
Emerging Economies Group meeting

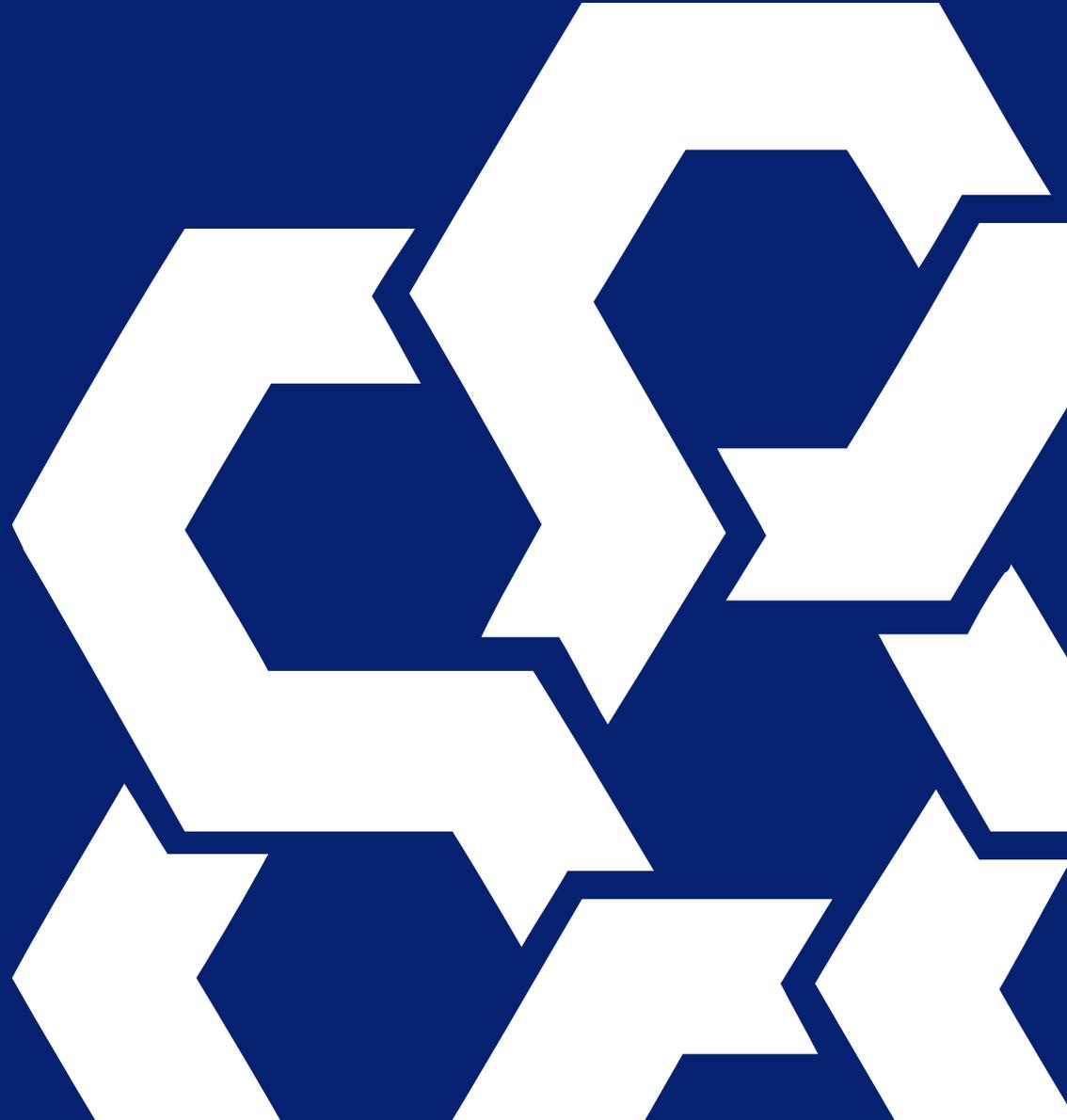
Date	May 2024
Project	Climate-related and Other Uncertainties in the Financial Statements
Topic	Project update
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This paper has been prepared for discussion at a public meeting of the Emerging Economies Group (EEG). This paper does not represent the views of the International Accounting Standards Board (IASB) or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

Purpose of the session

- To provide EEG members with:
 - an update on the project
 - an opportunity to ask questions and share developments in their jurisdictions.

