IFRS Accounting

Staff paper

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This paper was discussed at the International Accounting Standards Board's (IASB's) March 2024 meeting as Agenda Paper 14A. The agenda papers referred to in this paper are the other agenda papers for the IASB's March 2024 meeting.

Introduction and purpose

1. As explained in Agenda Paper 14 *Cover paper* for this meeting, in September 2023, the IASB decided to explore whether to develop examples to illustrate how to apply requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties. The IASB decided to do so because the staff's work on this project showed that IFRS Accounting Standards are generally sufficient in requiring useful information for users about climate-related risks in the financial statements, but that there may be challenges in the application of the Standards.

2. The purpose of this paper is to explain the approach we took to develop examples illustrating how to apply requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in financial statements. This paper also explains our view on the best vehicle for these examples (that is, the best manner in which to communicate the examples to stakeholders).

3. We are not asking the IASB to make any decisions at this meeting. However, comments from IASB members on all aspects of this paper will help us develop our recommendations for the direction of this project.

Structure of the paper

4. This paper includes:

   (a) overview of outreach on developing the examples (paragraphs 5–6);

   (b) overall considerations in developing the examples (paragraphs 7–27);

   (c) objective and rationale for the examples (paragraphs 28–54);

   (d) vehicle for the examples (paragraphs 55–69); and

   (e) questions for the IASB.

Overview of outreach on developing the examples

5. In developing the examples, we:

   (a) consulted with the Capital Markets Advisory Committee (CMAC), the Global Preparers Forum (GPF) and the Accounting Standards Advisory Forum (ASAF). Appendix A to this paper includes a summary of feedback from these consultative groups.

   (b) held meetings with individual GPF members to gather feedback about our approach to developing examples, including their content and the vehicle to communicate these examples to stakeholders.

   (c) obtained feedback on an early draft of the staff examples from a range of stakeholders, including accounting firms, regulators, users of financial statements and preparers (GPF members).

6. We considered the feedback from these outreach activities in developing our analysis in this paper and drafting the staff examples included in Agenda Paper 14B *Staff draft examples*.

Overall considerations in developing the examples

7. This section describes the staff's overall considerations in developing the examples, in particular:

   (a) what types of uncertainties to address (paragraphs 8–9);

   (b) what areas of accounting to focus on (paragraphs 10–14);

   (c) how specific should the fact patterns be (paragraph 15);

   (d) which specific requirements to illustrate (paragraphs 16–17);

   (e) how to facilitate connected general purpose financial reporting (paragraphs 18–23); and

   (f) whether the examples should be stand-alone or walk-through (paragraphs 24–27)

What types of uncertainties to address?

8. The objective of the project was originally focused on climate, but the IASB decided to generalise the objective to cover other uncertainties in addition to those related to climate. The IASB decided to do so because:

   (a) IFRS Accounting Standards are principles-based and any targeted standard-setting the IASB undertakes would not single out climate but would cover uncertainties generally. Such an approach would help ensure that various types of uncertainties are captured as they emerge and would result in treating similar items in the same way.

   (b) it may not always be possible to quantify the financial effects of climate-related risks separately from the financial effects of other risks.

9. The examples generally illustrate the disclosure of information about climate-related uncertainties. However, example 5 illustrates a fact pattern involving an uncertainty that is not related to climate. We think having one such example would help convey the message that, although many of the examples are focused on climate-related uncertainties, the principles and requirements illustrated equally apply to other types of uncertainties.

What areas of accounting to focus on?

10. In identifying which areas of accounting to cover in the examples, we considered the results of our work on the nature and causes of concern discussed in Agenda Paper 14B for the September 2023 meeting, as well as further work we undertook since that meeting.

11. Our work on this project:

    (a) identified concerns from some users of financial statements that information about climate-related risks in the financial statements is sometimes insufficient or appears to be inconsistent with other information provided by an entity. Such concerns include insufficient and inconsistent information about assumptions and judgements underlying estimates that reflect those risks in the financial statements.

