
Accounting Standards Advisory Forum meeting

Date	March 2024
Project	Climate-related and Other Uncertainties in the Financial Statements
Topic	Cover paper
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Accounting Standards Advisory Forum, March 2024, Agenda Paper 7A

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

Purpose of the meeting

1. The objective of this project is to explore targeted actions to improve the reporting of climate-related and other uncertainties in the financial statements (see Appendix A for background). In [September 2023](#), the IASB decided to explore a portfolio of actions to help achieve this objective. These actions are described in Appendix B.
2. The purpose of this meeting is to discuss the staff's work on two of the actions described in Appendix B:

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- (a) explore developing examples to illustrate how to apply requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in the financial statements. For this action:
 - (i) Agenda Paper 14A *Development of examples* explains the approach we took to develop the examples. The paper also explains our view on the best vehicle for these examples.
 - (ii) Agenda Paper 14B *Staff draft examples* contains the draft staff examples.
 - (b) explore possible standard-setting to clarify or enhance the requirements in IFRS Accounting Standards in relation to disclosure of information about estimates (see paragraphs 6–8).
3. In exploring these actions, we have aimed to facilitate the provision of connected information across an entity’s general purpose financial reports, including connections between an entity’s financial statements and its sustainability-related financial disclosures prepared, for example, applying IFRS Sustainability Disclosure Standards. To support us in this work, the IASB project team includes technical staff from the International Sustainability Standards Board (ISSB) to provide technical input on climate-related matters and to ensure that the work of both boards is connected.
 4. We are not asking the IASB to make any decisions at this meeting. However, comments from IASB members on all aspects discussed in these papers will help us develop our recommendations for the direction of this project.
 5. For ease of reference, the papers for this meeting refer to requirements in IAS 1 *Presentation of Financial Statements*. However, any potential actions associated with IAS 1 will be modified to conform to changes arising from the issuance of IFRS 18 *Presentation and Disclosure in Financial Statements*.

Possible standard-setting in relation to disclosure of information about estimates

6. Our work on this project showed that some users of financial statements seek to better understand how the effects of climate-related and other uncertainties have been considered in preparing the financial statements. This includes understanding how those uncertainties were reflected in estimates reported in the financial statements. To address this need for a better understanding, the IASB decided in September 2023 to explore possible targeted amendments to IFRS Accounting Standards to improve disclosures about estimates in the financial statements. Improved disclosures about estimates could also help users make connections between the financial statements and the entity's other general purpose financial reports.
7. Since the September 2023 decision, we have continued to perform research and outreach to identify areas for possible targeted amendments in relation to disclosure of information about estimates. Stakeholder views are mixed about whether standard-setting is needed. Furthermore, stakeholders that support standard-setting are sometimes unclear about what amendments are needed or ask for amendments that we think are unnecessary because there are existing requirements. Although we have developed initial ideas about possible targeted amendments, we do not have sufficient evidence at this stage to indicate that standard-setting is necessary. Instead, we think that formal feedback from stakeholders is needed to determine whether and, if so, what standard-setting would improve disclosures in a cost-beneficial manner.
8. To obtain formal feedback, we think the IASB could use the exposure draft we expect to recommend publishing to seek comments on the examples we have developed (see paragraph 66–69 in Agenda Paper 14A). Specifically, if the IASB decides to publish such an exposure draft, it could include a question about:
 - (a) whether and, if so, why targeted amendments to IFRS Accounting Standards are needed to improve disclosures about estimates in the financial statements;
and

- (b) what targeted amendments would improve disclosures in a cost-beneficial manner.

Question for the IASB

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1. Do IASB members have any questions or comments on the status of and next steps for the climate-related and other uncertainties in the financial statements project?

Appendix A—Background to the project

Origins of the project

- A1. In March 2023, the International Accounting Standards Board (IASB) added to its work plan a project to explore whether and how financial statements can better communicate information about climate-related risks.
- A2. The IASB decided to add the project to its work plan because of strong demand from respondents to its [Third Agenda Consultation](#) for better information about climate-related risks in the financial statements—in particular, stakeholders expressed concerns that such information was insufficient or appears to be inconsistent (not connected) with information reported elsewhere by an entity.