Project Update



Project overview

Project objective

Explore **targeted** actions to improve the reporting of **climate-related and other uncertainties** in the **financial statements**

[Link to project page](#)

March 2023

April–August 2023

September 2023

October 2023–
March 2024

April 2024



Project starts
(slides 5–6)



**Research, outreach
and analysis**
(slides 7–8)



Decisions
(slide 9)



**Further outreach
and analysis**



**Decisions and
status of actions**
(slides 10–12)

Next step

The IASB expects to publish an exposure draft in Q3 2024

Origins of the project



- In the IASB's Third Agenda Consultation, respondents attributed **high-priority** to a project on climate-related risks in the financial statements
- Concerns that information about climate-related risks in financial statements is:
 - **insufficient**
 - **inconsistent** with information reported elsewhere by the company

Focus of the project



- **Targeted actions** such as:
 - examples and educational materials.
 - targeted amendments to IFRS Accounting Standards.



- This project will **not** seek to:
 - develop an Accounting Standard on climate-related risks;
 - broaden the objective of financial statements;
 - change the definitions of assets and liabilities; or
 - develop accounting requirements for pollutant pricing mechanisms.¹

¹ *Pollutant Pricing Mechanisms* is on a reserve list of projects that may be added to the IASB's work plan if stakeholders and the IASB have sufficient capacity.

Summary of work–August 2023



- **Engaged** with the IASB’s consultative bodies and other stakeholders.



- **Reviewed** academic research and other publications.



- **Analysed** IFRS Accounting Standards for:
 - potential gaps;
 - unclear requirements; or
 - limitations that may impede reporting on the effects of climate-related risks in the financial statements.

Summary of findings—August 2023

Concerns

- **Insufficient** information about the effects of climate-related risks in the financial statements
- **Inconsistencies** between the information about climate-related risks reported in the financial statements and elsewhere

Standards generally sufficient

- Investor information needs might go beyond objective of financial statements
 - **Some information needs may be satisfied by sustainability-related financial disclosures**
- IFRS Accounting Standards generally sufficient in requiring useful information about effects of climate-related and other risks
 - However, there may be **challenges in application**

Evolving area

- Some **improvements** in recent years
- As sustainability-related financial disclosures evolve, they may better inform and improve compliance with IFRS Accounting Standards

Decisions—September 2023 IASB meeting

Examples

Explore development of **examples** to help improve application of IFRS Accounting Standards

Other actions

Article about the role of financial statements

Translate and make more **visible** existing educational material (see slide 12) ✓

Standard-setting

Explore possible targeted amendments to improve **disclosures about estimates** in financial statements

- estimates requires significant judgment
- IASB to assess whether standard-setting is feasible and helpful
- any amendments about uncertainties generally—not specific to climate¹

Other ongoing IASB projects may also help address concerns about accounting for climate-related matters²

IFRS Interpretations Committee

Discuss:

- a submission about the recognition of liabilities for **climate-related commitments** ✓
- questions about the measurement of certain non-financial assets when testing for **impairment** ✓

✓ Completed actions

¹ Project objective has therefore been generalised to cover other uncertainties in addition to climate.

² Other projects include IFRS 18 *Presentation and Disclosure in Financial Statements*, *Power Purchase Agreements* and *Amendments to the Classification and Measurement of Financial Instruments*.

Status of actions

Actions discussed at the IASB's April 2024 meeting:

Illustrative examples

At its April 2024 meeting, the IASB decided:

- a) to provide examples to illustrate how an entity applies IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements;
- b) to include the examples as illustrative examples that would accompany IFRS Accounting Standards; and
- c) to publish an exposure draft to consult with stakeholders about the examples.

See slides 14–20 for more information.

Standard-setting on disclosure about estimates

Feedback on the exposure draft is expected to help the IASB decide whether standard-setting is needed.

Status of actions

These other actions are expected to be completed in Q2 2024:

Agenda decision on climate-related commitments

At its [March 2024 meeting](#), the Committee decided to finalise an agenda decision about how IAS 37 applies to commitments an entity makes to reduce or offset its future greenhouse gas emissions (net zero transition commitments).

