
IASB Abacus Research Forum 2024 University of Sydney

Case Study

Climate-related and Other Uncertainties in the Financial Statements

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Structure of session

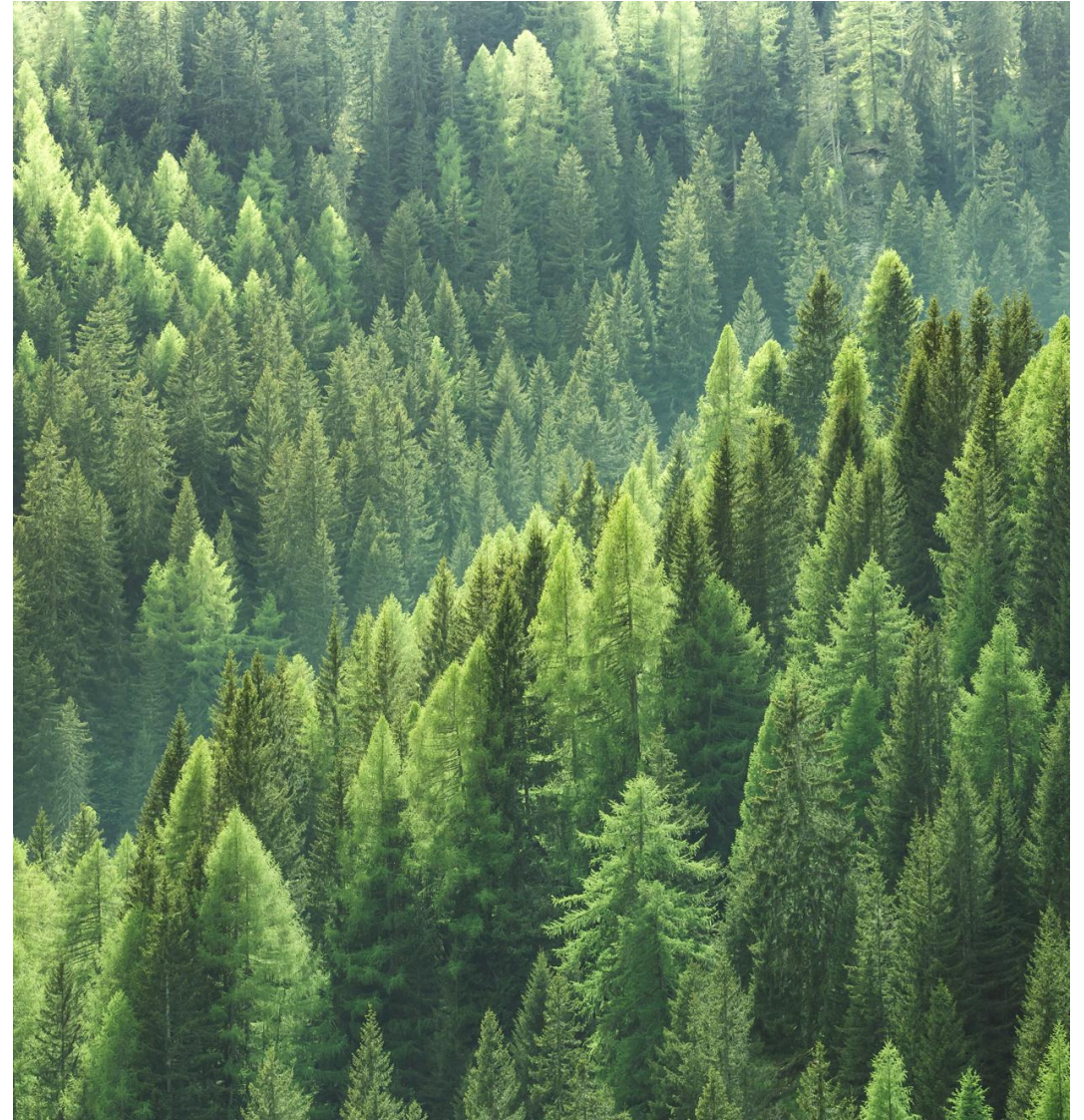
- Introduction to ED
- Academic research related to the ED
- Questions for discussion in breakout groups
- Feedback from breakout groups

