Staff paper

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IASB meeting

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Project	**Climate-related and Other Uncertainties in the Financial Statements**
Topic	**Possible ways forward for Examples 1–2**
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This agenda paper has been updated and reposted on 31 March 2025 to correct a referencing error in paragraph 1.11 of this paper. The reference to paragraph 1.3 has been corrected to refer to paragraph 1.4.

Introduction

1. This appendix to Agenda Paper 14 illustrates a possible drafting of Example 1 of the Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements* incorporating the changes explored in the paper. For simplicity, we illustrate the drafting of Example 1 only, but similar changes would be made to Example 2.

Example 1—Materiality judgements leading to additional disclosures (clean)

1.1 This example illustrates how an entity makes materiality judgements in the context of financial statements in applying the requirement in paragraph 31 of IAS 1 *Presentation of Financial Statements* [paragraph 20 of IFRS 18 *Presentation and Disclosure in Financial Statements*].[1] In this example, these judgements lead to additional disclosures beyond those specifically required by IFRS Accounting Standards.

Background

1.2 The entity is a manufacturer that operates in a capital-intensive industry. The entity is exposed to climate-related transition risks and operates in jurisdictions that have adopted climate-related policies that affect its operations. The entity has developed a climate-related transition plan to manage its climate-related transition risks. The plan is strategically important for the entity and will significantly affect its future operations.

1.3 The entity discloses information about its transition plan in a general purpose financial report outside the financial statements, including detailed information about how it plans to reduce greenhouse gas emissions over the next 10 years. The entity explains that it plans to reduce these emissions by making future investments in more energy-efficient technology and changing some of its raw materials and manufacturing methods. The entity discloses no other information about its climate-related transition plan in its general purpose financial reports.

Application

Considering the specific requirements in IFRS Accounting Standards

1.4 In preparing its financial statements, the entity assesses the effect of its climate-related transition plan on its financial position and financial performance. The entity determines that its transition plan has no effect on the recognition or measurement of its assets and liabilities and related income and expenses for the current reporting period because:

(a) the transition plan did not affect the useful lives of the affected manufacturing facilities. These facilities will be replaced only at the end of their current useful lives.

(b) the entity's current inventory of raw materials will be fully consumed before the entity changes the raw materials used in its manufacturing process in accordance with the transition plan. The carrying amount of the raw materials is recoverable.

[1] IFRS Practice Statement 2 *Making Materiality Judgements* also provides non-mandatory guidance on making materiality judgements when preparing general purpose financial statements in accordance with IFRS Accounting Standards.

(c) the recoverable amounts of the affected cash-generating units after reflecting the effects of the transition plan exceed their respective carrying amounts.

(d) the transition plan did not affect the timing and amount of expenditure required to settle the entity's decommissioning and site restoration obligations.

1.5 The entity also assesses whether specific requirements in IFRS Accounting Standards—such as in IAS 2 *Inventories*, IAS 16 *Property, Plant and Equipment*, IAS 36 *Impairment of Assets* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—require it to disclose information about the effect (or lack of effect) of its transition plan on its financial position and financial performance. The entity determines that they do not.

Considering the overarching requirement in paragraph 31 of IAS 1 [paragraph 20 of IFRS 18]

1.6 Paragraph 31 of IAS 1 [Paragraph 20 of IFRS 18] requires an entity to consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance.

1.7 In applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity applies judgement to determine whether additional disclosures to enable users of financial statements to understand the effect (or lack of effect) of its transition plan on its financial position and financial performance would provide material information. That is, whether omitting this information could reasonably be expected to influence decisions primary users of the entity's financial statements make on the basis of those financial statements.

1.8 The entity applies paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], for example, when reviewing its draft financial statements. This review gives the entity an opportunity to 'step back' and consider the information it provides in its financial statements from a wider perspective and in aggregate. In particular, the entity draws on its knowledge and experience of its transactions and other events and conditions to identify whether all information that is material in the context of the financial statements as a whole has been provided in those financial statements.

