



**IFRS**<sup>®</sup>  
Foundation

# World Standard-setters Conference 2024

**Connectivity between the  
financial statements and  
sustainability-related  
financial disclosures**

Plenary Session

#WSS2024



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# Presenters



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## Purpose of this session

The IASB and ISSB recognise the importance of connectivity between their respective requirements in enabling companies to provide high-quality financial information to capital markets. This session:

- a) discusses how IFRS Accounting Standards and IFRS Sustainability Disclosure Standards complement each other; and
- b) walks through examples to illustrate how applying the Standards together results in complementary and connected reported information.

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# Agenda

**1** Setting the scene

**2** IFRS Standards—Complementary and connected information

**3** Examples

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# Setting the scene



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# Why do we focus on connectivity?



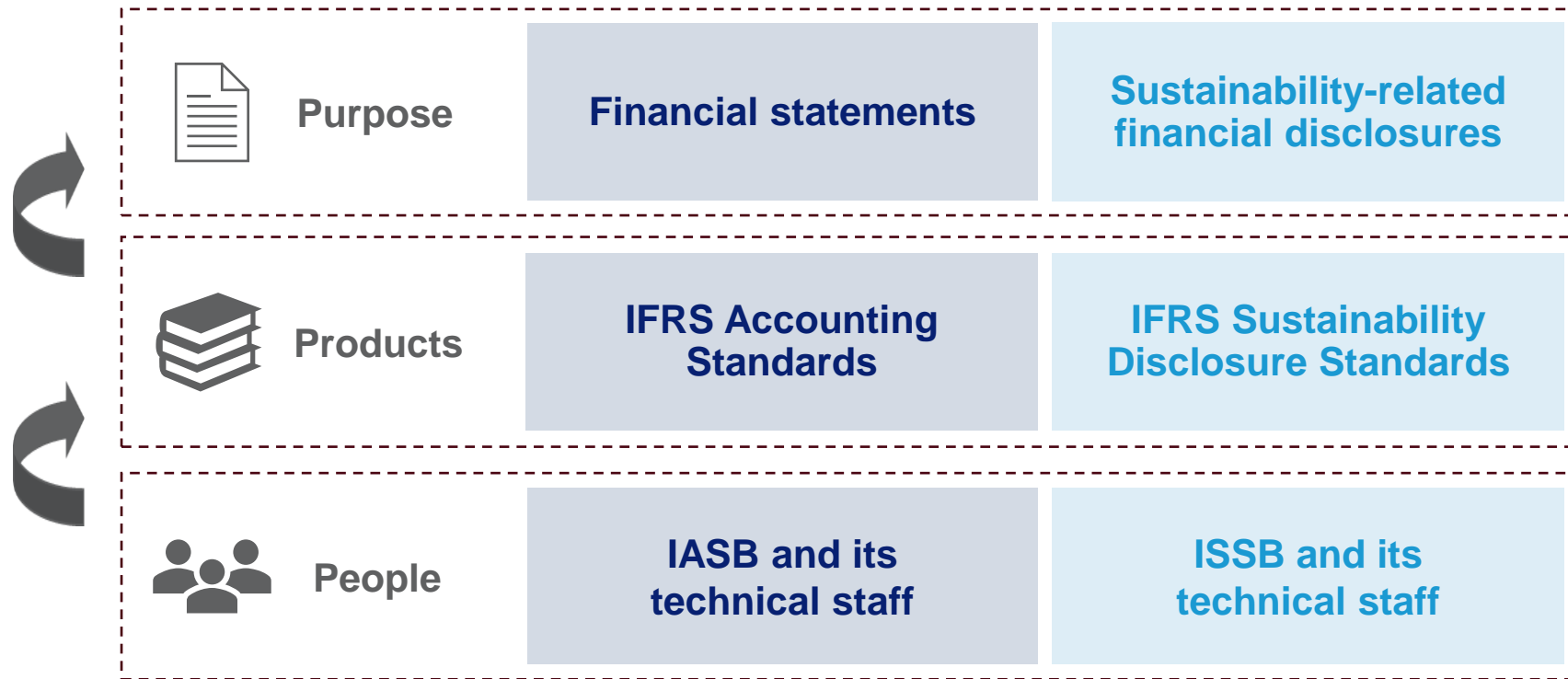
Our **stakeholders**, particularly **investors**, express consistent strong support for connectivity between the IASB and ISSB, connectivity between the boards' respective Standards and connectivity in reporting



