

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.



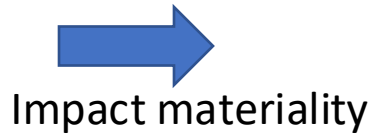
<https://www.picnbooks.com/pnb/word/view.do?id=1102&page=111>

Research questions

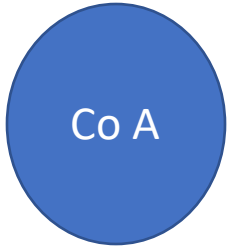
RQ1: What is the nature, extent, quality and consistency of climate-related risk disclosures reported as part of, and outside (in the annual report), the financial statements, of large listed companies in IFRS jurisdictions?

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

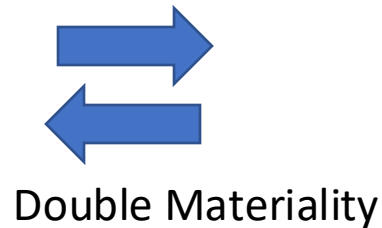
A note on **materiality** (what is included or not in reporting)



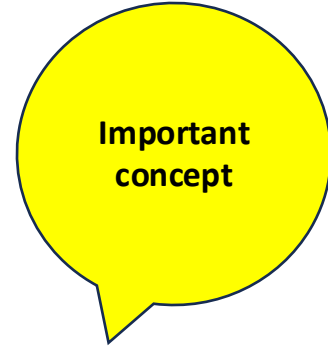
Environment
and
society



Environment
and
society



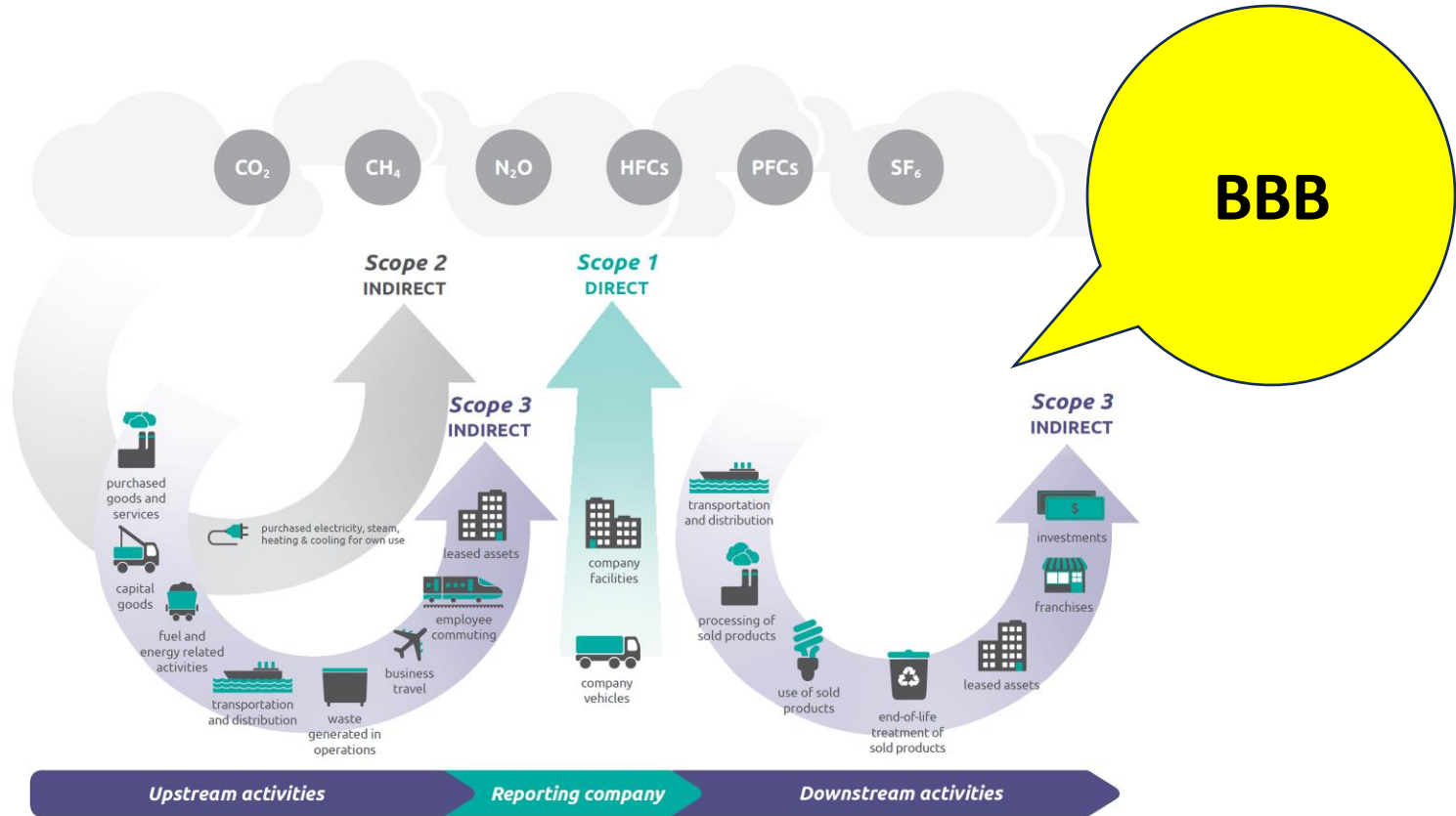
Environment
and
society



Scope 1, 2, and 3 GHG emissions

Burn Buy Beyond!

<https://www.sustain.life/>



BACKGROUND: Estimating GHG emissions

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

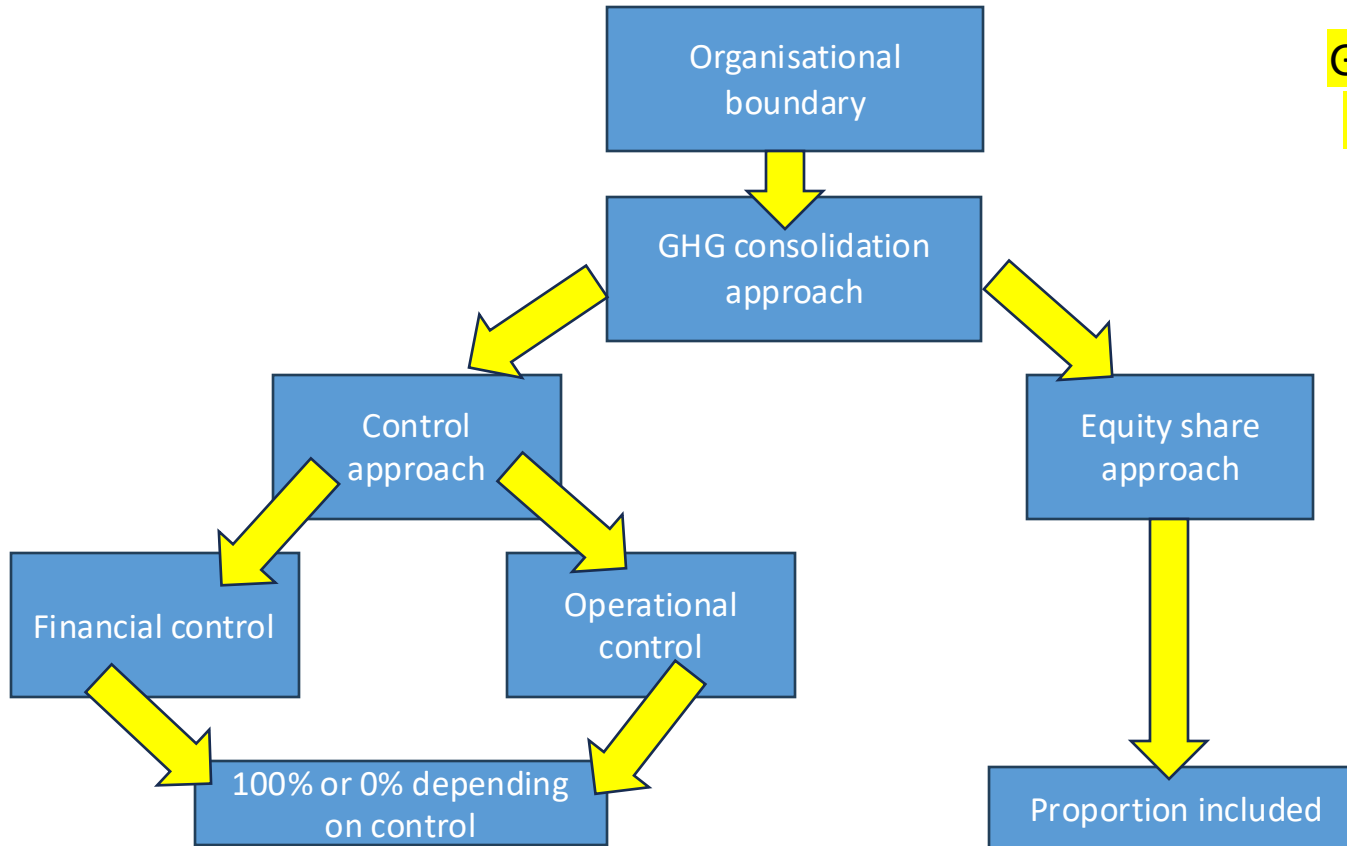
Activity data x appropriate published emission factor = Amount of GHG (e.g. CH₄)

