IFRS® Accounting

Staff paper

Emerging Economies Group meeting

Date	**May 2024**
Project	**Climate-related and Other Uncertainties in the Financial Statements**
Topic	**Project update**
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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**

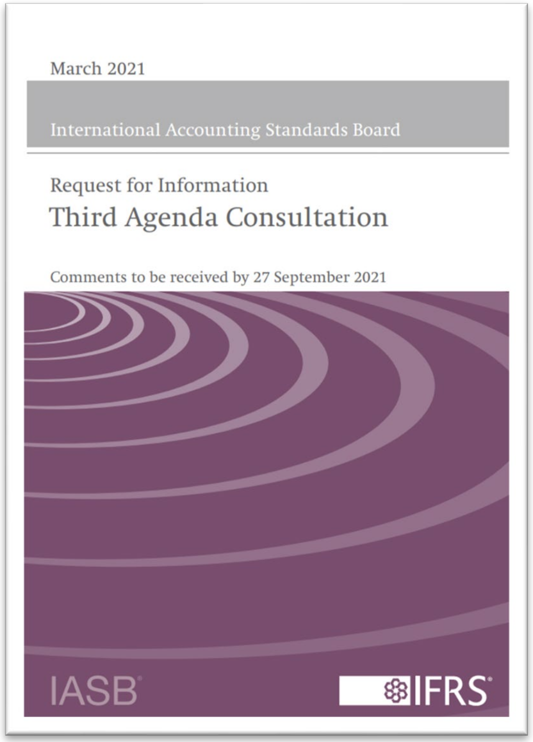
[Link to project page](#)

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


March 2021

International Accounting Standards Board

Request for Information

Third Agenda Consultation

Comments to be received by 27 September 2021

IASB

IFRS

- 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 climate[1]

Other ongoing IASB projects may also help address concerns about accounting for climate-related matters[2]

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

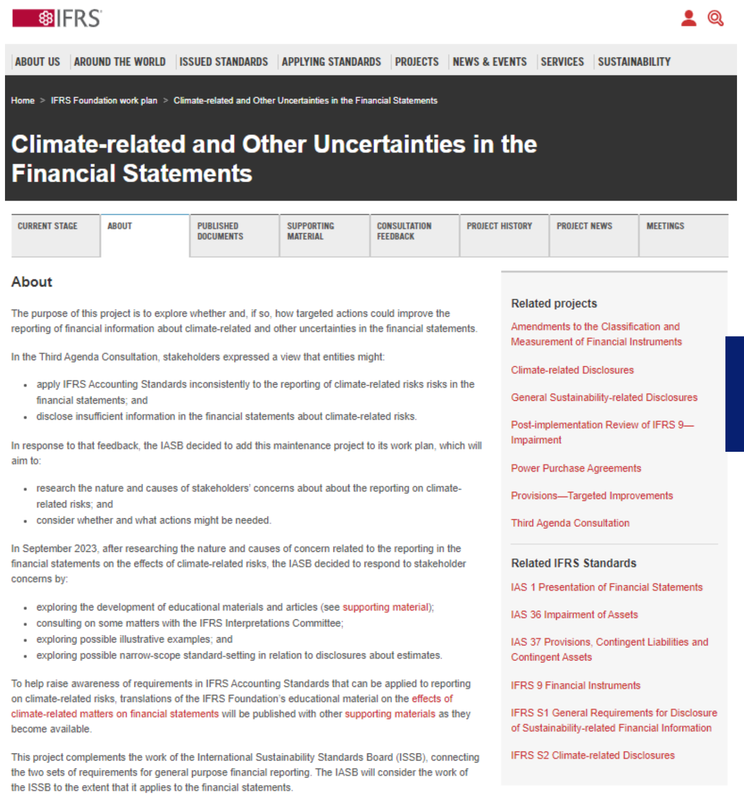
These other actions are expected to be completed in Q2 2024:

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.

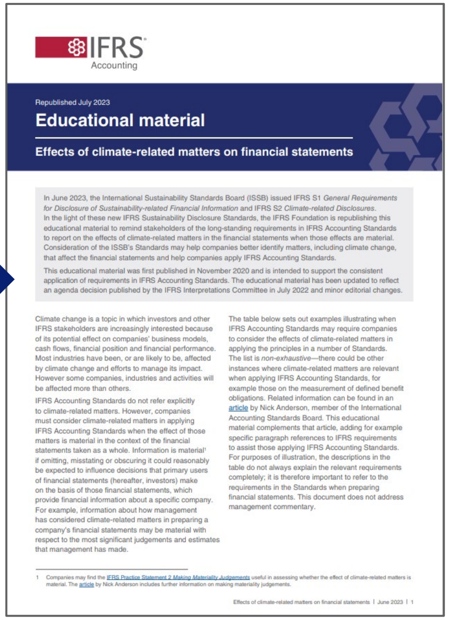
Information on accounting for climate-related matters

Visit our project page

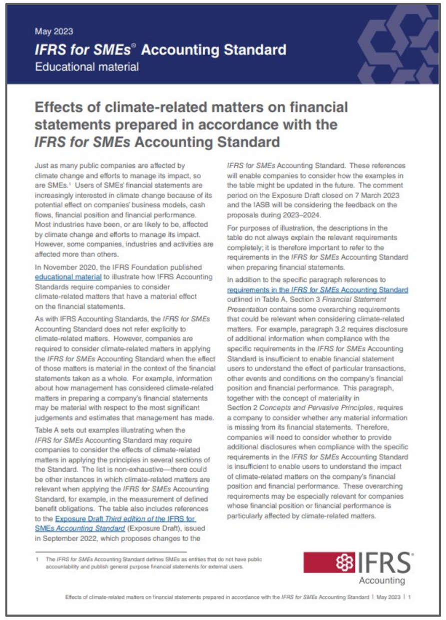


Includes

'Full IFRS'
Educational Material
(July 2023)



IFRS for SMEs Accounting Standard Educational Material
(May 2023)



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
Example 1—Materiality judgements leading to additional disclosures (IAS 1)	• 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.
Example 2—Materiality judgements that do not lead to additional disclosures (IAS 1)	• 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
Example 3—Value in use calculation and disclosures (IAS 36)	• 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.
Example 4—Disclosure of assumptions and other sources of estimation uncertainty (IAS 1)	• 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
Example 5—Disclosure of additional information (IAS 1)	• To illustrate how applying paragraph 31 of IAS 1 could result in an entity disclosing information about assumptions when: 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.
Example 6—Credit risk disclosures (IFRS 7)	• 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)	• 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)	• 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

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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