The **IFRS Foundation Constitution**:

- establishes the focus on high-quality reporting to meet the needs of investors and other capital market participants
- requires the boards to work together to ensure their respective Standards are compatible and to avoid inconsistencies and conflicts between them

# How do we support connectivity in reporting?



See also article [Connectivity—what is it and what does it deliver?](#)

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# Working together—Examples

Climate-related and Other  
Uncertainties in the Financial  
Statements

IFRS S1 and IFRS S2  
Transition Implementation  
Group

Contracts for  
Renewable  
Electricity

IFRS S1 and IFRS S2  
implementation activities

Digital  
Taxonomies

Consultation on  
Agenda Priorities

Integrated  
reporting

Management  
Commentary

Intangible Assets

IFRS Interpretations  
Committee

Human Capital

Current and Anticipated  
Effects webcast



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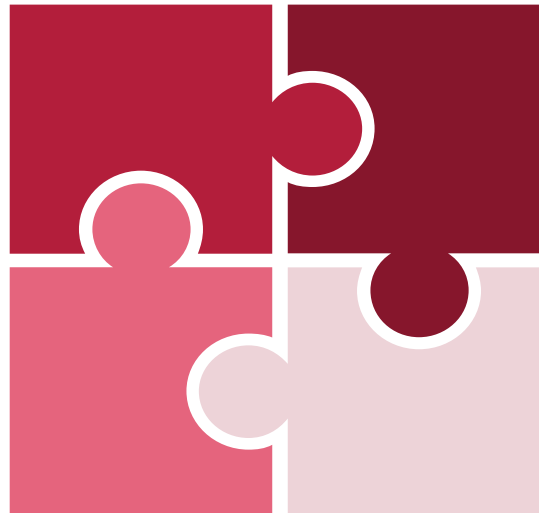
**IFRS Standards**  
*Complementary and  
connected information*



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# IFRS Standards—Stronger together

**Complementary objectives**  
*(slide 11)*



**Connected information**  
*(slide 14–15)*

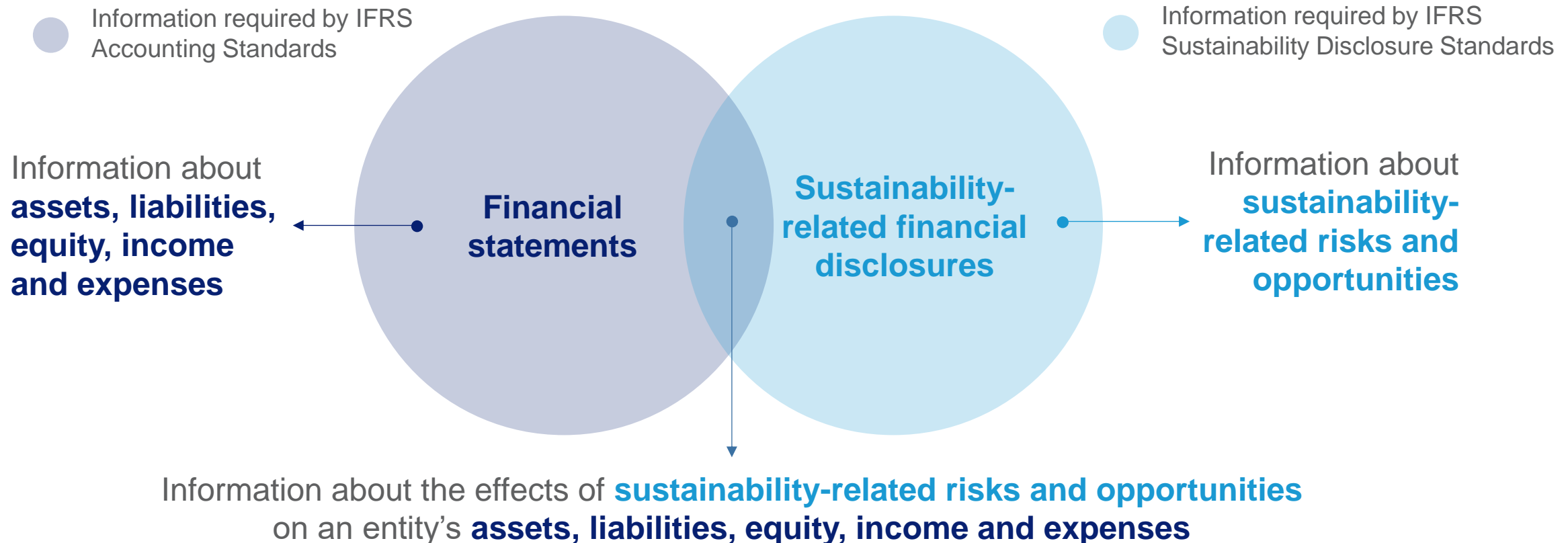
**Shared concepts**  
*(slide 12–13)*



**Complementary perspectives**  
*(slide 16)*

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# Complementary objectives



*Note: The diagram is not intended to represent relative proportions of reported information.*