1.9 In determining whether additional disclosures would provide material information, the entity considers both quantitative and qualitative factors. Although the transition plan had no effect on the entity's financial position and financial performance for the reporting period (quantitative factors), the entity considers qualitative factors including:

(a) *entity-specific qualitative factors*—for example, the entity considers:

(i) the nature and extent of its exposure to climate-related transition risks—the entity has significant exposures to climate-related transition risks which its transition plan contributes to mitigating;

(ii) the significance of its transition plan to its operations—the transition plan is strategically important for, and will significantly affect, the entity's future operations; and

(iii) any inconsistencies that might appear to exist between information about its transition plan in its general purpose financial reports outside its financial statements and information about the effects of that plan in its financial statements. For example, information about the entity's plans to change manufacturing methods and invest in more energy-efficient technology might suggest that some of its assets might be impaired.

(b) *external qualitative factors*—for example, the entity considers that the industry and jurisdictions in which it operates—including its market, economic, regulatory and legal environments—make the information more likely to influence decisions primary users of the entity's financial statements make on the basis of those financial statements. For example, because of the significance of climate-related transition risks to the business models of entities operating in the same industry and the climate-related policies adopted by the jurisdictions in which the entity operates.

1.10 In determining whether additional disclosures would provide material information, the entity might also consider whether primary users ask questions about the effects of its transition plan on its financial position and financial performance. In doing so, the entity considers primary users' common information needs—rather than the needs of individual users.

1.11 After considering all facts and circumstances, the entity determines that additional disclosure to explain the lack of effect of its transition plan on its financial position and financial performance would provide material information. For example, the entity might explain that its transition plan had no effect on its financial position and financial performance for the current reporting period because of the reasons explained in paragraph 1.4.

Example 1—Materiality judgements leading to additional disclosures (mark-up)

1.1 This example illustrates how an entity makes materiality judgements in the context of financial statements in ~~accordance with~~applying the requirement in paragraph 31 of IAS 1 *Presentation of Financial Statements* [paragraph 20 of IFRS 18 *Presentation and Disclosure in Financial Statements*].[2] In this example, these judgements lead to additional disclosures beyond those specifically required by IFRS Accounting Standards.

Background

1.2 The entity is a manufacturer that operates in a capital-intensive industry ~~and~~. The entity is exposed to climate-related transition risks~~. To manage these risks, the entity~~ and operates in jurisdictions that have adopted climate-related policies that affect its operations. The entity has developed a climate-related transition plan~~. The entity~~ to manage its climate-related transition risks. The plan is strategically important for the entity and will significantly affect its future operations.

1.3 The entity discloses information about ~~the~~its transition plan in a general purpose financial report outside the financial statements, including detailed information about how it plans to reduce greenhouse gas emissions over the next 10 years. The entity explains that it plans to reduce these emissions by making future investments in more energy-efficient technology and changing some of its raw materials and manufacturing methods. The entity discloses no other information about its climate-related transition ~~risks~~plan in its general purpose financial reports.

Application

Considering the specific requirements in IFRS Accounting Standards

1.4 In preparing its financial statements, the entity assesses the effect of its climate-related transition plan on its financial position and financial performance. The entity ~~concludes~~determines that its transition plan has no effect on the recognition or measurement of its assets and liabilities and related income and expenses for the current reporting period because:

(a) the transition plan did not affect the useful lives of the affected manufacturing facilities~~ are nearly fully depreciated;~~. These facilities will be replaced only at the end of their current useful lives.

[2] IFRS Practice Statement 2 *Making Materiality Judgements* also provides non-mandatory guidance on making materiality judgements when preparing general purpose financial statements in accordance with IFRS Accounting Standards.

(b) the entity's current inventory of raw materials will be consumed before the entity changes the raw materials used in its manufacturing process in accordance with the transition plan. The carrying amount of the raw materials is recoverable.

(c) the recoverable amounts of the affected cash-generating units ~~significantly~~after reflecting the effects of the transition plan exceed their respective carrying amounts~~;~~.