Objective of the project

- A3. The objective of this project is to explore targeted actions to improve the reporting of climate-related and other uncertainties in the financial statements.
- A4. This project will not:
- (a) create a new IFRS Accounting Standard on climate.
 - (b) change the objective of financial statements.
 - (c) change the *Conceptual Framework for Financial Reporting* definitions of assets and liabilities.
 - (d) undertake work on the accounting for pollutant pricing mechanisms. A project on Pollutant Pricing Mechanisms is on the IASB's [reserve list](#) of projects.

The IASB's discussions and decisions

- A5. At its [meeting](#) in September 2023, the IASB discussed the findings from the staff's work to understand the nature and causes of stakeholder concerns about the reporting of information about climate-related and other uncertainties in the financial statements.
- A6. In particular, the staff's work showed that:
- (a) there are 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 judgments underlying estimates that reflect those risks in the financial statements.
 - (b) some user information needs go beyond the objective of financial statements and may be better satisfied through other disclosures, such as sustainability-related financial disclosures prepared applying the ISSB's Standards.
 - (c) IFRS Accounting Standards are generally sufficient in requiring useful information for users about climate-related risks in the financial statements. However, there may be challenges in the application of the Standards.
 - (d) stakeholders seek timely action to help improve the reporting of information about climate-related and other uncertainties in the financial statements.
 - (e) the reporting landscape is evolving, particularly with developments in sustainability reporting, including the work of the ISSB. As entities develop sustainability-related financial disclosures, the process underlying the development of those disclosures may better inform and improve compliance with IFRS Accounting Standards.

- A7. Having discussed the staff’s work, the IASB decided to explore a portfolio of actions to help address the concerns raised. Appendix B sets out all the actions, their status and next steps.

Appendix B—Status and next steps

B1. This table sets out the actions underway to help address concerns about the reporting of climate-related and other uncertainties in the financial statements, their status and next steps.

Action	Description	Status and next steps
IASB decisions		
<p>Explore developing examples to illustrate how to apply requirements in IFRS Accounting Standards to reporting the effects of climate-related and other uncertainties in the financial statements</p>	<p>The staff has developed examples to help address concerns from users that information about climate-related risks and other uncertainties in the financial statements is sometimes insufficient or appears to be inconsistent with other information provided by an entity.</p> <p>These concerns relate mostly to the application of disclosure requirements in IFRS Accounting Standards.</p> <p>Therefore, the staff’s 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:</p> <ul style="list-style-type: none"> • materiality judgements; • assumptions and other sources of estimation uncertainty; and • aggregation and disaggregation. 	<p>The development of the examples will be discussed at this meeting:</p> <ul style="list-style-type: none"> • Agenda Paper 14A explains the approach that we took to develop the examples. • Agenda Paper 14B contains the draft staff examples. <p>The staff will ask the IASB to make decisions about the examples at a future meeting.</p>

Action	Description	Status and next steps
	<p>The examples do not add to or change the requirements in IFRS Accounting Standards.</p>	
<p>Explore clarifying or enhancing requirements in IFRS Accounting Standards in relation to disclosure of information about estimates</p>	<p>Some users seek to better understand how the effects of climate-related and other uncertainties have been considered in preparing the financial statements. This includes understanding how those uncertainties were reflected in estimates reported in the financial statements.</p> <p>To address this need for a better understanding, the IASB decided in September 2023 to explore possible targeted amendments to IFRS Accounting Standards to improve disclosures about estimates in the financial statements.</p> <p>Improved disclosures about estimates could also help users make connections between the financial statements and the entity’s other general purpose financial reports.</p>	<p>See paragraphs 6–8 of this paper.</p> <p>The staff will ask the IASB to make a decision about next steps at a future meeting.</p>
<p>Consult with the IFRS Interpretations Committee (Committee) on questions related to the reflection of climate-related risks in the application of IAS 36 <i>Impairment of Assets</i></p>	<p>The effects of climate-related risks may result in high variability in future cash flows over an extended time horizon. Some stakeholders said this may create challenges in the application of the requirements in IAS 36 when an entity tests an asset for impairment. In particular, the staff’s work highlighted concerns that such variability over an extended time horizon (for example, beyond five years) may not be factored into the calculation of value in use, potentially due to perceived prohibitions in IAS 36. Input</p>	<p>Completed.</p> <p>The Committee discussed this matter at its November 2023 meeting.</p> <p>The Committee’s discussion suggests entities do consider and reflect variability over an extended time horizon in applying IAS 36 and, therefore, there is no need for</p>