## Shared concepts



Same target audience:  
investors, lenders and other  
creditors (primary users)



Aligned use of language  
and terminology



Same qualitative  
characteristics of useful  
financial information

...including an aligned **concept of materiality** (see slide 13)

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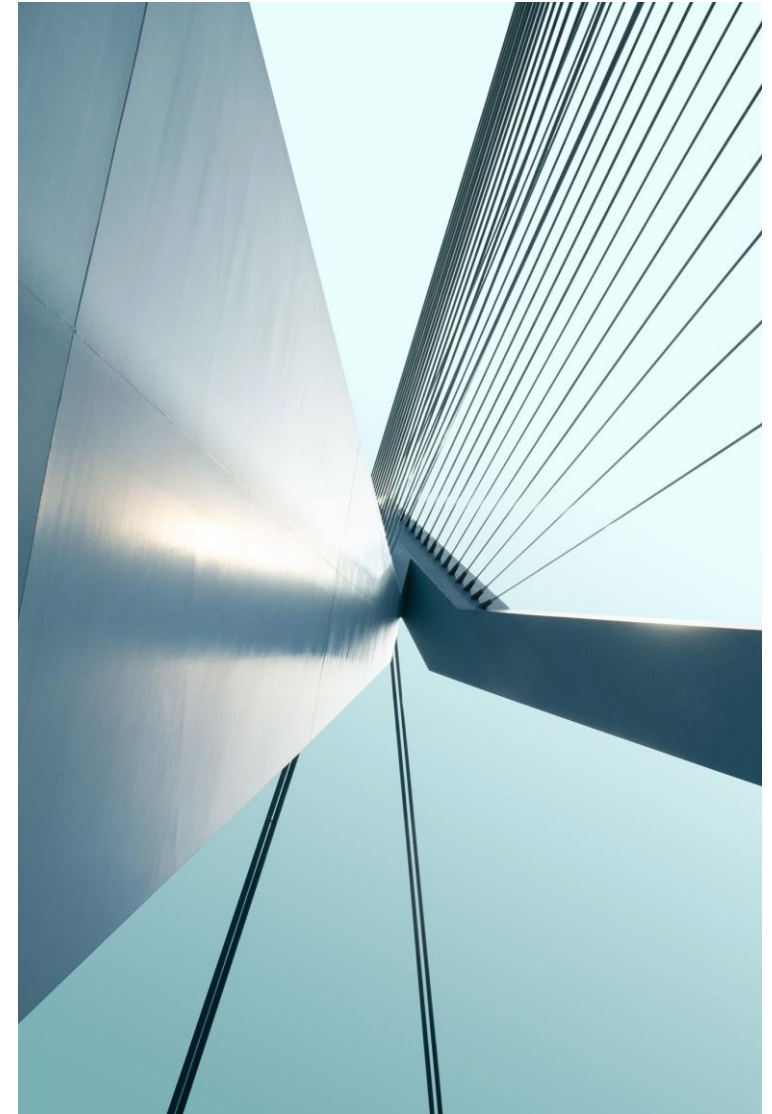
# IFRS concept of materiality

## Aligned definitions of material information

...**information** is **material** if omitting, misstating or obscuring it could reasonably be expected to influence decisions that **primary users** make on the basis of the report(s)...

