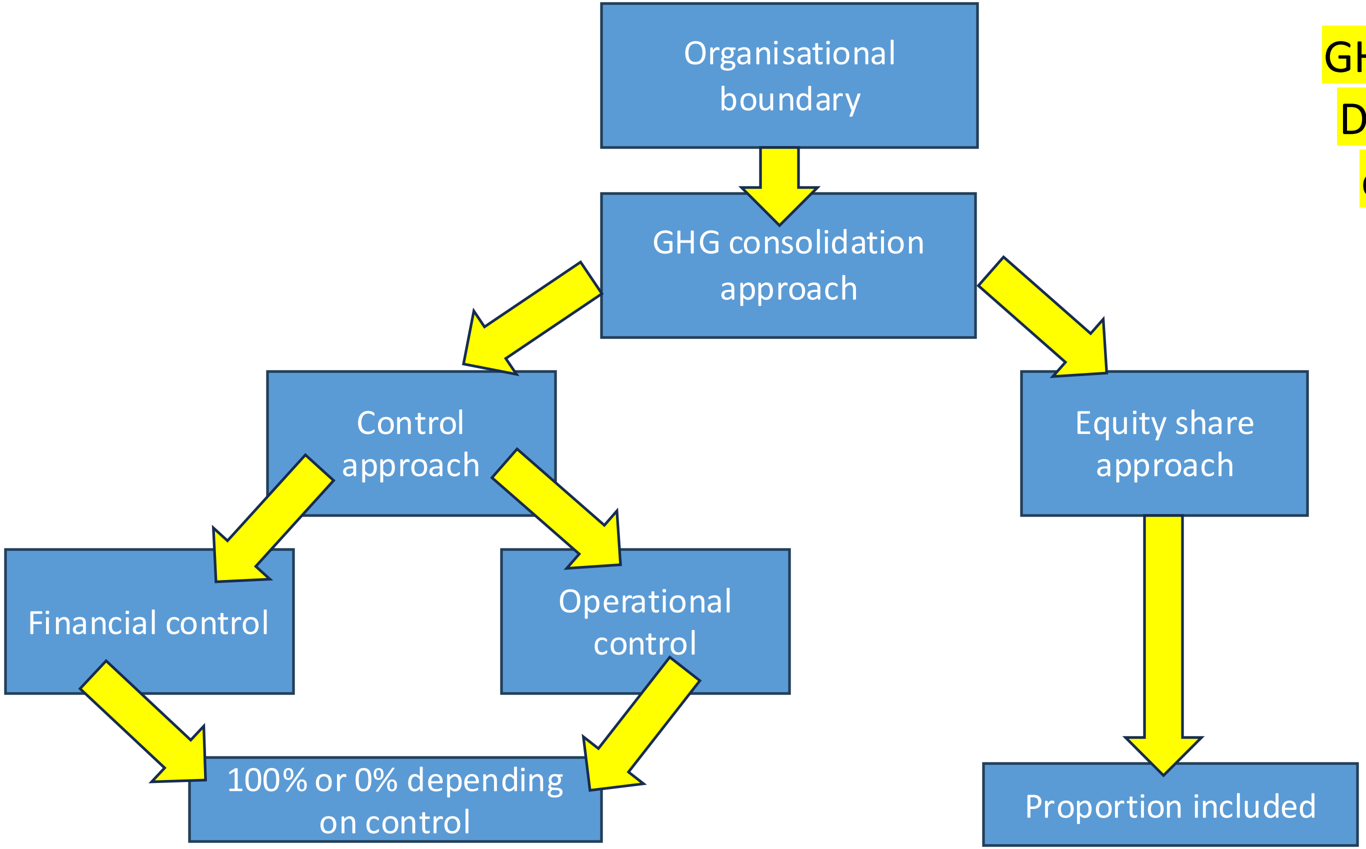
Activity data x appropriate published emission factor = Amount of GHG (e.g. CH4)