[The [agenda decision](#) was published in April 2024]

Article on role of financial statements

The article is expected to be published in Q2 2024.

For status of all other workstreams see Appendix B to Agenda Paper 14 for the IASB's [April 2024 meeting](#).

Information on accounting for climate-related matters

Visit our [project page](#)

The screenshot shows the IFRS project page with a navigation bar (ABOUT US, AROUND THE WORLD, ISSUED STANDARDS, APPLYING STANDARDS, PROJECTS, NEWS & EVENTS, SERVICES, SUSTAINABILITY) and a breadcrumb trail (Home > IFRS Foundation work plan > Climate-related and Other Uncertainties in the Financial Statements). The main heading is 'Climate-related and Other Uncertainties in the Financial Statements'. Below it is a table with columns: CURRENT STAGE, ABOUT, PUBLISHED DOCUMENTS, SUPPORTING MATERIAL, CONSULTATION FEEDBACK, PROJECT HISTORY, PROJECT NEWS, MEETINGS. The 'ABOUT' section is expanded, showing 'About' and 'Related projects'.

About

The purpose of this project is to explore whether and, if so, how targeted actions could improve the reporting of financial information about climate-related and other uncertainties in the financial statements.

In the Third Agenda Consultation, stakeholders expressed a view that entities might:

- apply IFRS Accounting Standards inconsistently to the reporting of climate-related risks risks in the financial statements; and
- disclose insufficient information in the financial statements about climate-related risks.

In response to that feedback, the IASB decided to add this maintenance project to its work plan, which will aim to:

- research the nature and causes of stakeholders' concerns about about the reporting on climate-related risks; and
- consider whether and what actions might be needed.

In September 2023, after researching the nature and causes of concern related to the reporting in the financial statements on the effects of climate-related risks, the IASB decided to respond to stakeholder concerns by:

- exploring the development of educational materials and articles (see [supporting material](#));
- consulting on some matters with the IFRS Interpretations Committee;
- exploring possible illustrative examples; and
- exploring possible narrow-scope standard-setting in relation to disclosures about estimates.

To help raise awareness of requirements in IFRS Accounting Standards that can be applied to reporting on climate-related risks, translations of the IFRS Foundation's educational material on the effects of climate-related matters on financial statements will be published with other supporting materials as they become available.

This project complements the work of the International Sustainability Standards Board (ISSB), connecting the two sets of requirements for general purpose financial reporting. The IASB will consider the work of the ISSB to the extent that it applies to the financial statements.

Related projects

Amendments to the Classification and Measurement of Financial Instruments

Climate-related Disclosures

General Sustainability-related Disclosures

Post-Implementation Review of IFRS 9—Impairment

Power Purchase Agreements

Provisions—Targeted Improvements

Third Agenda Consultation

Related IFRS Standards

IAS 1 Presentation of Financial Statements

IAS 36 Impairment of Assets

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

IFRS 9 Financial Instruments

IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

IFRS S2 Climate-related Disclosures



'Full IFRS' Educational Material (July 2023)

The screenshot shows the 'Full IFRS' Educational Material page, titled 'Effects of climate-related matters on financial statements'. It includes a table of contents with sections: Introduction, Climate change is a topic in which investors and other IFRS stakeholders are increasingly interested because of its potential effect on companies' business models, cash flows, financial position and financial performance. Most industries have been, or are likely to be, affected by climate change and efforts to manage its impact. However some companies, industries and activities will be affected more than others. IFRS Accounting Standards do not refer explicitly to climate-related matters. However, companies must consider climate-related matters in applying IFRS Accounting Standards when the effect of those matters is material in the context of the financial statements taken as a whole. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of financial statements (hereafter, investors) make on the basis of those financial statements, which provide financial information about a specific company. For example, information about how management has considered climate-related matters in preparing a company's financial statements may be material with respect to the most significant judgments and estimates that management has made. The table below sets out examples illustrating when IFRS Accounting Standards may require companies to consider the effects of climate-related matters in applying the principles in a number of Standards. The list is non-exhaustive—there could be other instances where climate-related matters are relevant when applying IFRS Accounting Standards, for example those on the measurement of defined benefit obligations. Related information can be found in an [ISSB](#) by Nick Anderson, member of the International Accounting Standards Board. This educational material complements that article, adding for example specific paragraph references to IFRS requirements to assist those applying IFRS Accounting Standards. For purposes of illustration, the descriptions in the table do not always explain the relevant requirements completely. It is therefore important to refer to the requirements in the Standards when preparing financial statements. This document does not address management commentary.