    (b) indicates that IFRS Accounting Standards are generally sufficient in requiring useful information about climate-related risks in the financial statements. However, there may be challenges in the application of the Standards.

12. The concerns about insufficient information and information that appears inconsistent, and the application challenges identified, relate mostly to the application of disclosure requirements in IFRS Accounting Standards. The main concerns related to recognition and measurement requirements have been considered or are being addressed in other actions taken as part of this project or other IASB projects.[1]

[1] See Appendix B to Agenda Paper 14 for this meeting for a summary of the status and next steps for these other actions.

13. Therefore, our view is that the examples would be most helpful if they focus on illustrating the application of the disclosure requirements in IFRS Accounting Standards. In particular, the examples would address the following areas:

    (a) *materiality judgements*—how an entity makes materiality judgements in determining whether to disclose information about how climate-related and other uncertainties affected an entity's financial statements, including illustrating connectivity in general purpose financial reporting;

    (b) *assumptions and other sources of estimation uncertainty*—disclosures about climate-related assumptions and other sources of estimation uncertainty affecting the entity's assets and liabilities; and

    (c) *aggregation and disaggregation*—disclosure of disaggregated information about assets and liabilities based on their exposure to climate-related and other risks when that information is material.

14. Some examples highlight recognition and measurement considerations when needed to understand the application of disclosure requirements or when one of the objectives of the example is to emphasise the need to consider these requirements.

How specific should the fact patterns be?

15. In determining how specific the fact patterns of the examples should be, we considered that climate-related uncertainties are pervasive across many industries and sectors and affect them in significantly different ways and to a significantly different extent. Entities in the same industry could also have significantly different exposures depending on specific facts and circumstances, including how they manage climate-related risks. Accordingly, the fact patterns addressed by the examples are set out at a sufficiently high level to be applicable to a variety of entities operating in different industries and sectors.

Which specific requirements to illustrate?

16. The examples illustrate requirements in IFRS Accounting Standards which we consider to be amongst the most relevant for the disclosure of the effects of climate-related and other uncertainties in the financial statements. The examples do not illustrate:

    (a) the application of all requirements in IFRS Accounting Standards that might be applicable to the fact pattern;

    (b) all relevant facts and circumstances an entity would consider in making materiality judgements; or

    (c) all material information an entity is required to disclose in the fact pattern.

17. The examples do not add to or change the requirements in IFRS Accounting Standards.

How to facilitate connected general purpose financial reporting?

18. In developing the examples, we aimed to facilitate the provision of connected information across an entity's general purpose financial reports, in particular—but not limited to—between an entity's financial statements and its sustainability-related financial disclosures prepared, for example, applying IFRS Sustainability Disclosure Standards.

19. To achieve that, we considered the requirements in IFRS Sustainability Disclosure Standards and collaborated with members of the International Sustainability Standards Board (ISSB) and its technical staff.

20. Based on that research and collaboration, we note that IFRS Sustainability Disclosure Standards facilitate connections with the financial statements through, for example:

(a) the use of the same definition of 'materiality' as IFRS Accounting Standards;[2]

(b) the requirements on connected information;

(c) the requirements to provide information about the financial effects of climate-related and sustainability-related risks and opportunities on an entity's financial position, financial performance and cash flows for the reporting period (current financial effects); and

(d) the requirements to use data and assumptions that are consistent, to the extent possible in accordance with the applicable accounting standards, with the corresponding data and assumptions used in preparing financial statements.

21. We also note that preparing sustainability-related financial disclosures, in particular applying IFRS Sustainability Disclosure Standards, can support entities in making materiality judgments about the information that may need to be included in financial statements to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance (which some refer to as the 'nudge effect').

22. To further connectivity, in developing draft examples that illustrate the application of IFRS Accounting Standards:

(a) we have designed fact patterns that are compatible with the requirements in IFRS Sustainability Disclosure Standards but not limited to circumstances in which an entity applies those Standards. For example, Example 1 discusses a scenario in which an entity discloses information about its climate-related transition plan. Such disclosure might be prepared applying IFRS Sustainability Disclosure Standards or other applicable requirements.

