IFRS Foundation

Connectivity webcast series

Episode 2

Example—Climate-related risks and impairment of non-financial assets

The views expressed in this presentation are those of the presenter, not necessarily those of the IFRS Foundation, International Accounting Standards Board or the International Sustainability Standards Board.

Presenters

Gabriel Benedict
ISSB Technical Fellow

Gustavo Olinda
IASB Technical Staff

Agenda

Episode 1	IFRS Standards—Complementary and connected information
Episode 2	Example—Climate-related risks and impairment of non-financial assets
Episode 3	Example—Climate-related opportunities and changes in product mix
Episode 4	Example—Climate-related commitments

Housekeeping

The examples:

- provide **basic illustrations** of how **applying IFRS Standards together** results in **complementary and connected information** in an entity's financial statements and in its sustainability-related financial disclosures
- specifically focus on illustrating how information about **current and anticipated financial effects** in sustainability-related financial disclosures expands on and complements the information in the financial statements
- highlight **other** sustainability-related financial **disclosures and requirements** in IFRS Sustainability Disclosure Standards that are of particular interest in the fact patterns discussed in illustrating complementary and connected information

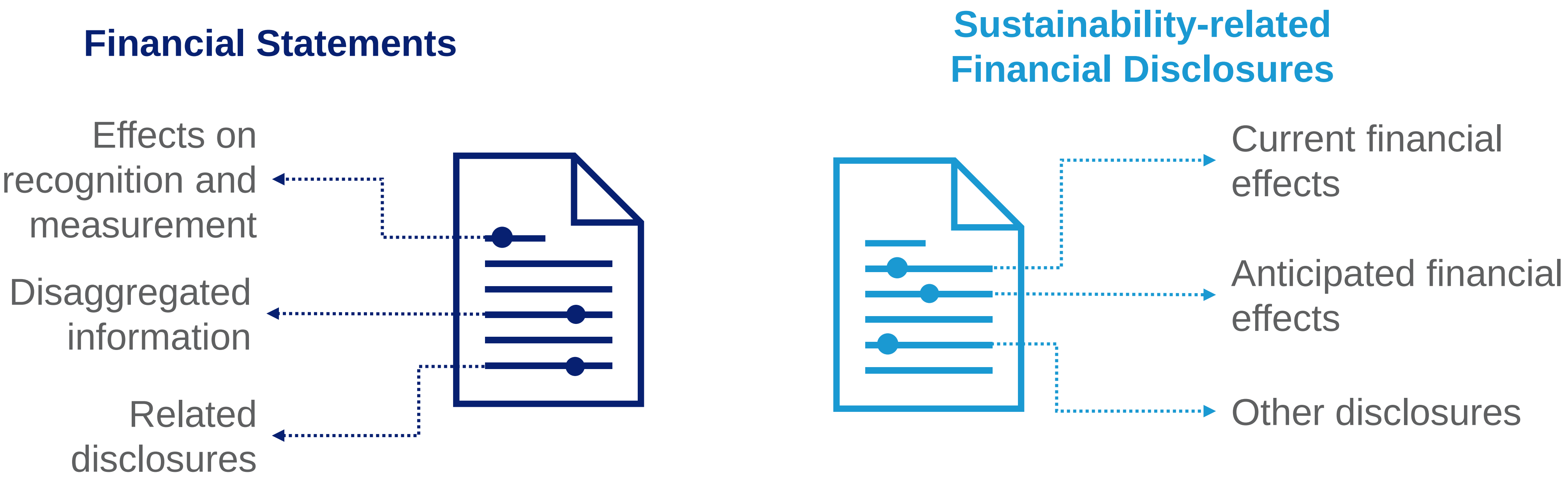
The examples do **not**:

- illustrate the application of all requirements in IFRS Standards that might be relevant in the fact patterns discussed
- provide complete illustrative disclosures

While IFRS Accounting Standards and IFRS Sustainability Disclosure Standards could be applied with different sustainability-reporting standards or different GAAPs, respectively, the examples focus on IFRS Standards applied together

Structure of the examples

In illustrating complementary and connected information reported in financial statements and in sustainability-related financial disclosures, the examples are presented using a consistent structure



IFRS Foundation

Example
Climate-related risks and impairment of non-financial assets

Fact patterns

For this topic, we will consider three fact patterns:

- **Example 1A**
  No impairment loss is recognised in the reporting period but there are climate-related key assumptions

- **Example 1B**
  Impairment loss recognised in the reporting period due to a weather-related event

- **Example 1C**
  Impairment loss recognised in the reporting period for which shifting climate-related consumer demands are a contributing factor