Effects of climate-related matters on financial statements

1. Companies may not be able to determine whether the effect of climate-related matters is material. The [ISSB](#) by Nick Anderson includes further information on materiality judgments.

Effects of climate-related matters on financial statements | 1 June 2023 | 1

IFRS for SMEs Accounting Standard Educational Material (May 2023)

The screenshot shows the 'IFRS for SMEs Accounting Standard Educational Material' page, titled 'Effects of climate-related matters on financial statements prepared in accordance with the IFRS for SMEs Accounting Standard'. It includes a table of contents with sections: Introduction, Just as many public companies are affected by climate change and efforts to manage its impact, so are SMEs. Users of SMEs financial statements are increasingly interested in climate change because of its potential effect on companies' business models, cash flows, financial position and financial performance. Most industries have been, or are likely to be, affected by climate change and efforts to manage its impact. However, some companies, industries and activities are affected more than others. In November 2020, the IFRS Foundation published [educational material](#) to illustrate how IFRS Accounting Standards require companies to consider climate-related matters that have a material effect on the financial statements. As with IFRS Accounting Standards, the IFRS for SMEs Accounting Standard does not refer explicitly to climate-related matters. However, companies are required to consider climate-related matters in applying the IFRS for SMEs Accounting Standard when the effect of those matters is material in the context of the financial statements taken as a whole. For example, information about how management has considered climate-related matters in preparing a company's financial statements may be material with respect to the most significant judgments and estimates that management has made. Table A sets out examples illustrating when the IFRS for SMEs Accounting Standard may require companies to consider the effects of climate-related matters in applying the principles in several sections of the Standard. The list is non-exhaustive—there could be other instances in which climate-related matters are relevant when applying the IFRS for SMEs Accounting Standard, for example, in the measurement of defined benefit obligations. This table also includes references to the [Exposure Draft Third Edition of the IFRS for SMEs Accounting Standard](#) (Exposure Draft), issued in September 2022, which proposed changes to the IFRS for SMEs Accounting Standard. These references will enable companies to consider how the examples in the table might be updated in the future. The comment period on the Exposure Draft closed on 7 March 2023 and the IASB will be considering the feedback on the proposals during 2023–2024. For purposes of illustration, the descriptions in the table do not always explain the relevant requirements completely. It is therefore important to refer to the requirements in the IFRS for SMEs Accounting Standard when preparing financial statements. In addition to the specific paragraph references to requirements in the IFRS for SMEs Accounting Standard outlined in Table A, Section 3 Financial Statement Presentation contains some overarching requirements that could be relevant when considering climate-related matters. For example, paragraph 3.2 requires disclosure of additional information when compliance with the specific requirements in the IFRS for SMEs Accounting Standard is insufficient to enable financial statement users to understand the effect of particular transactions, other events and conditions on the company's financial position and financial performance. This paragraph, together with the concept of materiality in Section 2 Concepts and Pervasive Principles, requires a company to consider whether any material information is missing from its financial statements. Therefore, companies will need to consider whether to provide additional disclosures when compliance with the specific requirements in the IFRS for SMEs Accounting Standard is insufficient to enable users to understand the impact of climate-related matters on the company's financial position and financial performance. These overarching requirements may be especially relevant for companies whose financial position or financial performance is particularly affected by climate-related matters.

Effects of climate-related matters on financial statements prepared in accordance with the IFRS for SMEs Accounting Standard

1. The IFRS for SMEs Accounting Standard allows SMEs an option that do not have public accountability and public general purpose financial statements for external users.

Effects of climate-related matters on financial statements prepared in accordance with the IFRS for SMEs Accounting Standard | 1 May 2023 | 1

Translations available [here](#)

Illustrative examples



Overall considerations in developing examples

What types of uncertainties to address?