(b) we note that the application of IFRS Accounting Standards in the fact patterns illustrated by the examples may result in disclosure of information that is similar to that required to be disclosed by IFRS Sustainability Disclosure

[2] The definition of 'material information' in IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information addresses materiality in the context of an entity's sustainability-related financial disclosures.

Standards.[3] We note that to enable connected financial reporting, and to avoid duplicated disclosures, IFRS Sustainability Disclosure Standards allow an entity, subject to specific criteria, to include information in sustainability-related financial disclosures by cross-reference to another report published by the entity.[4] We will consider for a future IASB meeting whether and if so, how, to illustrate in the draft examples the use of cross-references in the financial statements to other general purpose financial reports to enable connected financial reporting and to avoid duplicated disclosures.

(c) we use the terminology used in IFRS Sustainability Disclosure Standards, including both defined and undefined terms, with the same defined or intended meaning. For example, we use the term 'climate-related transition plan' with the meaning defined in IFRS S2 *Climate-related Disclosures* and we refer to medium and long term with the meaning intended in IFRS Sustainability Disclosure Standards.

(d) we use a different term when a concept covered in IFRS Sustainability Disclosure Standards does not apply in the context of financial statements. For example, we refer to 'climate-related and other uncertainties' rather than 'climate-related risks and opportunities' (see paragraphs 19–21 of the September 2023 IASB *Agenda Paper 14A Climate-related Risks in the Financial Statements—Project objective*).

23. While we placed particular emphasis on ensuring connections work well between the examples and ISSB requirements, we do not intend the examples to be limited to circumstances in which an entity applies IFRS Sustainability Disclosure Standards. For example, we do not use the term 'sustainability-related financial disclosures' to avoid creating an impression that:

[3] For example, IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* requires disclosure of information that enables users to understand the effects of sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period (current financial effects).

[4] The ISSB has noted in its discussions that information it requires, such as information about current financial effects, could potentially be located within the financial statements.

(a) an example only applies if an entity prepares sustainability-related financial disclosures in accordance with IFRS Sustainability Disclosure Standards; or

(b) sustainability-related financial disclosures can only be prepared applying IFRS Sustainability Disclosure Standards.

Whether the examples should be stand-alone or walk-through

24. We considered whether the examples should:

(a) *illustrate the application of specific requirements (stand-alone examples)*—these examples would be similar to the examples incorporated in IFRS Accounting Standards or included in guidance accompanying these Standards. These examples would discuss a narrow fact pattern to illustrate the application of particular requirements in a Standard.

(b) *use a fact pattern to walk through the application of requirements across several IFRS Accounting Standards (walk-through examples)*—these examples would set a broader fact pattern for a fictional entity and then walk through the requirements across several Standards. For example, the example could illustrate the application of accounting requirements as an entity adopts and implements a climate-related transition plan over time.

25. We think walk-through examples would be helpful to some stakeholders. They would further illustrate the various ways in which climate-related uncertainties, for example, could affect an entity's financial statements, in a similar way to the educational material *Effects of climate-related matters on financial statements* (republished in July 2023).

26. However, in our view, walk-through examples would be less likely to significantly contribute to addressing the concerns identified in this project (see paragraph 11 of this paper). We think that stand-alone examples would be more effective because they could be more focused and tailored to address particular matters or requirements related to those concerns.

27. Furthermore, because walk-through examples would illustrate the application of requirements across several IFRS Accounting Standards, it would be difficult to incorporate them into each applicable Standard or to add them as illustrative examples to the accompanying guidance of each Standard. This would affect the vehicle considerations discussed in paragraphs 55–69 of this paper.

Objective and rationale for the examples

28. This section is divided between the following sets of examples:

    (a) materiality judgements (paragraphs 29–33);

    (b) disclosure of assumptions and other sources of estimation uncertainty (paragraphs 34–52); and

    (c) aggregation and disaggregation (paragraphs 53–54).