Example 1A—Key facts

- The entity’s operations result in a **high amount** of Scope 1 greenhouse gas (GHG) emissions
- The entity is subject to **GHG emissions regulation** in Jurisdiction A, which requires the entity to acquire GHG emissions allowances for some of its GHG emissions
- The entity has allocated goodwill to CGU A, which includes its operations in Jurisdiction A. The entity tests CGU A for impairment and **recognises no loss**
- Assumptions about the future price of GHG emissions allowances are **key assumptions** for determining the recoverable amount of CGU A
- The entity uses **climate-related scenario analysis** to inform disclosure of its resilience to climate-related risks and opportunities for its operations in Jurisdiction A

Illustrating reported information—Accounting

Effects on recognition and measurement

No financial effects in the reporting period

Disaggregated information

No financial effects about which to provide disaggregated information

Related disclosures

The entity discloses information about the impairment test, including:

- that assumptions about the future price of GHG emissions allowances are key assumptions
- its approach to determining the values assigned to the future price of GHG emissions allowances
- additional information when a reasonably possible change to a key assumption would lead to an impairment loss

Illustrating reported information—Sustainability

Current financial effects

The entity explains that the climate-related risk has not had financial effects for the reporting period

Anticipated financial effects

The entity discloses expected costs of buying GHG emissions allowances—which can be informed by the scenario analysis

Other disclosures

In its climate resilience disclosures, the entity discloses information about inputs and key assumptions used in its climate-related scenario analysis and assessment

The analysis includes considering a range of outcomes related to the key assumptions about the future price of GHG emissions allowances

To note

IFRS S1 requires the entity to use data and assumptions that are consistent—to the extent possible—with those used in preparing the financial statements

IFRS Foundation

Example 1B—Key facts

- The entity has manufacturing facilities in an area subject to climate-related risks such as **increased frequency and severity of floods**
- During the reporting period, a flood event **severely damaged** the entity’s facilities in that area
- As a consequence, the entity concludes that the facilities' property, plant and equipment (PP&E), which include buildings and machinery, are **fully impaired** and need replacement

Illustrating reported information—Accounting

Effects on recognition and measurement

Impairment loss recognised in the reporting period

Disaggregated information

Impairment loss is fully attributable to the flood event

Related disclosures

The entity discloses:

- that the flood event severely damaged some of its facilities
- the impairment loss amount
- that the damaged assets included items such as buildings and machinery
- that the assets were fully impaired

Illustrating reported information—Sustainability

Current financial effects

The entity discloses that climate-related risks resulted in an impairment loss and the amount of the loss

Anticipated financial effects

The entity discloses expected costs related to the damaged assets as well as information about insurance costs as a result of the climate-related risks

Other disclosures

The entity's disclosures prepared using climate-related scenario analyses provide information about the resilience of the entity's business model and strategy to future flood events

To note

Sustainability information (such as information about current financial effects) may be provided, subject to specified criteria, by cross-reference to information in the financial statements

Example 1C—Key facts

- The entity is exposed to climate-related transition risks
- Sales of one of the entity's main products, Product C, have been declining due to **adverse economic and market conditions**, and the entity expects that trend to continue
- The adverse market conditions include the effects of shifting consumer demand for Product C related to **climate considerations**
- The entity tests Product C's product line (CGU C) for impairment and recognises an **impairment loss**

IFRS Foundation

Illustrating reported information—Accounting

Effects on recognition and measurement

Impairment loss recognised in the reporting period

Disaggregated information

The entity does not provide disaggregated quantitative information about the effects of various factors on the impairment loss it recognised

Related disclosures

The entity discloses information about the impairment, including:

- that adverse market and economic conditions led to the impairment loss
- the impairment loss amount
- information about the measurement of CGU C’s recoverable amount

Illustrating reported information—Sustainability

Current financial effects

The entity discloses that climate-related transition risks contributed to the impairment loss and the amount of the loss attributable to that factor

Anticipated financial effects

The entity discloses expected effects on revenue from sales of Product C due to climate-related transition risks

Other disclosures

The entity discloses information about its plan to respond to the climate-related transition risks, including key assumptions, such as information about products that it plans to develop in response to changing demands

To note

An entity need not provide quantitative information about the current or anticipated financial effects of a climate-related risk or opportunity if those effects are not separately identifiable or if the level of measurement uncertainty is so high that the information would not be useful. In those cases, an entity provides qualitative and aggregated quantitative information about the financial effects

IFRS® Foundation

Follow us online

ifrs.org

@IFRSFoundation

IFRS Foundation

IFRS Foundation