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Staff paper

Agenda reference: 2

Capital Markets Advisory Committee meeting

Date	**8 November 2024**
Project	**Climate-related and Other Uncertainties in the Financial Statements**
Topic	**Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements***
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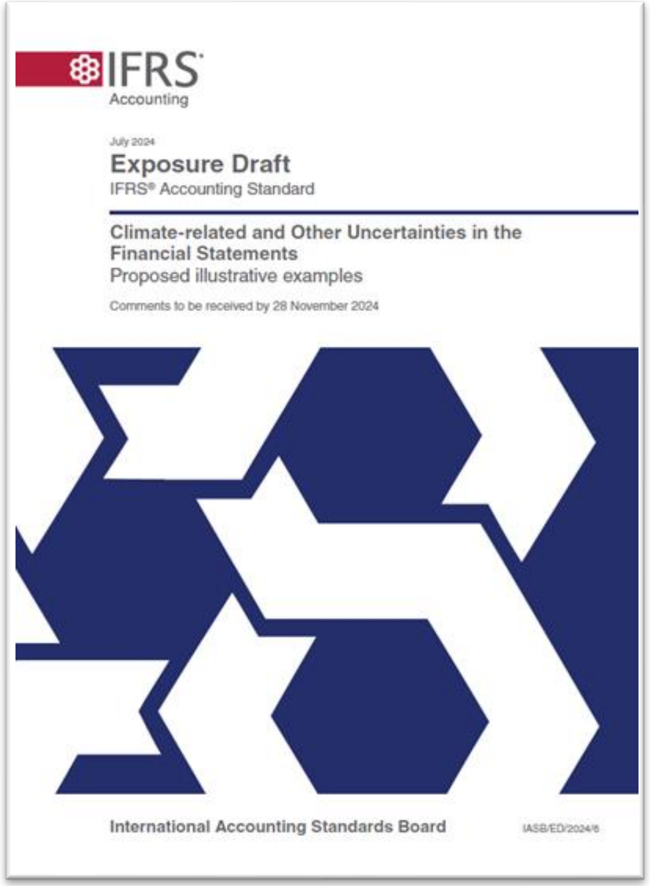
Contents

Purpose of the meeting

- **Seek feedback from CMAC members** on proposed illustrative examples included in an Exposure Draft (ED) out for comment until 28 November

- **ED includes eight examples** illustrating how a company reports the effects of climate-related and other uncertainties in its financial statements



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July 2024

Exposure Draft

IFRS® Accounting Standard

Climate-related and Other Uncertainties in the Financial Statements

Proposed illustrative examples

Comments to be received by 28 November 2024

International Accounting Standards Board IASB/ED/2024/6

Background

Why did the IASB start this project?

Investors expressed concerns that information about the effects of climate-related risks in financial statements was sometimes **insufficient or appeared to be inconsistent** with information provided outside a company's financial statements.

Investors want to understand how climate-related and other uncertainties have affected a company's **financial position, financial performance and cash flows**.

Overview of the project

Project Objective

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

Main actions to improve reporting

- Improve the application of IFRS Accounting Standards
- Raise awareness of the requirements
- Strengthen connections

The IASB's Exposure Draft

Illustrative Examples

The Exposure Draft includes **eight examples** that illustrate how companies apply IFRS Accounting Standards to report the effects of climate-related and other uncertainties in financial statements

Focus

The examples focus on **climate-related uncertainties** but apply equally to other types of uncertainties

Other actions

The examples are one of several actions that the IASB is undertaking to **improve the reporting** of these uncertainties in financial statements

Consultation period: **31 July – 28 November 2024**

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Project timeline

- **March 2023** — Project starts
- **April 2023–August 2023** — Research, outreach and analysis
- **September 2023** — IASB decide on main actions, including developing examples
- **July 2024** — Published Exposure Draft proposing illustrative examples
- **28 November 2024** — Comment letter deadline
- **December 2024 onwards** — Review feedback and decide whether to confirm the proposals

Why is the IASB proposing illustrative examples?

Respond to investor concerns

Improve the application of IFRS Accounting Standards

Strengthen connections with other parts of a company's reporting, such as sustainability disclosures

The illustrative examples **do not** add or change requirements in IFRS Accounting Standards

Why should investors get involved in the consultation?