Materiality judgements

Example 1—Materiality judgements leading to additional disclosures

29. The objective of this example is to illustrate how an entity makes materiality judgements when assessing whether to provide additional disclosures beyond those specifically required by IFRS Accounting Standards. Applying paragraph 31 of IAS 1 *Presentation of Financial Statements*, an entity provides additional disclosures if it is necessary to enable users of financial statements to understand the impact—or lack of impact—of particular transactions, other events and conditions on the entity's financial position and financial performance.[5] In making these materiality judgements, an entity considers that qualitative factors might indicate that such disclosures are necessary because their absence could reasonably be expected to influence decisions made by the primary users of the entity's financial statements, even when there is no quantitative effect on that entity's financial position or financial performance.

[5] We note that in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* the ISSB refers to financial effects rather than impacts on the entity's financial position and financial performance.

30. This example was developed to respond to stakeholder concerns about a perceived disconnect between information about climate-related risks disclosed in the financial statements and information disclosed in an entity's general purpose financial report outside the financial statements. Stakeholders observed extensive discussion about climate-related strategy, risks and targets outside the financial statements, but either:

    (a) no reference to climate-related matters in the financial statements; or

    (b) only a statement in the financial statements that the effect of climate-related matters is immaterial without discussion of the reason for that conclusion.

31. These situations may arise because of a focus on quantitative rather than qualitative factors in assessing the materiality of information. Example K of IFRS Practice Statement 2 *Making Materiality Judgements* illustrates the influence of external qualitative factors on materiality judgements. Example 1 builds on Example K by illustrating how qualitative factors might be applied to a climate-related scenario to assess whether information is material. This example also illustrates—similar to Example C of IFRS Practice Statement 2—that, applying paragraph 31 of IAS 1, materiality judgements might lead to an entity disclosing additional information in its financial statements. This additional information includes the reasons for a lack of quantitative effect if users might not otherwise understand the impact—or lack of impact—of the entity's climate-related transition plan on its financial position and financial performance.

Example 2—Materiality judgements that do not lead to additional disclosures

32. The objective of this example is to illustrate when materiality judgements do not lead to the disclosure of additional information in the financial statements. This example has been developed to help address concerns that the consideration of qualitative factors (as illustrated in example 1) could lead to excessive disclosures.

33. Similar to example 1, an entity considers qualitative factors in assessing whether information is material—and requires disclosures in the financial statements—even if

there is no or little quantitative effect on the entity's financial position and financial performance.

Disclosures about assumptions and other sources of estimation uncertainty

Applying disclosure requirements about assumptions[6]

34. Examples 3–7 in Agenda Paper 14B illustrate how applying the requirements in IFRS Accounting Standards would result in an entity disclosing information about climate-related and other assumptions. These examples illustrate the application of the following requirements:

    (a) the specific disclosure requirements in the IFRS Accounting Standard that is applicable to the transaction, other event or condition;

    (b) the general disclosure requirements about assumptions in IAS 1; and

    (c) the overarching requirement in paragraph 31 of IAS 1 for an entity to consider whether providing additional disclosures—beyond those specifically required by IFRS Accounting Standards—is necessary.

Specific disclosure requirements in IFRS Accounting Standards

Example 3—Value in use calculation and disclosures

35. The objective of this example is to illustrate how applying the disclosure requirements in IAS 36 *Impairment of Assets* could result in an entity disclosing information about the climate-related assumptions it uses to determine the recoverable amounts of assets. In particular, the example illustrates the disclosure of assumptions about the costs the entity expects to incur to acquire allowances for greenhouse gas emissions (emission allowance costs).

[6] For simplicity, we use the term 'assumptions' in the following paragraphs to refer to both (a) assumptions an entity makes about the future, and (b) other major sources of estimation uncertainty at the end of the reporting period, as described in paragraph 125 of IAS 1.

36. The example illustrates the disclosure of assumptions about emission allowance costs because these are often given as an example of assumptions about which information would be material and because such costs might be relevant for entities operating in various industries which are subject to greenhouse gas emission regulations.

37. The example illustrates the type of information entities might be required to disclose about such assumptions, including information related to the sensitivity of the recoverable amount to a key assumption required by paragraph 134(f) of IAS 36.