The **concept of materiality** is applied:

- to **information**, not items or transactions
- considering an entity's **own circumstances**
- in the context of a particular **report's objective**
- in relation to applicable **reporting requirements**



# Connected information—IFRS Sustainability

IFRS Sustainability Disclosure Standards **specifically require connections** with the related financial statements

## *Examples of requirements*



Connected information



Same reporting entity



Same reporting period



Same timing of reporting within GPFR<sup>1</sup>



Same currency



Consistent data



Consistent assumptions



Current and anticipated financial effects

<sup>1</sup> General purpose financial reports

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# Connected information—IFRS Accounting

IFRS Accounting Standards **enable connections** with the related sustainability-related financial disclosures

## *Examples of requirements*



Disclosure about assumptions, judgements and estimation uncertainty



Overarching requirement to disclose material information

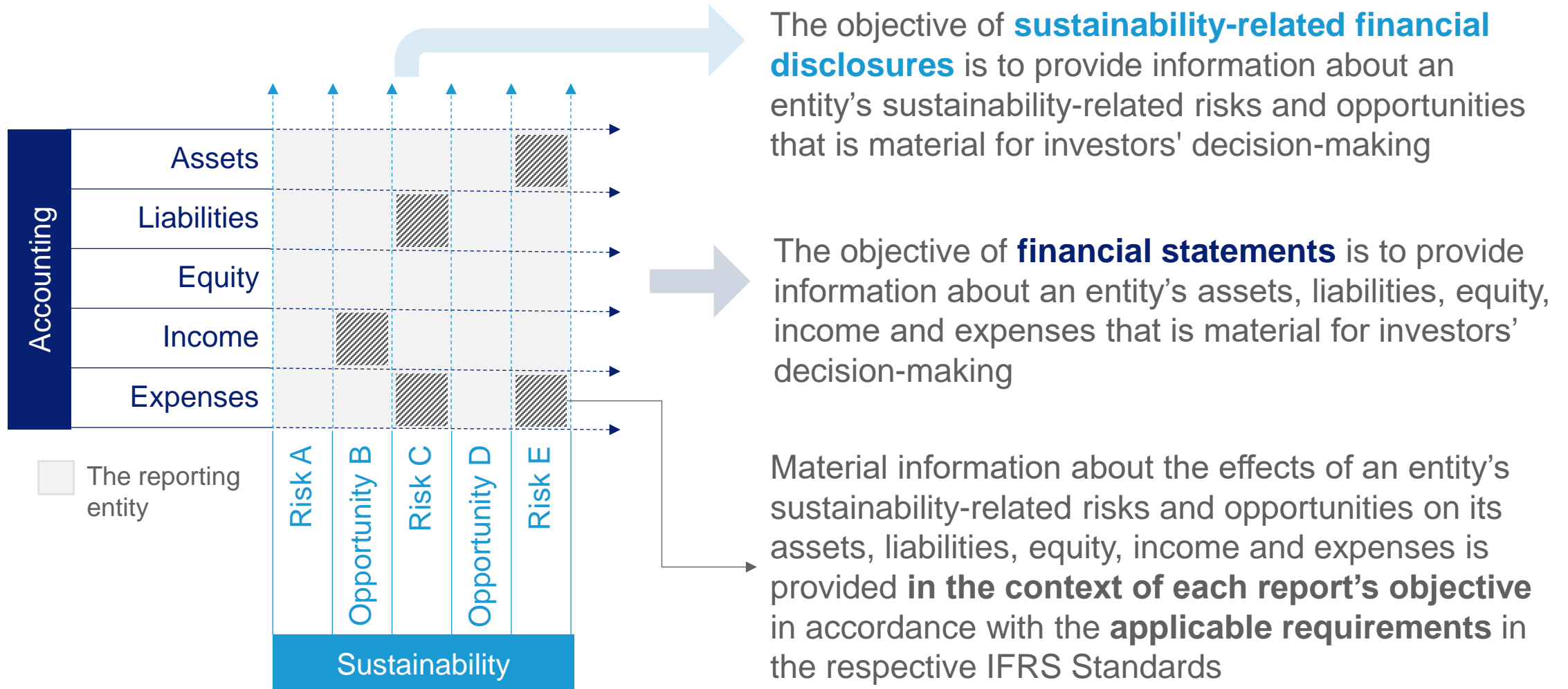


Disaggregation of information



Fair presentation

# Complementary perspectives on the reporting entity





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# Examples



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# Examples

- 1 Climate-related risks and impairment of non-financial assets
- 2 Climate-related opportunities and changes in product mix
- 3 Net-zero commitments

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# Housekeeping

The examples:

- provide **basic illustrations** of how **applying IFRS Standards together** results in **complementary and connected information** in an entity's financial statements and in its sustainability-related financial disclosures
- specifically focus on illustrating how information about **current and anticipated financial effects** in sustainability-related financial disclosures expands on and complements the information in the financial statements
- highlight **other** sustainability-related financial **disclosures and requirements** in IFRS Sustainability Disclosure Standards that are of particular interest in the fact patterns discussed in illustrating complementary and connected information