Main areas illustrated	Improved information for investors
Making materiality judgements *Examples 1–2*	Stronger connections between information provided in financial statements and information provided outside the financial statements
Disclosing information about assumptions *Examples 3–7*	Improved disclosure about assumptions a company makes and other sources of estimation uncertainty
Disaggregating information *Example 8*	Disaggregated information based on different risk characteristics

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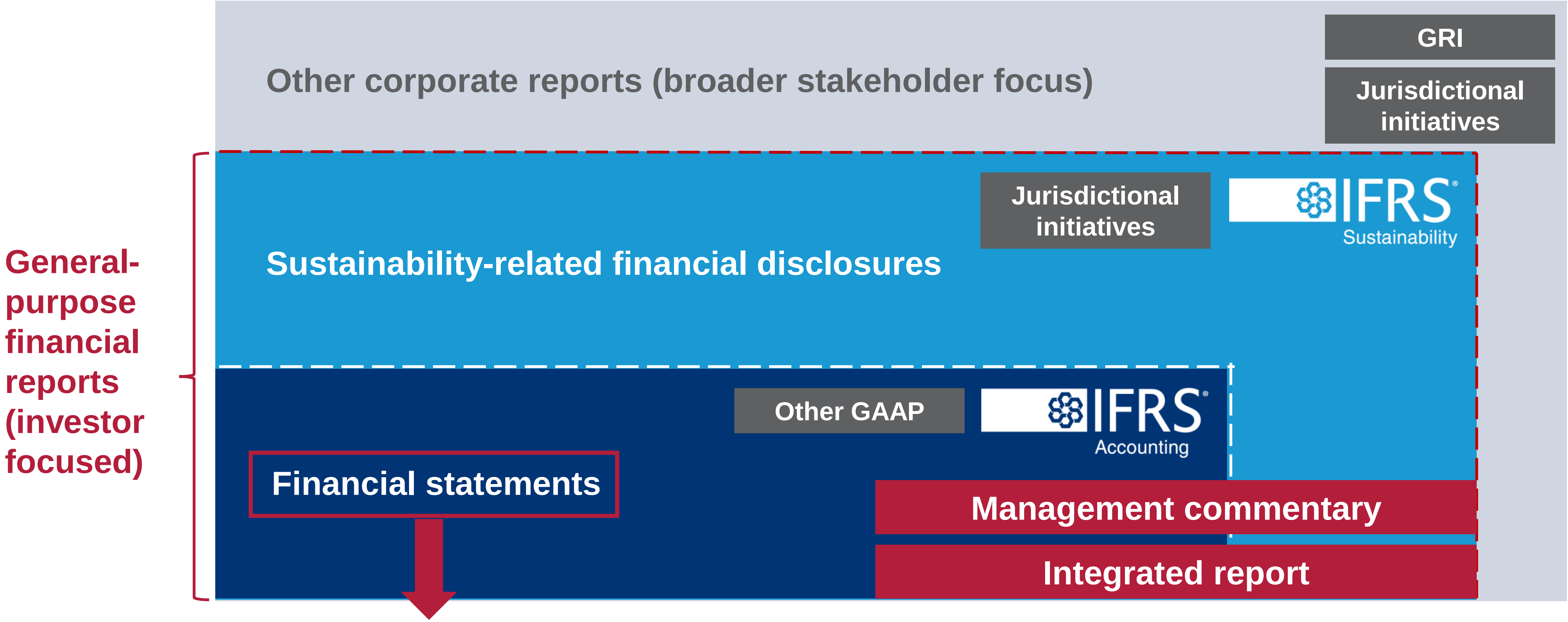
What is included in financial statements?

IFRS Standards within the broader reporting landscape



This project is focused on information reported in **financial statements**.

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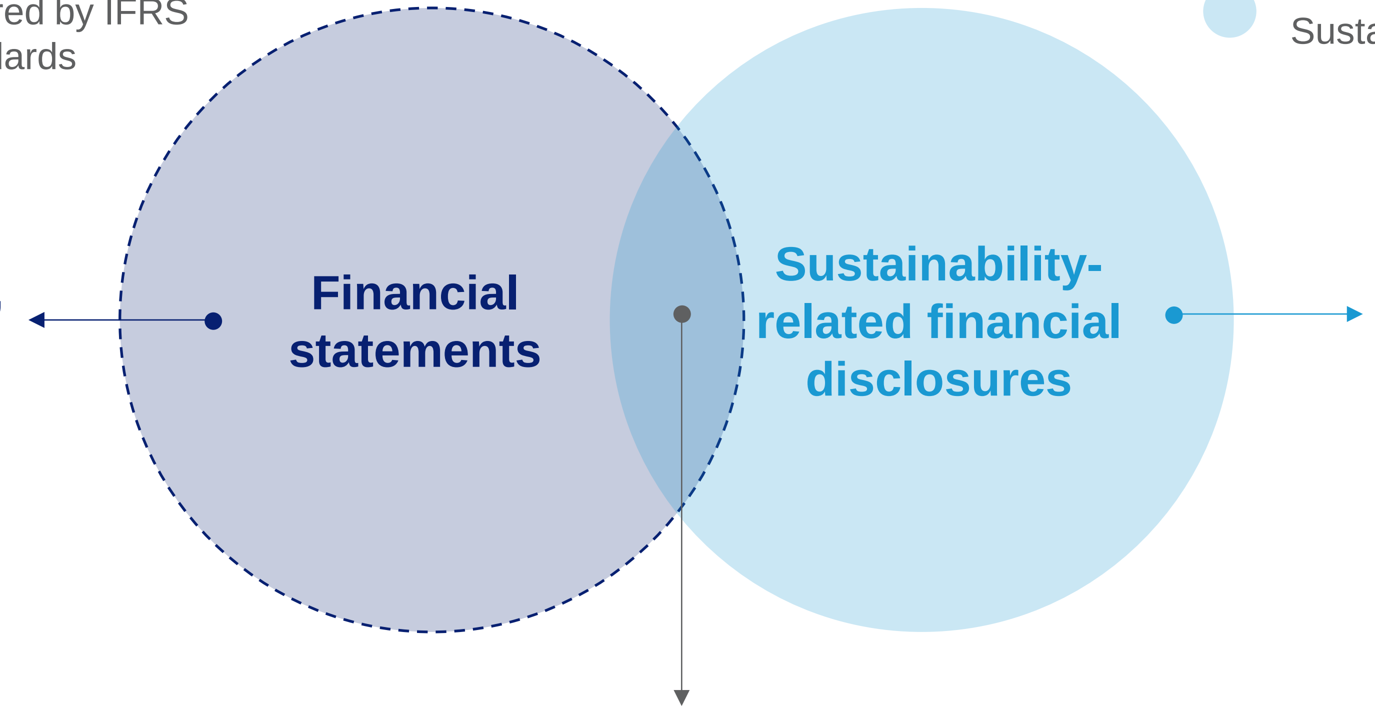
The boundaries of financial statements