Example 6—Credit risk disclosures

38. The objective of this example is to illustrate how applying the disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* could result in an entity disclosing information about the effects of climate-related risks on its credit risk exposures and credit risk management practices, as well as information about how these practices relate to the recognition and measurement of expected credit losses (ECL).

39. The example illustrates how customers' exposures to climate-related risks could affect the credit risk associated with loans to these customers. It illustrates some of the applicable disclosure requirements in IFRS 7, emphasising aspects that could be of particular relevance to disclosures about how these risks might affect the recognition and measurement of ECL and concentrations of climate-related risk.

40. Finally, the example lists a few factors an entity would consider in assessing the materiality of information about how climate-related risks affect credit risk and the measurement of ECL. An entity's exposure to credit risk is affected by many different risk factors, but specific information about the effects of particular risk factors might be material in some circumstances.

Example 7—Disclosures about decommissioning and restoration provisions

41. The objective of this example is to illustrate how applying the disclosure requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* results in an entity disclosing information about the entity's plant decommissioning and site restoration

obligations. This information includes an indication of the uncertainties about the amount and timing of the outflows of economic benefits and the major assumptions made concerning future events.

42. In particular, the example addresses a situation in which an entity has not included the costs required to settle its obligations in the measurement of the provision. The entity did so on the assumption that it will continue to maintain and operate the facilities for an extremely long time, such that those costs will be settled so far into the future that, when discounted to their present value, their effect on the measure of the provision is immaterial. The example illustrates that, applying the requirements in paragraph 85 of IAS 37, an entity would disclose material information about these obligations even if the effect of the costs in the measure of the provision is immaterial. For example, information about the uncertainties around the amount and timing of outflows could still be material because of factors such as the risk that the entity will be required to settle the obligations earlier than expected.

43. Our work on this project indicates that information about the effects of climate-related uncertainties on the recognition and measurement of plant decommissioning and site restoration provisions—particularly in situations in which the costs of some obligations have not been included in the measurement of these provisions—could be material.

General disclosure requirements about assumptions and sources of estimation uncertainty

Example 4—Disclosure of assumptions and other sources of estimation uncertainty

44. The objective of this example is to illustrate how applying paragraphs 125–133 of IAS 1 could result in an entity disclosing information about climate-related assumptions it used in measuring the recoverable amount of a cash-generating unit (CGU) even when the specific disclosure requirements in IAS 36 do not apply.

45. In particular, the example illustrates how an entity determines whether an assumption has a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year by considering four factors:

    (a) the magnitude of the CGU's carrying amount;

    (b) the subjectivity and complexity of the judgements management made in determining the assumptions;

    (c) the risk that new information or new developments in the next financial year may result in changes in the assumptions; and

    (d) the sensitivity of the carrying amount to changes in the assumptions.

46. During our work on this project, we have identified that some stakeholders might be interpreting the requirement in paragraph 125 of IAS 1 as capturing only assumptions about uncertainties that will be resolved (or 'crystallise') within the next financial year. In accordance with this view, assumptions about uncertainties that will be resolved after the end of the next financial year are never in the scope of paragraph 125.

47. In our view, paragraph 125 of IAS 1 also applies to assumptions about uncertainties that will be resolved after the end of the next financial year if there is a significant risk that a change in such assumptions within the next financial year—regardless of the time horizon to which the assumptions relates—would result in a material adjustment to the carrying amount of assets or liabilities. Accordingly, paragraph 125 of IAS 1 could also result in disclosure about medium- and long-term assumptions.

48. The example illustrates that paragraph 125 of IAS 1 applies to assumptions about uncertainties that will *not* be resolved within the next financial year if revisions to these assumptions within the next financial year could result in a material adjustment. We think this illustration—together with the explanations included in the example—would contribute to a better understanding and application of the requirement in paragraph 125 of IAS 1. We expect this might help entities assess whether to disclose

information about climate-related and other assumptions, thereby helping address some of the concerns identified as part of this project.