The examples do **not**:

- illustrate the application of all requirements in IFRS Standards that might be relevant in the fact patterns discussed
- provide complete illustrative disclosures

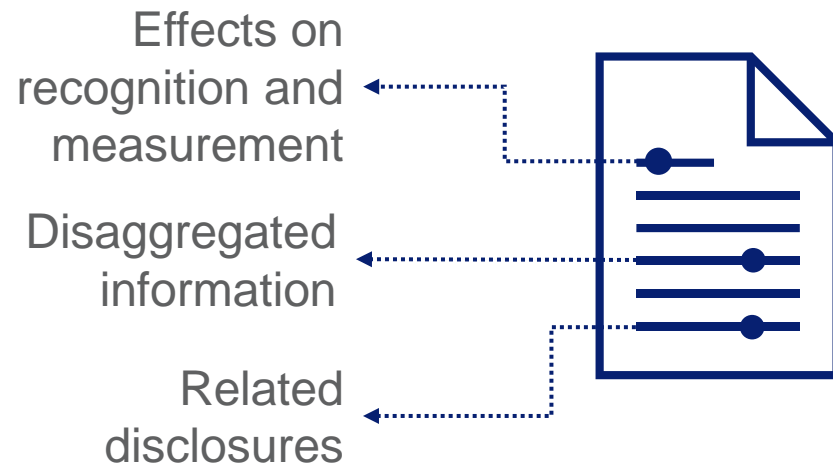
While IFRS Accounting Standards and IFRS Sustainability Disclosure Standards could be applied with different sustainability-reporting standards or different GAAPs, respectively, the examples focus on IFRS Standards applied together

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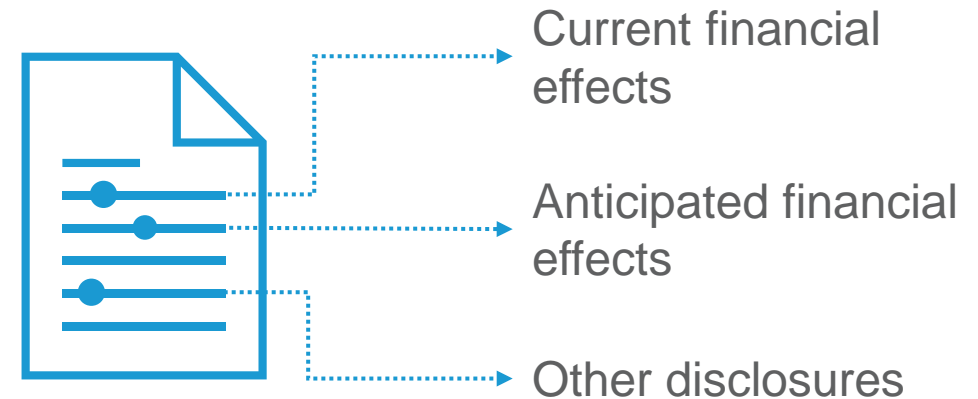
# Structure of the examples

In illustrating complementary and connected information reported in financial statements and in sustainability-related financial disclosures, the examples are presented using a consistent structure

## Financial Statements



## Sustainability-related Financial Disclosures



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## Example 1—Climate-related risks and impairment of non-financial assets



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# Fact patterns

For this topic, we will consider three fact patterns:

- **Example 1A**  
No impairment loss is recognised in the reporting period but there are climate-related key assumptions
- **Example 1B**  
Impairment loss recognised in the reporting period due to a weather-related event
- **Example 1C**  
Impairment loss recognised in the reporting period for which shifting climate-related consumer demands are a contributing factor

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## Example 1A—Key facts



- The entity's operations result in a **high amount** of Scope 1 greenhouse gas (GHG) emissions
- The entity is subject to **GHG emissions regulation** in Jurisdiction A, which requires the entity to acquire GHG emissions allowances for some of its GHG emissions
- The entity has allocated goodwill to CGU A, which includes its operations in Jurisdiction A. The entity tests CGU A for impairment and **recognises no loss**
- Assumptions about the future price of GHG emissions allowances are **key assumptions** for determining the recoverable amount of CGU A
- The entity uses **climate-related scenario analysis** to inform disclosure of its resilience to climate-related risks and opportunities for its operations in Jurisdiction A