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

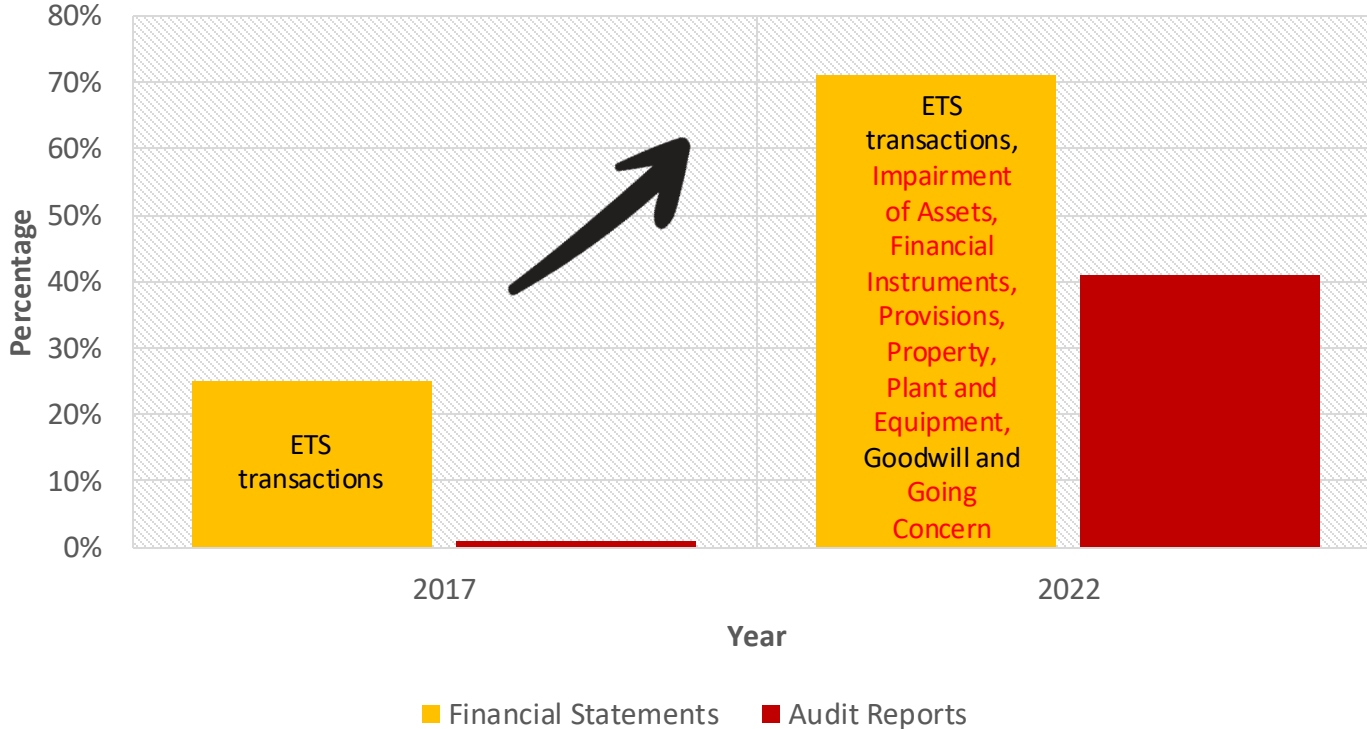
1) Analysed disclosures in the annual reports, financial statements and audit reports of 80 large, listed companies

- 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

Climate change is a topic in which investors and other IFRS stakeholders are increasingly interested because of its potential effect on companies' business models, cash flows, financial position and financial performance. Most industries have been, or are likely to be, affected by climate change and efforts to manage its impact. However some companies, industries and activities will be affected more than others.

IFRS Standards do not refer explicitly to climate-related matters. However, companies are required to consider climate-related matters in applying IFRS Standards when the effect of those matters is material in the context of the financial statements as a whole. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of financial statements (hereafter, investors) make on the basis of those financial statements, which provide financial information about a specific company. For example, information about how management has considered climate-related matters in preparing a company's financial statements may be material with respect to the most significant judgments and estimates that management has made.

The table below sets out examples illustrating when IFRS Standards may require companies to consider the effects of climate-related matters in applying the principles in a number of Standards. The list is non-exhaustive—there could be other instances where climate-related matters are relevant when applying IFRS Standards, for example those on the measurement of defined benefit obligations. Related information can be found in an article by Nick Anderson, member of the International Accounting Standards Board. This educational material complements that article, adding for example specific paragraph references to IFRS requirements to assist those applying IFRS Standards. For purposes of illustration, the descriptions in the table do not always explain the relevant requirements completely; it is therefore important to refer to the requirements in the Standards when preparing financial statements. This document does not address management commentary.