49. In addition to illustrating how an entity applies paragraph 125 of IAS 1 to identify *which* assumptions to disclose information about, the example also explains how an entity applies paragraph 129 of IAS 1 to determine *what* information to disclose about those assumptions. The example explains that:

(a) an entity is required to disclose information that meets the objective in paragraph 129—namely, to present the disclosures in a manner that helps users of financial statements to understand the judgements that management made about the future and about other sources of estimation uncertainty.

(b) the entity determines the nature and extent of the information it provides to meet that objective. This might require the entity to disclose qualitative and quantitative information about the assumptions.

50. We think the articulation above could also contribute to a better understanding of the requirements in IAS 1—and thereby improve the information entities provide about climate-related and other assumptions—by emphasising the need to consider the nature and extent of information necessary to enable users of financial statements to understand the assumptions. The example is also explicit about the need to consider whether to disclose quantitative information.

Overarching disclosure requirement

Example 5—Disclosure of additional information

51. The objective of this example is to illustrate how applying paragraph 31 of IAS 1 could result in an entity disclosing information about assumptions when:

(a) the requirement in paragraph 125 of IAS 1 does not apply; but

(b) additional disclosure is necessary to enable users of financial statements to understand the impact of transactions, other events and conditions on an entity's financial position and financial performance.

52. The example describes a situation in which disclosing information about an assumption the entity has made about the effective date of announced regulations is necessary to enable users to understand the impact of the regulation on the carrying amount of deferred tax assets. The assumption does not have a significant risk of resulting in a material adjustment to the carrying amount of these deferred tax assets within the next financial year. However, the assumption is about a highly uncertain future event and, had the entity made a different assumption, that would have resulted in a write-down of the deferred tax asset. The entity concludes that disclosing information about the assumption is necessary to enable users of financial statements to understand the effects of the announced regulation and that such information is material.

Aggregation and disaggregation

Example 8—Disclosure of disaggregated information

53. The objective of this example is to illustrate how applying the newly developed principles of aggregation and disaggregation in the forthcoming IFRS 18 *Presentation and Disclosure in Financial Statements* may result in an entity disaggregating information it provides about a class of property, plant and equipment (PP&E) on the basis of their dissimilar climate-related risk characteristics. Our work on this project indicates information about PP&E that is exposed to climate-related risks could be material to users of financial statements.[7]

54. Although the example illustrates the application of the principles in IFRS 18, an entity would also disclose disaggregated information if it concludes that doing so would result in material information applying the requirements in IAS 1.

[7] We note that paragraph 29 of IFRS S2 *Climate-related Disclosures* requires an entity to disclose information about the amount and percentage of assets or business activities that are vulnerable to climate-related transition risks and climate-related physical risks.

Vehicle for the examples

55. We considered what would be the most helpful vehicle for communicating the examples to stakeholders. The three options we considered were:

    (a) *educational materials*—the examples could be published as educational materials. For example, they could be added as an appendix to the educational material *Effects of climate-related matters on financial statements*.

    (b) *illustrative examples*—the examples could be included in the Illustrative Examples accompanying IFRS Accounting Standards.

    (c) *incorporating into IFRS Accounting Standards*—the examples would be incorporated directly into the applicable IFRS Accounting Standards after the requirements to which they relate.

56. Paragraphs 57–65 explain considerations applicable to each of those options. These considerations include some of the feedback we received during our outreach on developing the examples.

Considerations for each vehicle option

Educational materials

57. Publishing the examples as educational materials would allow the IASB to make the examples available faster than the other vehicles and allow slightly more flexibility in the format and content of the examples.

58. However, some stakeholders have said that educational materials are not as easily accessible or enforceable as the other vehicle options and that some stakeholders might not become aware of them.[8]

[8] The Climate-related and Other Uncertainties in the Financial Statements project page now provides a central source for all educational materials related to this project. However, we think such educational materials are still not as easily accessible as examples included as illustrative examples or incorporated into IFRS Accounting Standards.

Illustrative examples

59. Including the examples as part of the Illustrative Examples accompanying IFRS Accounting Standards would make them easily accessible and placed together with other accompanying guidance. They would be available in our bound volumes and the IFRS Accounting Standards Navigator on our website.