Action	Description	Status and next steps
	from Committee members was intended to help the IASB understand practice in this area and whether there is diversity in the way entities understand and apply the requirements in IAS 36.	standard-setting or explanatory material through an agenda decision.
Refer to the Committee a question about the application of IAS 37 Provisions, Contingent Liabilities and Contingent Assets	<p>The staff's work identified that there may be confusion in practice about when to recognise a liability applying IAS 37 for climate-related commitments, such as commitments to reduce greenhouse gas emissions by a specified date and commitments that involve uncertain amount or timing of outflows.</p> <p>The IASB decided to ask the Committee to clarify the application of IAS 37 to this question. A Committee agenda decision, with explanatory material, could explain the requirements of IAS 37 and help alleviate confusion in a timely manner.</p>	<p>Soon after the IASB's decision, the Committee received a submission seeking clarification on a similar matter. The receipt of that submission removed the need for a referral from the IASB.</p> <p>The Committee discussed the submission in November 2023 and published a tentative agenda decision in December 2023 with a comment period ending in February 2024.</p> <p>The Committee decided to finalise the agenda decision at its March 2024 meeting.</p> <p>The IASB will be asked whether it objects to the agenda decision at its April 2024 meeting.</p>
Other IASB projects		

Action	Description	Status and next steps
Primary Financial Statements (IFRS 18)	<p>Some stakeholders seek to better understand the extent to which an entity’s assets, liabilities, equity, income, expenses and cash flows are exposed to specific risks. For example, some stakeholders want to understand the extent to which an entity’s assets are located in geographies subject to significant physical climate-related risks.</p> <p>IFRS 18 will strengthen requirements around aggregation and disaggregation of information in the financial statements, which might improve the information entities provide about items subject to specific risks.</p>	Final IFRS Accounting Standard expected April 2024.
Amendments to the Classification and Measurement of Financial Instruments	<p>Stakeholders have said that the global market for ESG-linked financial assets is growing rapidly and have requested clarification of the requirements to assess the contractual cash flow characteristics of these financial assets to determine whether to measure those assets at fair value or amortised cost.</p> <p>This project will provide additional application guidance and require additional disclosures to help users better understand the terms of the ESG-linked features.</p>	Final amendments expected May 2024.
Power Purchase Agreements	<p>Entities are increasingly entering into power purchase agreements for the procurement of renewable energy. The use of renewable energy is part of some entities’ commitment to mitigate the effects of climate change and</p>	The IASB will continue to discuss potential amendments to IFRS 9 <i>Financial Instruments</i> at its March 2023 meeting.

Action	Description	Status and next steps
	<p>to decarbonise their production processes and products. Stakeholders have expressed concerns that, due to the unique features of power purchase agreements for renewable energy, the application of IFRS Accounting Standards may not result in useful information for users.</p> <p>This project is exploring whether narrow-scope amendments could be made to IFRS 9 to improve information for users about power purchase agreements.</p>	
<p>Post-implementation Review of IFRS 9—Impairment</p>	<p>Through this project, some stakeholders have made observations about the incorporation of climate-related risks in the measurement of expected credit losses.</p> <p>A post implementation review is not a standard-setting project—the objective of a post implementation review is to assess whether a new IFRS Accounting Standard is working as intended. However, based on findings from the review, the IASB may undertake standard-setting or develop educational materials.</p>	<p>Project Summary expected Q3 2024. Any work arising from the PIR would start thereafter.</p>
<p>Other actions</p>		
<p>Article on the role of financial statements</p>	<p>To help address the expectations gap described in paragraph A6(b) of this paper, we are exploring development of an article about the objective of financial statements, their audience, their boundaries and how they can be complemented by sustainability-related financial</p>	<p>Article expected Q2 2024.</p>

Action	Description	Status and next steps
	disclosures, such as those provided applying ISSB Standards.	
Improved accessibility	To improve awareness of educational materials about how existing IFRS Accounting Standards apply to the reporting of climate-related and other uncertainties in the financial statements, we have created a central source of information on our website . This webpage includes translations of educational materials into different languages (more to be posted as they become available), as well as information about other work in progress related to this project.	Completed.