The IASB decided to generalise the project's objective to cover other uncertainties in addition to those related to climate. The examples generally illustrate the disclosure of information about climate-related uncertainties. However, the principles and requirements illustrated equally apply to other types of uncertainties.

What areas of accounting to focus on?

The examples focus on illustrating the application of the disclosure requirements in IFRS Accounting Standards. In particular, the examples address:

- a) materiality judgements;
- b) assumptions and other sources of estimation uncertainty; and
- c) aggregation and disaggregation.

Overall considerations in developing examples

How specific should the fact patterns be?

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?

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 add to or change the requirements in IFRS Accounting Standards.

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

In our view, stand-alone examples would be more effective because they could be more focused and tailored to address particular matters or requirements related to the concerns identified in this project.

Overall considerations in developing examples

How to facilitate connected general purpose financial reporting?

In developing the draft examples:

- 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.
- b) we note that the application of IFRS Accounting Standards in the fact patterns illustrated may result in disclosure of information similar to that required by IFRS Sustainability Disclosure Standards. To enable connected financial reporting, and to avoid duplicated disclosures, the Sustainability Disclosure Standards allow an entity to include information in sustainability-related financial disclosures by cross-reference (subject to specific criteria).
- c) we use the terminology used in IFRS Sustainability Disclosure Standards, including both defined and undefined terms, with the same defined or intended meaning.
- d) we use a different term when a concept covered in IFRS Sustainability Disclosure Standards does not apply in the context of financial statements.

Draft staff examples*

Example	Objective
<p>Example 1—Materiality judgements leading to additional disclosures (IAS 1)</p>	<ul style="list-style-type: none"> • To illustrate how an entity makes materiality judgements when assessing whether to provide additional disclosures beyond those specifically required by IFRS Accounting Standards when applying paragraph 31 of IAS 1. In particular, illustrating how an entity considers qualitative factors in making these materiality judgements. • 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.
<p>Example 2—Materiality judgements that do not lead to additional disclosures (IAS 1)</p>	<ul style="list-style-type: none"> • To illustrate when materiality judgements do not lead to the disclosure of additional information in the financial statements. • Developed to help address concerns that the consideration of qualitative factors (as illustrated in example 1) could lead to excessive disclosures.

* The IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024. IFRS 18 is effective for annual reporting periods beginning on or after 1 January 2027. These slides refer to the requirements that are currently effective (except for Example 8, which illustrates new requirements introduced by IFRS 18).

Draft staff examples

Example	Objective
<p>Example 3—Value in use calculation and disclosures (IAS 36)</p>	<ul style="list-style-type: none"> To illustrate how applying the disclosure requirements in IAS 36 <i>Impairment of Assets</i> could result in an entity disclosing information about the climate-related assumptions it uses to determine the recoverable amounts of assets.
<p>Example 4—Disclosure of assumptions and other sources of estimation uncertainty (IAS 1)</p>	<ul style="list-style-type: none"> 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. 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 (paragraph 125 of IAS 1).