60. Some stakeholders have also told us that they are aware of, and refer to, illustrative examples when applying IFRS Accounting Standards and that enforcers would find these examples, if included as illustrative examples, helpful in supporting their enforcement activities.

61. If the IASB decides to include the examples as illustrative examples, they would be exposed for comment and therefore benefit from consultation with stakeholders. However, that also means that the examples would take longer to finalise than if they were published as educational materials. The format and content of illustrative examples are not quite as flexible as educational materials but can still include more detailed explanations than are usually included in examples incorporated into IFRS Accounting Standards.

62. However, some jurisdictions do not endorse or translate accompanying guidance to IFRS Accounting Standards and some stakeholders consider illustrative examples to be more difficult to enforce than if the examples were incorporated into the Standards.

Incorporating into IFRS Accounting Standards

63. Incorporating the examples into the applicable IFRS Accounting Standards would make them the most accessible to stakeholders. The examples would be part of the requirements in IFRS Accounting Standards that are endorsed and translated by jurisdictions and placed next to the requirements to which they relate. For example, some examples are incorporated in Appendix B (application guidance) to IFRS 9

Financial Instruments and IFRS 10 *Consolidated Financial Statements* and in IAS 12 *Income Taxes*.[9]

64. Like illustrative examples, the IASB would benefit from consultation. This option would also increase the ease of enforcement because the content of examples included in IFRS Accounting Standards has the same status as the requirements themselves.

65. However, incorporating illustrative examples into IFRS Accounting Standards might require the examples to be simplified or shortened such that their level of detail is not disproportionate in the context of the Standards.

Our view

66. Our view is that the IASB should include the examples as illustrative examples accompanying IFRS Accounting Standards. We think this option offers the best balance between accessibility, enforceability, consultation and flexibility in content and format. Feedback we received from outreach meetings with stakeholders and consultative groups also suggests that this is the preferred vehicle for the majority of these stakeholders.

67. The staff notes that this is an area where the considerations may differ between the IASB and ISSB in making decisions about the form of materials to be developed. The ISSB has been developing educational materials to support the implementation of IFRS S1 and IFRS S2 including, for example, educational materials illustrating the nature and social aspects of climate-related information.[10] We understand that a consideration for the ISSB is that entities are in the process of implementing IFRS S1 and IFRS S2 for the first time. Therefore, practice is not yet developed and making the examples available expeditiously is particularly important.

[9] See, for example, the examples after paragraph B4.1.13 of IFRS 9, paragraph B13 of IFRS 10 and paragraph 51C of IAS 12.
[10] December 2023 Educational material: Nature and social aspects of climate-related risks and opportunities.

68. In contrast, the IASB is at a different stage. Specifically, the IASB seeks to address application challenges with Standards that have been applied for a long time. We have already published educational materials since 2019 about the effects of climate-related and other uncertainties in the financial statements. While we have observed improvements in practice, we think that, at this stage, other vehicles might be more effective.

69. In addition to including the examples in the Illustrative Examples accompanying each applicable IFRS Accounting Standards, we think the IASB should, upon finalisation, also group all the examples and publish them as part of a single document where the examples could be reviewed as a package, making it easier for stakeholders to identify the connections between them.

Questions for the IASB

Questions for the IASB
1. Do you have any comments on our preliminary views on: (a) the overall considerations in developing the examples? (b) the objective and rationale for the examples? (c) the vehicle for the examples?

Appendix A—Feedback from consultative groups

A1. This appendix summarises feedback on the project direction and the development of examples from members of:

(a) the Capital Markets Advisory Committee (CMAC), at their October 2023 meeting;

(b) the Global Preparers Forum (GPF), at their November 2023 meeting; and

(c) the Accounting Standards Advisory Forum (ASAF), at their December 2023 meeting.

Feedback from CMAC members

A2. We obtained feedback from CMAC members on the direction of the project and whether and how disclosures about assumptions, judgements and estimates could be improved. The materials for the meeting are available on the meeting page.