Then to standardise:

Amount of GHG (e.g. CH4) x appropriate GWP factor* (e.g. GWP for CH4) = CO2-e

*GWP – global warming potential

BACKGROUND: GHG accounting



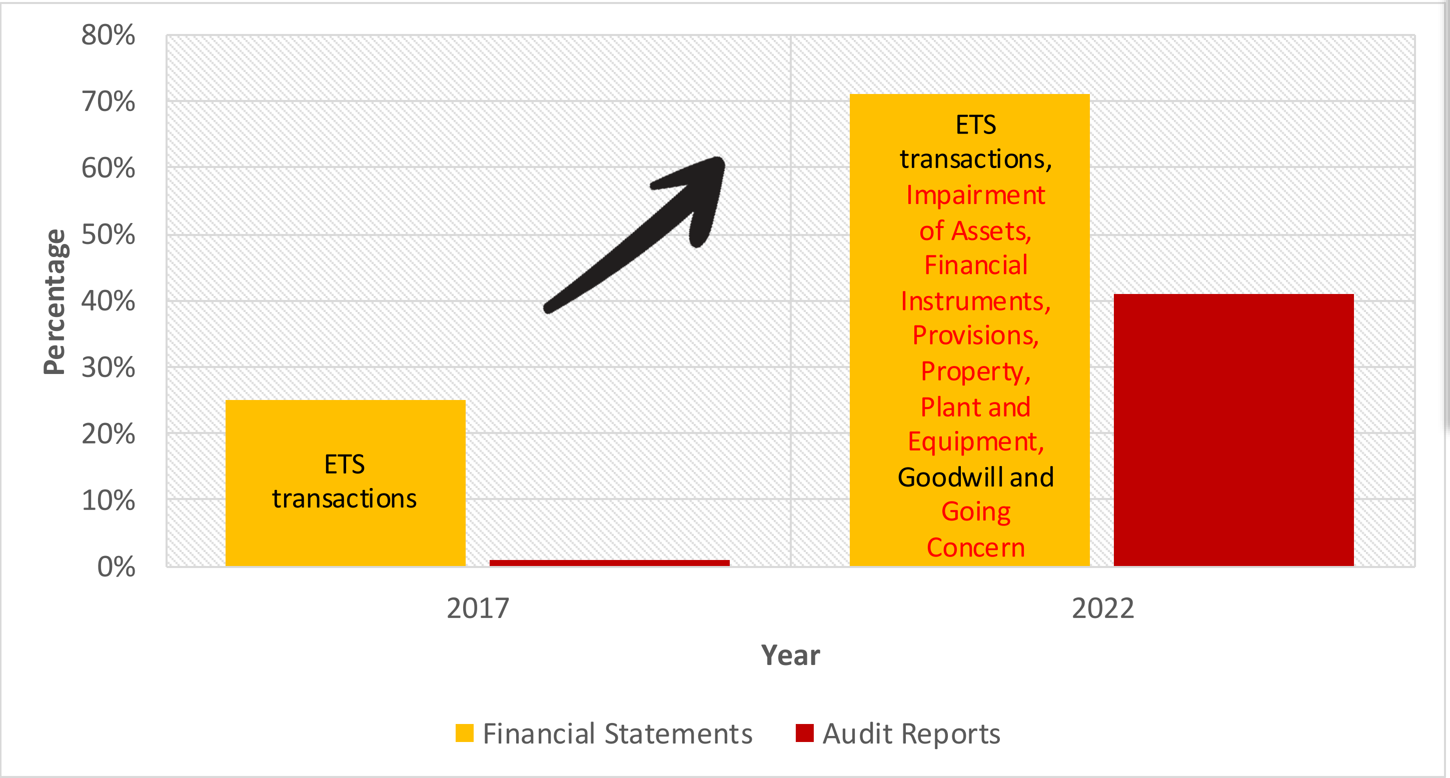
GHG accounting – Determining the organisational boundary