Objective of the project

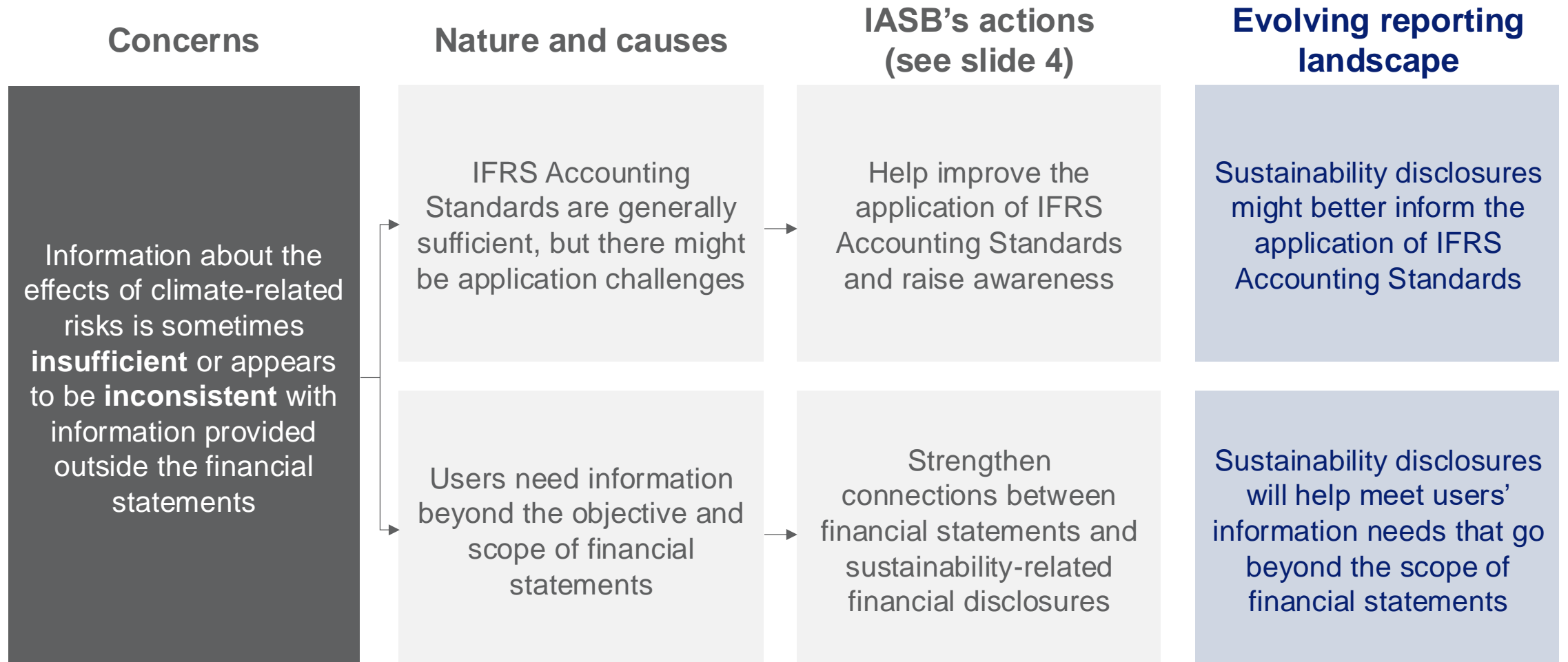
Explore **targeted actions** to improve the reporting of the effects of **climate-related and other uncertainties** in the financial statements

Working together

Throughout its work on this project, the IASB **collaborated** with ISSB members and technical staff.



Findings from research and actions



Main actions to improve reporting



Improve the application of IFRS Accounting Standards

- **Exposure Draft** with proposed illustrative examples on how an entity applies the Standards to report the effects of climate-related and other uncertainties in its financial statements (see slides 5–7)
- IFRS Interpretations Committee considered a question about the **accounting for climate-related commitments**



Raise awareness of the requirements

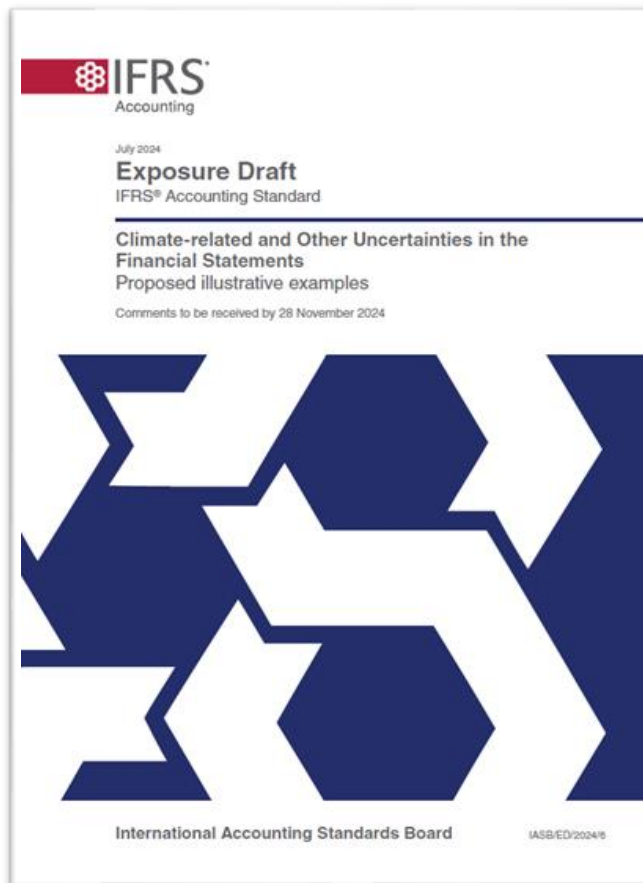
- Improved the **accessibility of supporting materials** about reporting the effects of climate-related and other uncertainties in the financial statements and exploring other ways to raise awareness