A3. Most CMAC members generally supported the direction of the project and said that they would benefit from more detailed information about key assumptions, judgements and estimates used in preparing financial statements. Some CMAC members said that better information about what companies have considered in performing impairment testing is needed. However, some CMAC members also acknowledged that there might be challenges for preparers in deciding what information should be disclosed.

A4. Some CMAC members said that it is sometimes unclear whether the assumptions used in preparing sustainability-related financial disclosures and financial statement disclosures are consistent. These CMAC members said that additional information to help users of financial statements connect these disclosures would be helpful.

Feedback from GPF members

A5. We updated GPF members on the project and asked if they had any comments on the direction of the project. The materials for the meeting are available on the meeting page.

A6. GPF members who spoke generally supported the direction of the project. Many of these members were not in favour of standard-setting. However, they supported the IASB developing climate-specific examples to respond to concerns of some users of financial statements about reporting the effects of climate-related uncertainties in the financial statements. One GPF member suggested including these as illustrative examples in the IASB's bound volumes to increase visibility.

A7. One GPF member said that it would be useful for the IFRS Foundation to publish educational materials about the role of financial statements to help users and other stakeholders better understand what information is included in financial statements and what information is included in sustainability-related financial disclosures.

Feedback from ASAF members

A8. We obtained feedback from ASAF members on the development of materiality examples and other examples. The materials for the meeting are available on the meeting page.

Materiality examples

A9. Most ASAF members said materiality examples would help entities apply IFRS Accounting Standards in reporting the effects of climate-related and other uncertainties in the financial statements.

A10. Many ASAF members said that the usefulness of Examples C and K in IFRS Practice Statement 2 *Making Materiality Judgements* (Practice Statement 2) is limited because Practice Statement 2 has not been adopted in some jurisdictions and has not been translated into some languages. Many members also said that many of their stakeholders are not familiar with Practice Statement 2.

A11. Most ASAF members who commented on Example C said it is a useful illustration of the requirement in paragraph 31 of IAS 1 and would be helpful to entities making materiality judgements about climate-related uncertainties. One ASAF member said it would be helpful for an example based on Example C to illustrate scenarios other than the potential enactment of laws and regulations.

A12. Most ASAF members who commented on Example K said that the example provides useful information about how entities should consider qualitative factors when assessing whether information is material. However, many of these members expressed concerns that such an example could lead to disclosure of immaterial information in the financial statements.

A13. In developing the examples, a few ASAF members suggested that the IASB consider the extent to which entities should reflect the financial effects of short, medium and long term uncertainties in the financial statements. One ASAF member suggested that the IASB consider the extent to which entities should disclose mitigating activities, such as insurance policies held.

A14. Most ASAF members said that it would be most helpful to include materiality examples in IFRS Accounting Standards or as illustrative examples accompanying Accounting Standards. A few ASAF members suggested issuing the examples as educational material first and as illustrative examples accompanying Accounting Standards later to allow for a faster response from the IASB.

Other examples

A15. Most ASAF members said examples (other than materiality examples) would help entities apply IFRS Accounting Standards in reporting the effects of climate-related and other uncertainties.

A16. ASAF members commented on the areas of IFRS Accounting Standards and fact patterns they think should be illustrated through examples. ASAF members said that it would be helpful to illustrate how entities reflect climate-related uncertainties in various accounting areas, including:

(a) impairment tests applying IAS 36 *Impairment of Assets*;

(b) expected credit losses applying IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*;

(c) contingent liabilities and provisions applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*;

(d) fair value measurement applying IFRS 13 *Fair Value Measurement*; and

(e) connectivity between financial statements and other general purpose financial reports.

A17. Most ASAF members expressed a preference for examples that illustrate the application of specific requirements (stand-alone examples) instead of examples that walk through requirements across multiple Standards (walk-through examples). However, some ASAF members said walk-through examples could be developed as a second step after the IASB develops stand-alone examples.

A18. ASAF members generally expressed a preference for the IASB to include such examples in the form of illustrative examples accompanying IFRS Accounting Standards or to incorporate them into the Standards instead of publishing them as educational materials.