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# Illustrating reported information—Accounting

## Effects on recognition and measurement

No financial effects in the reporting period

## Disaggregated information

No financial effects about which to provide disaggregated information

## Related disclosures

The entity discloses information about the impairment test, including:

- that assumptions about the future price of GHG emissions allowances are key assumptions
- its approach to determining the values assigned to the future price of GHG emissions allowances
- additional information when a reasonably possible change to a key assumption would lead to an impairment loss



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# Illustrating reported information—Sustainability

## Current financial effects

The entity explains that the climate-related risk has not had financial effects for the reporting period

## Anticipated financial effects

The entity discloses expected costs of buying GHG emissions allowances—which can be informed by the scenario analysis

## Other disclosures

In its climate resilience disclosures, the entity discloses information about inputs and key assumptions used in its climate-related scenario analysis and assessment

The analysis includes considering a range of outcomes related to the key assumptions about the future price of GHG emissions allowances



To note

IFRS S1 requires the entity to use data and assumptions that are consistent—to the extent possible—with those used in preparing the financial statements

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## Example 1B—Key facts



- The entity has manufacturing facilities in an area subject to climate-related risks such as **increased frequency and severity of floods**
- During the reporting period, a flood event **severely damaged** the entity's facilities in that area
- As a consequence, the entity concludes that the facilities' property, plant and equipment (PP&E), which include buildings and machinery, are **fully impaired** and need replacement

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# Illustrating reported information—Accounting

## Effects on recognition and measurement

Impairment loss recognised in the reporting period

## Disaggregated information

Impairment loss is fully attributable to the flood event

## Related disclosures

The entity discloses:

- that the flood event severely damaged some of its facilities
- the impairment loss amount
- that the damaged assets included items such as buildings and machinery
- that the assets were fully impaired

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# Illustrating reported information—Sustainability

## Current financial effects

The entity discloses that climate-related risks resulted in an impairment loss and the amount of the loss

## Anticipated financial effects

The entity discloses expected costs related to the damaged assets as well as information about insurance costs as a result of the climate-related risks

## Other disclosures

The entity's disclosures prepared using climate-related scenario analyses provide information about the resilience of the entity's business model and strategy to future flood events



To note

Sustainability information (such as information about current financial effects) may be provided, subject to specified criteria, by cross-reference to information in the financial statements

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## Example 1C—Key facts



- The entity is exposed to climate-related transition risks
- Sales of one of the entity's main products, Product C, have been declining due to **adverse economic and market conditions**, and the entity expects that trend to continue
- The adverse market conditions include the effects of shifting consumer demand for Product C related to **climate considerations**
- The entity tests Product C's product line (CGU C) for impairment and recognises an **impairment loss**

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# Illustrating reported information—Accounting

## Effects on recognition and measurement

Impairment loss recognised in the reporting period

## Disaggregated information

The entity does not provide disaggregated quantitative information about the effects of various factors on the impairment loss it recognised

## Related disclosures

The entity discloses information about the impairment, including:

- that adverse market and economic conditions led to the impairment loss
- the impairment loss amount
- information about the measurement of CGU C's recoverable amount

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# Illustrating reported information—Sustainability

## Current financial effects

The entity discloses that climate-related transition risks contributed to the impairment loss and the amount of the loss attributable to that factor

## Anticipated financial effects

The entity discloses expected effects on revenue from sales of Product C due to climate-related transition risks

## Other disclosures

The entity discloses information about its plan to respond to the climate-related transition risks, including key assumptions, such as information about products that it plans to develop in response to changing demands



To note

An entity need not provide quantitative information about the current or anticipated financial effects of a climate-related risk or opportunity if those effects are not separately identifiable or if the level of measurement uncertainty is so high that the information would not be useful. In those cases, an entity provides qualitative and aggregated quantitative information about the financial effects

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## Example 2—Climate-related opportunities and changes in product mix





## Key facts



- An entity manufactures and sells a range of **internal combustion engine (ICE) vehicles**. To support ongoing sales of the vehicles, the entity also sells spare parts and provides financing services to customers
- In 20X0, the entity identifies a climate-related opportunity to change the mix of vehicles it sells and decides to move towards selling **electric vehicles (EVs)** in addition to ICE vehicles
- The entity sets a **target** to achieve 60% of vehicles sold being EVs by 20X8. The entity plans to modify its manufacturing processes to increase its EV production. Sales of EVs begin in 20X3 but are small relative to total vehicle sales