Strengthen connections

- **Collaborating with the ISSB** to help strengthen connections between financial statements and sustainability-related financial disclosures

Exposure Draft with proposed illustrative examples



Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements*

The IASB expects that these **illustrative examples** will help to improve the reporting of the effects of climate-related and other uncertainties in the financial statements, including by helping to **strengthen connections** between an entity's general purpose financial reports



Please send your comment letter by **28 November 2024**

Overall considerations in developing examples

Illustrated requirements	Requirements that are most relevant for disclosure of effects of climate-related uncertainties and likely to address the identified concerns
Types of uncertainties	Examples focus on climate-related uncertainties —but apply equally to other uncertainties—and apply to various industries
Stand-alone or walk-through	Examples are stand-alone to more precisely target particular matters or requirements that give rise to concerns
Connectivity	Examples focus on strengthening connections between financial statements and other general purpose financial reports
Vehicle	Illustrative examples accompanying IFRS Accounting Standards
Transition	Examples do not add or change requirements. No effective date, but entities are expected to have sufficient time to implement any changes

Main areas illustrated by the examples



**Materiality
judgements**

Examples 1–2

*Materiality judgements
leading and not leading to
additional disclosures*



**Assumptions and
estimation uncertainty**

Examples 3–5

*Disclosure of assumptions:
specific requirements, general
requirements and additional
disclosures*

Examples 6–7

*Disclosures about credit risk
and decommissioning and
restoration provisions*



Disaggregation

Example 8

*Disclosure of disaggregated
information*

Illustrative Examples

	Background	Reporting outcome
<p>Example 1 <i>Materiality judgements leading to additional disclosures</i></p>	<p>The company discloses information about its transition plan outside its financial statements and operates in an industry exposed to climate-related transition risks</p>	<p>The company concludes that disclosing that its transition plan has no effect on its financial position and financial performance and explaining why would provide material information</p>
<p>Example 2 <i>Materiality judgements not leading to additional disclosures</i></p>	<p>The company discloses information about its greenhouse gas emissions policy outside its financial statements and operates in an industry with limited exposure to climate-related transition risks</p>	<p>The company concludes that disclosing that its policy has no effect on its financial position and financial performance would not provide material information</p>

Illustrative Examples

	Background	Reporting outcome
<p>Example 3 <i>Disclosure of assumptions: specific requirements</i></p>	<p>The company tests an asset for impairment annually. Assumptions about the future price of emission allowances and the scope of emission regulations are key assumptions</p>	<p>The company discloses information about the key assumptions</p>
<p>Example 4 <i>Disclosure of assumptions: general requirements</i></p>	<p>The company tests an asset for impairment but recognises no impairment loss. The company makes assumptions related to climate-related transition risks (eg commodity prices)</p>	<p>The company discloses information about assumptions that have a significant risk of material adjustment within the next financial year</p>

Illustrative Examples

	Background	Reporting outcome
<p>Example 5 <i>Disclosure of assumptions: additional disclosures</i></p>	<p>A company recognises a deferred tax asset based on an assumption about the effective date of announced government regulations that will significantly affect its operations</p>	<p>The company concludes that information about the assumption is material and discloses that information even if not specifically required by IFRS Accounting Standards</p>
<p>Example 6 <i>Disclosure about credit risk</i></p>	<p>The company, a financial institution, identifies two loan portfolios that require it to manage credit risk arising from its customers' exposure to climate-related risks</p>	<p>The company discloses information about the effects of climate-related risks on its credit risk exposures and credit risk management practices, if that information material</p>

Illustrative Examples

	Background	Reporting outcome
<p>Example 7 <i>Disclosure about decommissioning and restoration provisions</i></p>	<p>The company has decommissioning obligations for its petrochemical facilities. The present value of the costs to settle the obligations is immaterial because the company expects to maintain and operate the facilities for an extremely long time</p>	<p>The company concludes that information about the obligations is material and discloses that information, even though the provision's carrying amount is immaterial</p>
<p>Example 8 <i>Disclosure of disaggregated information</i></p>	<p>The company owns PP&E with long useful lives whose use results in high amounts of greenhouse gas emissions. It has also invested in PP&E with lower emissions</p>	<p>The company concludes that disaggregated information between these two types of PP&E is material because of their dissimilar risk characteristics and provides disaggregated information</p>

Questions for breakout groups

1. Do you agree that providing examples would improve the reporting of the effects of climate-related and other uncertainties in the financial statements?
2. Do you agree with including the examples as illustrative examples accompanying IFRS Accounting Standards?
3. In developing the examples, the IASB tried to balance the level of detail and the specificity of the examples. If the examples are too general, they are less likely to help entities apply the thought process behind them to their specific facts. If the examples are too specific, they will apply directly to fewer entities. Do you think the examples achieve the right balance?
4. Examples 1 and 2 are intended to address concerns about the lack of connectivity between information in the financial statements and other information provided by an entity. Do you agree that the examples will help?
5. Examples 1, 2 and 8 involve judgements about what is material information. Do you agree that the examples will help entities to make such judgements?

In answering each question, please give reasons for your answers. If your answer to any question is no, please explain what you would suggest instead and why.

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