Information required by IFRS Accounting Standards

Information required by IFRS Sustainability Disclosure Standards

Information about **assets, liabilities, equity, income and expenses**



Information about **sustainability-related risks and opportunities**

Focus of this project

Information about the effects of **sustainability-related risks and opportunities** on a company's **assets, liabilities, equity, income and expenses**

Definition of material

Defining material in IFRS Accounting Standards

Information is **material** if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements…

- A company **is required to include** all material information in financial statements
- A company makes materiality judgements **in the context of the objective of financial statements**
- The **objective of financial statements** is to provide information about assets, liabilities, equity, income and expenses

Therefore, financial statements include information about the **effects** of sustainability-related risks and opportunities on a company’s **assets, liabilities, equity, income and expenses** if that information is **material** in the context of the **objective of financial statements**

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How climate matters affect the financial statements?

The effects of climate-related matters are pervasive across financial statements:

Property, plant and equipment	Insurance contracts	Levies	**Income taxes**
Intangible assets	**Financial instruments**	Fair value measurements	Inventories
Impairment of assets	Contingent liabilities	**Provisions**	Going concern

More information is provided in the educational material, *Effects of climate-related matters on financial statements*

Note: Proposed examples illustrate specific requirements related to topics highlighted in blue

Proposed illustrative examples

Illustrative Examples

Note

- Slides 17–20 outline the fact patterns and summarise the reporting outcomes illustrated in each example included in the Exposure Draft. These slides do not include all relevant facts and circumstances included in the illustrative examples or explain the application of IFRS Accounting Standards. These slides should be read alongside the full examples for a complete understanding.
- The full examples can be reviewed in the Exposure Draft.

Illustrative Examples

	Background	Reporting outcome
Example 1 *Materiality judgements leading to additional disclosures*	The company discloses information about its transition plan outside its financial statements and operates in an industry exposed to climate-related transition risks	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
Example 2 *Materiality judgements not leading to additional disclosures*	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	The **company concludes that disclosing that its policy has no effect** on its financial position and financial performance would **not** provide material information

Illustrative Examples

	Background	Reporting outcome
Example 3 *Disclosure of assumptions: specific requirements*	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	The company **discloses information about the key assumptions**
Example 4 *Disclosure of assumptions: general requirements*	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)	The company **discloses information about assumptions** that have a significant risk of material adjustment within the next financial year

Illustrative Examples

	Background	Reporting outcome
Example 5 *Disclosure of assumptions: additional disclosures*	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	The company concludes that **information about the assumption is material** and discloses that information even if not specifically required by IFRS Accounting Standards
Example 6 *Disclosure about credit risk*	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	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

Illustrative Examples

	Background	Reporting outcome
Example 7 *Disclosure about decommissioning and restoration provisions*	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	The company concludes that **information about the obligations** is material and discloses that information**,** even though the provision's carrying amount is immaterial
Example 8 *Disclosure of disaggregated information*	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	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

Questions

Questions to CMAC members

Question 1

Would the disclosures illustrated in the examples provide you with useful information? Do you agree with the selection of fact patterns illustrated?

Question 2

Do you think the examples will help to change reporting practices?

Question 3

Do you have any other comments?

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