In addition to the specific requirements outlined in the table below, IAS 1 *Presentation of Financial Statements* contains some overarching requirements that could be relevant when considering climate-related matters. For example, paragraph 112 of IAS 1 requires disclosure of information not specifically required by IFRS Standards and not presented elsewhere in the financial statements but that is relevant to an understanding of any of the financial statements. This paragraph, together with paragraph 31 of IAS 1, requires a company to consider whether any material information is missing from its financial statements—a company is required to consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Standards is insufficient to enable investors to understand the impact of particular transactions, other events and conditions on the company's financial position and financial performance. Companies will therefore need to consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Standards is insufficient to enable investors to understand the impact of climate-related matters on the company's financial position and financial performance. Those overarching requirements in IAS 1 may be especially relevant for companies whose financial position or financial performance is particularly affected by climate-related matters.

1 Companies may find the [IFRS Practice Statement 2](#) *Materiality* (effective 1 January 2020) useful in assessing whether the effect of climate-related matters is material. The [IFRS® Practice Statement](#) includes further information on making materiality judgments.

Effects of climate-related matters on financial statements | November 2020 | 1



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



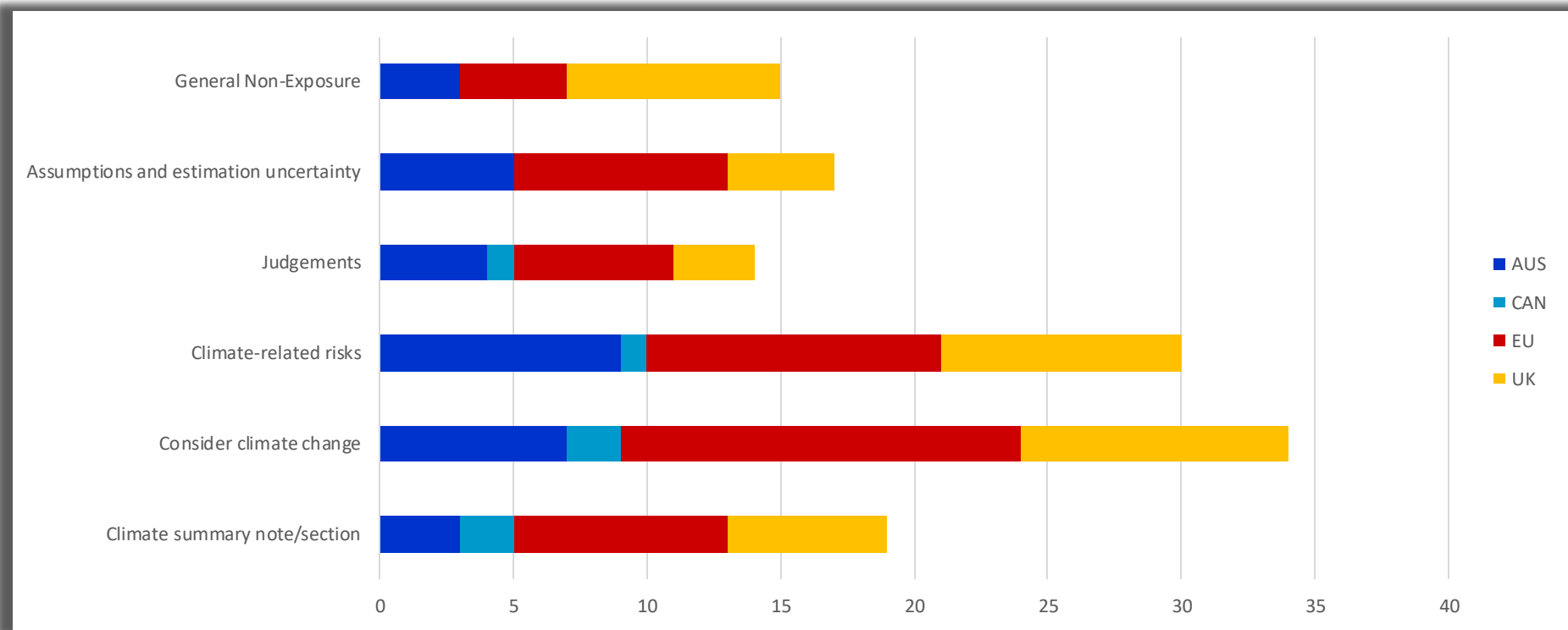
Financial reporting impacts of sustainability related matters

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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