Method

1) Analysed disclosures in the annual reports, financial statements and audit reports of 80 large, listed companies
    - Sample periods: 2017 and 2022
    - Four IFRS jurisdictions
    - Five climate-sensitive industries

2) Conducted 20 interviews (in Australia and EU)

Summary of key findings




November 2020

Effects of climate-related matters on financial statements

This document is intended to support the consistent application of requirements in IFRS® Standards

IFRS

22 IFRS standards

Disclosure practices observed in 2022

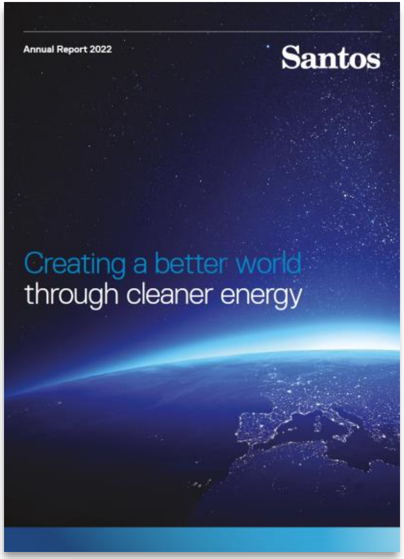
24% Climate Summary note/section - how climate has been taken into account in the preparation of the financial statements and which notes are affected.

43% Statements that climate-related risks have been considered in preparation of the FS.

19% Non-exposure statements - for financial statements as a whole, or particular elements in the financial statements.

IFRS *Climate-related and Other Uncertainties in the Financial Statements. Proposed illustrative examples ED* (2024) **Example 1.**

Example: Climate Summary note, Consider climate change



Financial Report

Notes to the Consolidated Financial Statements
Section 1: Basis of Preparation

1.3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The carrying amount of certain assets and liabilities are often determined based on management's judgement regarding estimates and assumptions of future events. The key judgements, estimates and assumptions that have significant risk of causing material adjustment to the carrying amount of certain assets and liabilities within the next annual reporting period are highlighted throughout the Financial Report.

The full-year Financial Report has been prepared using a going concern basis of preparation and the Group continues to pay its debts as they fall due.

Financial reporting impacts of climate change and sustainability matters

In preparing the Financial Report, management has considered the impact of climate change and current climate-related legislation.

The potential impacts of climate change and sustainability-related matters have been considered in the significant judgements and key estimates in a number of areas in the Financial Report, including:

- asset carrying values (exploration and evaluation assets, oil and gas assets) through determination of valuations considered for impairment – refer Note 3.4 and consideration of asset useful lives – refer Note 3.2
- restoration obligations, including the timing of such activities – refer Note 3.5
- deferred taxes, primarily related to asset carrying values and restoration obligations – refer Note 2.4.

The Group continues to monitor climate-related policy and its impact on the Financial Report.

decarbonisation and carbon management services and clean fuels production. Effective 1 January 2023, Santos Energy Solutions will form an operating segment as defined by Australian Accounting Standards.

The estimated impacts of climate change may be assessed through a range of economic and climate-related policies and scenarios, as reported in the Santos Climate Change Report, which includes the Santos CTAP. This includes market supply and demand profiles, carbon emissions reduction profiles, legislative impacts and technological impacts, all of which are affected by the global demand profile of the economy as a whole. A carbon price is included in Santos' economic modelling of projects, and the portfolio as a whole.