(d) the transition plan did not affect the timing and amount of expenditure required to settle the entity's decommissioning and site restoration obligations~~ the entity has no asset retirement obligations~~.

1.5 The entity also assesses whether specific requirements in IFRS Accounting Standards—such as in IAS 2 *Inventories*, IAS 16 *Property, Plant and Equipment*, IAS 36 *Impairment of Assets* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—require it to disclose information about the effect (or lack of effect) of its transition plan on its financial position and financial performance. The entity ~~concludes~~determines that they do not.

Considering the overarching requirement in paragraph 31 of IAS 1 [paragraph 20 of IFRS 18]

1.6 Paragraph 31 of IAS 1 [Paragraph 20 of IFRS 18] requires an entity to consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance.

1.7 In applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity ~~determines that~~applies judgement to determine whether additional disclosures to enable users of financial statements to understand the effect (or lack of effect) of its transition plan on its financial position and financial performance would provide material information. That is, whether omitting this information could reasonably be expected to influence decisions primary users of the entity's financial statements make on the basis of those financial statements.

1.8 The entity applies paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], for example, when reviewing its draft financial statements. This review gives the entity an opportunity to 'step back' and consider the information it provides in its financial statements from a wider perspective and in aggregate. In particular, the entity draws on its knowledge and experience of its transactions and other events and conditions to identify whether all information that is material in the context of the financial statements as a whole has been provided in those financial statements.

1.9 In determining whether additional disclosures would provide material information, the entity considers both quantitative and qualitative factors. Although the transition plan had no effect on the entity's financial position and financial performance for the reporting period (quantitative factors), the entity considers qualitative factors including:

(e) *entity-specific qualitative factors*—for example, the entity considers:

(i) the nature and extent of its exposure to climate-related transition risks—the entity has significant exposures to climate-related transition risks which its transition plan contributes to mitigating;

(ii) the significance of its transition plan to its operations—the transition plan is strategically important for, and will significantly affect, the entity’s future operations; and

(iii) any inconsistencies that might appear to exist between information about its transition plan in its general purpose financial reports outside its financial statements and information about the effects of that plan in its financial statements. For example, information about the entity’s plans to change manufacturing methods and invest in more energy-efficient technology might suggest that some of its assets might be impaired.

(f) *external qualitative factors*—for example, the entity considers that the industry and jurisdictions in which it operates—including its market, economic, regulatory and legal environments—make the information more likely to influence decisions primary users of the entity’s financial statements make on the basis of those financial statements. For example, because of the significance of climate-related transition risks to the business models of entities operating in the same industry and the climate-related policies adopted by the jurisdictions in which the entity operates.

1.10 In determining whether additional disclosures would provide material information, the entity might also consider whether primary users ask questions about the effects of its transition plan on its financial position and financial performance. In doing so, the entity considers primary users’ common information needs—rather than the needs of individual users.

1.11 After considering all facts and circumstances, the entity determines that additional disclosure to explain the lack of effect of its transition plan on its financial position and financial performance would provide material information. For example, the entity might explain that its transition plan had no effect on its financial position and financial performance for the current reporting period because of the reasons explained in paragraph 1.4.

~~1.8 Without that additional information, the decisions users of the entity’s financial statements make could reasonably be expected to be influenced by a lack of~~

~~understanding of how the entity's transition plan has affected the entity's financial position and financial performance. For example, users of the entity's financial statements might expect that some of its assets might be impaired because of its plans to change manufacturing methods and invest in more energy-efficient technology.~~

~~1.9 The entity reaches this conclusion having considered qualitative factors that make the information more likely to influence users' decision-making, including:~~

~~(e) the disclosures in its general purpose financial report outside the financial statements (entity-specific qualitative factor); and~~

~~(f) the industry in which it operates, which is known to be exposed to climate-related transition risks (external qualitative factor).~~

~~1.10 Therefore, applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity discloses that its transition plan has no effect on its financial position and financial performance and explains why.~~