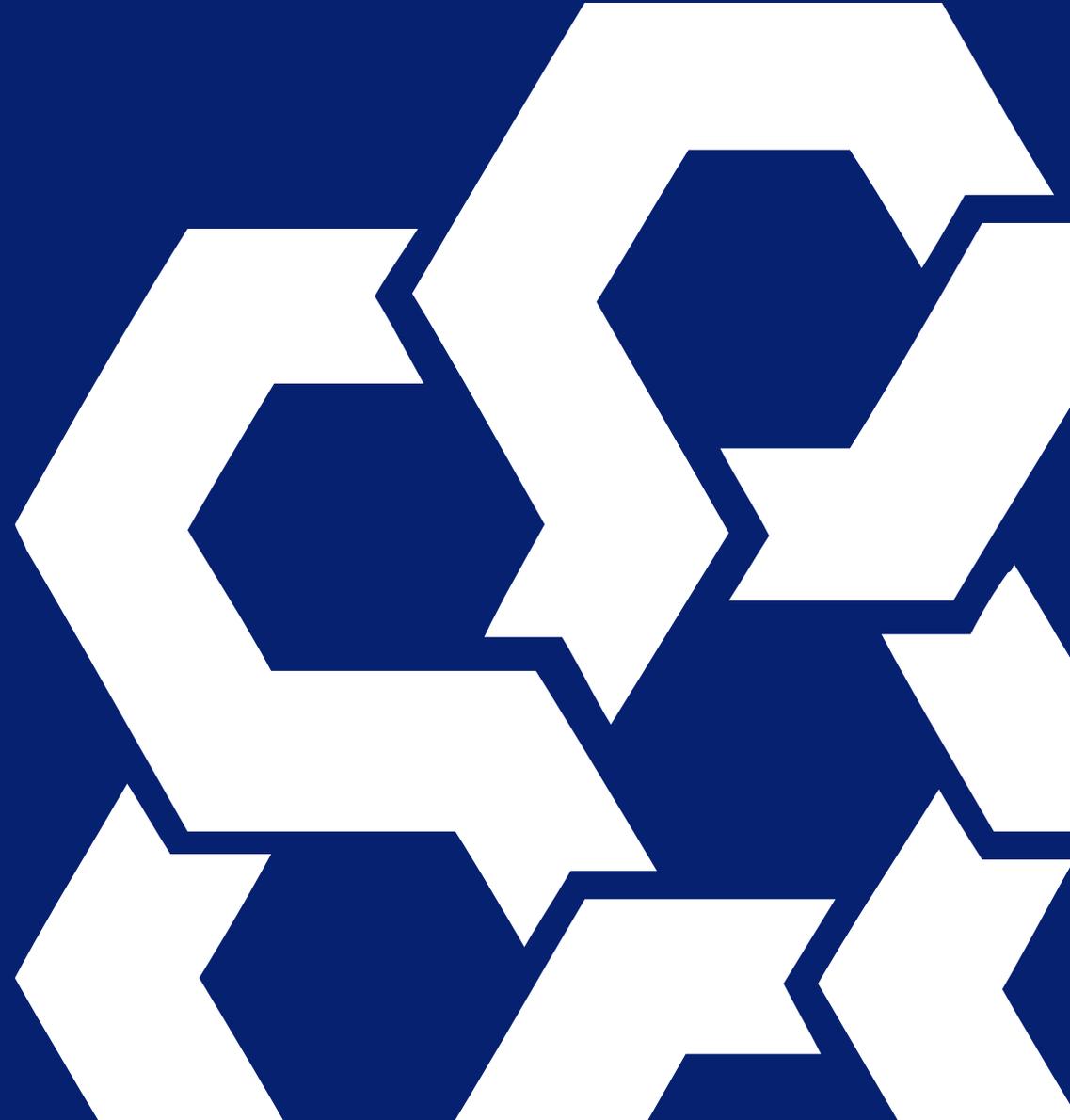
Draft staff examples

Example	Objective
<p>Example 5—Disclosure of additional information (IAS 1)</p>	<ul style="list-style-type: none"> • To illustrate how applying paragraph 31 of IAS 1 could result in an entity disclosing information about assumptions when: <ul style="list-style-type: none"> a) paragraph 125 of IAS 1 does not apply (ie when the assumption does not have a significant risk of material adjustment within the next financial year); 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.
<p>Example 6—Credit risk disclosures (IFRS 7)</p>	<ul style="list-style-type: none"> • To illustrate how applying the disclosure requirements in IFRS 7 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.

Draft staff examples

Example	Objective
Example 7—Disclosures about decommissioning and restoration provision (IAS 37)	<ul style="list-style-type: none">• To illustrate how applying the disclosure requirements in IAS 37 results in an entity disclosing information about the entity’s plant decommissioning and site restoration obligations.
Example 8—Disclosure of disaggregated information (IFRS 18)	<ul style="list-style-type: none">• To illustrate how applying the new principles of aggregation and disaggregation in the IFRS 18 may result in an entity disaggregating information it provides about a class of property, plant and equipment on the basis of their dissimilar climate-related risk characteristics.

Questions for EEG members



Questions for EEG members

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- 1** **Developments in your jurisdiction** Do you have any developments in your jurisdiction about reporting the effects of climate-related and other uncertainties in the financial statements to share?
 - 2** **Exposure Draft** Do you have questions or comments about the forthcoming Exposure Draft containing Illustrative Examples? See slide 10.
 - 3** **Other actions** Do you have questions or comments on any other actions related to this project? See slides 10–11.
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