IFRS Accounting

Staff paper

Agenda reference: 14

IASB® meeting

Date	**March 2023**
Project	**Climate-related Risks in the Financial Statements**
Topic	**Project commencement**
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Purpose of the meeting

1. The purpose of this meeting is for the International Accounting Standards Board (IASB) to make active the Climate-related Risks in the Financial Statements project and discuss the initial work the staff will undertake. The IASB is not being asked to make any decisions.

2. The project will move from the maintenance project pipeline to the maintenance workplan.

A recap of the origins of the project

3. Over the past few years, the IASB has been hearing from users of financial statements that:

   (a) climate-related risks are often perceived as remote, long-term risks and may not be appropriately considered in the financial statements; and

   (b) users need better qualitative and quantitative information about the effect of climate-related risks on the carrying amounts of assets and liabilities reported in the financial statements.

4. In response, the IFRS Foundation published in November 2020 educational material on the Effects of climate-related matters on financial statements. The educational material notes that although IFRS Accounting Standards do not refer explicitly to climate-related matters, entities must consider climate-related matters in applying Accounting Standards when the effect of those matters is material. The educational material also sets out examples illustrating when Accounting Standards require entities to consider the effects of

climate-related matters in applying the principles in a number of Accounting Standards. The educational material complements a November 2019 article IFRS Standards and climate-related disclosures.

5. Feedback on the IASB's Third Agenda Consultation highlighted the importance to many respondents of the appropriate reflection of climate-related risks in the financial statements. This feedback indicated that there may be:

   (a) inconsistent application of IFRS Accounting Standards to climate-related risks; and

   (b) insufficient information disclosed about climate-related risks in the financial statements.

6. In response to the feedback on the Agenda Consultation, the IASB added to its maintenance project pipeline a narrow-scope Climate-related risks in the Financial Statements project that will:

   (a) research the causes of stakeholders' concerns about inconsistent application and insufficient information;

   (b) research whether the IFRS Foundation's educational material is helping, and whether the International Sustainability Standards Board's (ISSB) future IFRS Sustainability Disclosure Standard on climate-related disclosures would help, to address these concerns; and

   (c) consider whether and, if so, what narrow-scope actions might be needed.

7. Since the ISSB published its Exposure Drafts *General Requirements for Disclosure of Sustainability-related Financial Information* and *Climate-related Disclosures*, stakeholders have been asking for greater clarity about how sustainability-related risks and opportunities disclosed in applying IFRS Sustainability Disclosure Standards would connect with and interact with the financial statements.

Purpose of the project

8. The purpose of this project is to explore whether and, if so, how financial statements can better communicate information about climate-related risks.

9. The outcomes of this project will depend on the underlying causes of user concerns, for example:

   (a) *unclear requirements in Accounting Standards*. The requirements in Accounting Standards might not be sufficiently clear about whether and how the effects of climate-related risks should be considered when preparing an entity's financial statements—even when considered in conjunction with the educational material.

   (b) *lack of compliance*. The requirements in Accounting Standards might be sufficiently clear, but some entities might not be considering (or not adequately considering) the effects of climate-related risks when applying those requirements.

   (c) *insufficient disclosure of the effects of climate-related risks*. Some entities might have considered the effects of climate-related risks when preparing their financial statements, but the information disclosed in their financial statements might be either:

      (i) insufficient for users to understand what those effects are or how they have been reflected in the financial statements; or

      (ii) inconsistent with (or appear to be inconsistent with) other information provided elsewhere in the entity's annual report (or in other reports, such as in sustainability reports) about climate-related risks.

   (d) *user information needs beyond the objective of financial statements*. Some user information needs about climate-related risks might go beyond the objective of financial statements. Such user information needs are outside the scope of this project and may be more appropriately addressed by, and may have already been addressed in, Sustainability Disclosure Standards.

10. As a narrow-scope maintenance project, the project will focus on exploring high-priority actions that can be taken relatively quickly. Therefore:

(a) considerations such as broadening the objective of financial statements, as set out in paragraph 3.2 of the *Conceptual Framework for Financial Reporting*, or changing the definitions of assets and liabilities, are outside the scope of this project.

(b) any outcomes would be unlikely to include developing an Accounting Standard on climate-related risks or extensive application guidance on how to consider the effects of such risks when applying Accounting Standards. Doing so would risk undermining the IASB's approach to developing principles-based Accounting Standards.

11. Judgments involved in accounting for long-term matters such as climate-related matters can be complex. Any outcome of this project cannot eliminate the need for such judgment.

12. Finally, the accounting for pollutant pricing mechanisms would be unlikely to be considered in this project. The IASB has a related project—Pollutant Pricing Mechanisms—on the reserve list of projects. Projects on the reserve list could be added to the workplan in the future if additional capacity becomes available.

Initial work

13. In commencing the project, the staff will hold discussions with the IASB's consultative bodies and other external stakeholder groups and organisations to explore:

(a) the nature of perceived shortcomings with financial statements in communicating information about climate-related risks;

(b) requirements in Accounting Standards that might not be sufficiently clear about whether and how the effects of climate-related risks should be considered when preparing an entity's financial statements—even when considered in conjunction with the educational material;

(c) reasons for entities arguably not considering (or not adequately considering) the effects of climate-related risks when applying the requirements; and

(d) possible courses of action available to the IASB together with the pros and cons of each course of action.

14. As part of our initial work, the staff will also consider the work of the ISSB to the extent that work is applicable to financial statements. To facilitate this, the project team includes ISSB staff.

15. The staff will also consider whether to recommend expanding the scope of the project to cover opportunities as well as risks, and to cover risks and opportunities in addition to those related to climate:

    (a) for the reasons explained in paragraph 10(b);

    (b) for consistency with the ISSB's approach of considering both opportunities and risks, and considering sustainability-related risks and not just climate-related risks and opportunities; and

    (c) because the ISSB has concluded that it is not always possible for preparers to separate the financial effect of climate-related risks and opportunities from other sustainability-related risks and opportunities (see paragraphs 28–39 of ISSB Agenda Paper 3E for the January 2023 meeting).

16. The staff will also consider possible synergies between this project and its other projects: Extractive Activities, Business Combinations—Disclosures, Goodwill and Impairment, and Provisions—Targeted Improvements.

17. At a future meeting, the staff will present the feedback from its consultative activities, the possible courses of action available to the IASB and a tentative project plan.

Question for the IASB
Do you have any comments or questions on the initial work described in paragraphs 13–17?