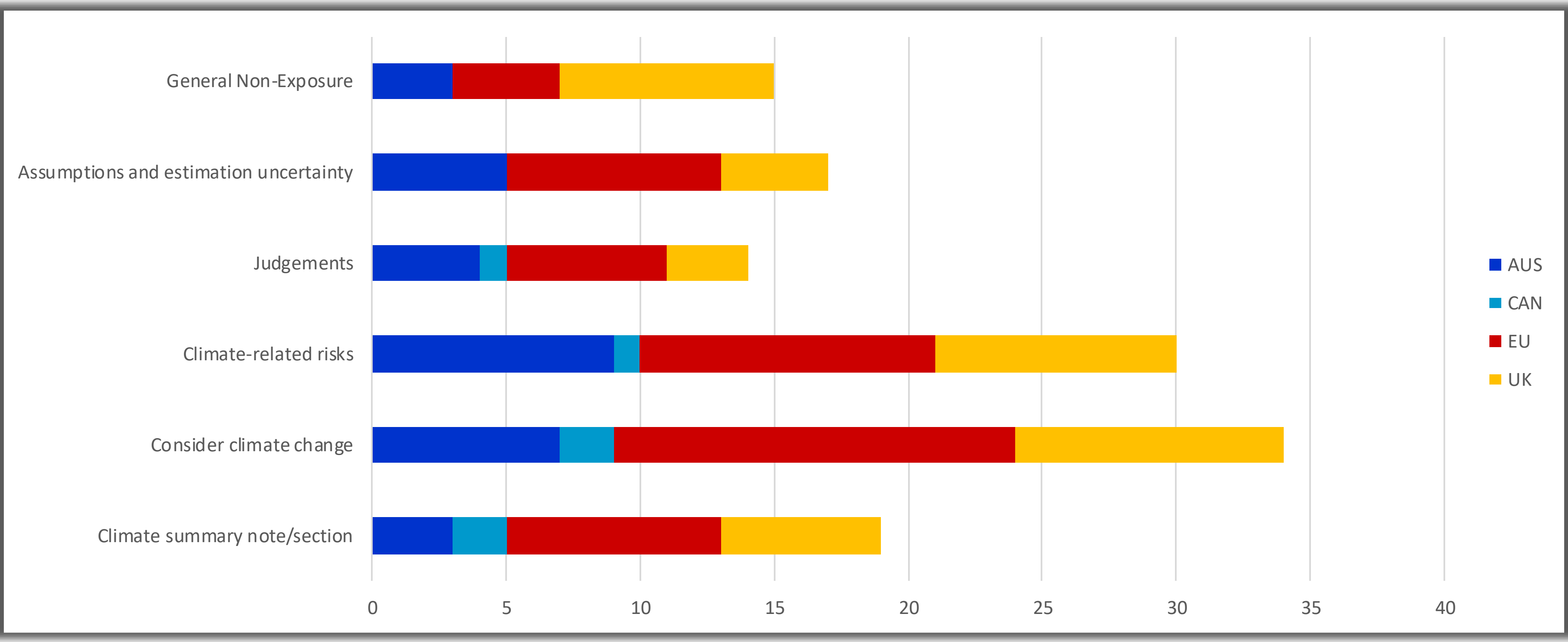
Examples of non-exposure statements

Financial reporting impacts of sustainability related matters

The potential long-term financial impacts of climate change, including the costs of reaching the Group's 2030 emissions reduction targets are continuing to be assessed. However, at this stage, the Group does not consider the potential impacts of climate change to present a risk of impairment of the carrying value of non-financial assets.

The inclusion of the effects of climate change had no material impact on the judgements made and the main estimates required to prepare the financial statements.

Findings: General climate-related disclosures in the financial statements



Findings: Most prevalent standards in 2022

Accounting Standard	All	%
IAS 36 Impairment of Assets	34	43%
IFRS 7, IFRS 9 Financial Instruments	24	30%
IAS 37 Provisions, Cont Liab & Cont Assets	24	30%
IAS 16 PPE	23	29%
IFRS 3 Bus Combs - Goodwill	11	14%
IAS 1 Pres of FSs - Going concern	9	11%
IAS 2 Inventories	9	11%
IAS 38 Intangible Assets	9	11%

THANK YOU

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