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## Illustrating reported information—20X3—Accounting

### Effects on recognition and measurement

The entity recognises revenue for vehicles sold and inventory for vehicles not sold (both EVs and ICE vehicles)

### Related disclosures

The entity provides other related revenue and inventory disclosures

### Disaggregated information

The entity disaggregates:

- revenue applying the requirements in IFRS 15, for example by its major product lines (vehicles, spare parts and financing). Revenue might need to be disaggregated into more than one type of category to meet those requirements (for example, revenue from sales of EVs and ICE vehicles)
- inventories' carrying amount into appropriate classifications

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# Illustrating reported information—20X3—Sustainability

## Current financial effects

The entity discloses:

- the amount of revenue attributable to sales of EVs and ICE vehicles
- the carrying amount of EVs and ICE vehicles inventory

## Anticipated financial effects

The entity discloses:

- that revenue from EV sales is expected to grow and replace ICE vehicle sales and that inventory is expected to change accordingly
- the expected investment to modify its manufacturing processes to increase its production of EVs

## Other disclosures

The entity discloses information about:

- the climate-related opportunity—including current and anticipated effects on its business model
- the target to achieve 60% of sales being EVs
- capital investment and funding plans to implement its strategy

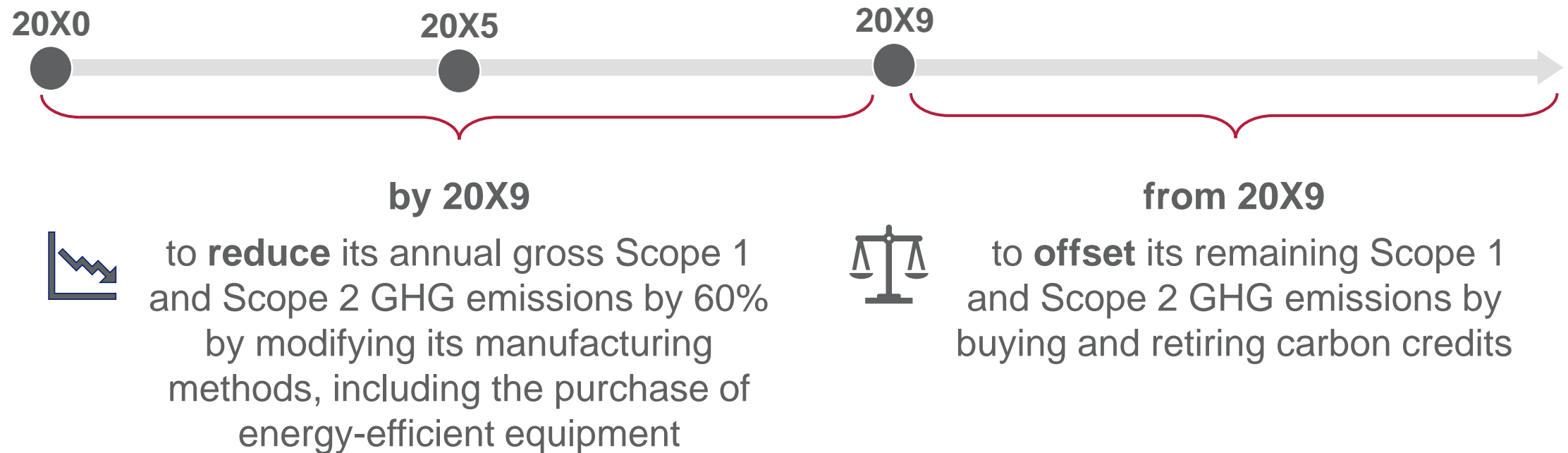
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## Example 3—Net zero commitments



## Key facts

In 20X0, an entity publicly states its commitment to transition to 'net zero' from 20X9



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## Illustrating reported information—20X0—Accounting

### Effects on recognition and measurement

No financial effects in the reporting period

### Disaggregated information

No financial effects about which to provide disaggregated information

### Related disclosures

The entity discloses:

- that its transition plan has no effect on its financial position and financial performance and explains why, if that information is material in the context of the financial statements
- the amount of contractual commitments to acquire property, plant and equipment (if any)

# Illustrating reported information—20X0—Sustainability

## Current financial effects

The entity explains that its transition plan to address its climate-related risks has not had financial effects in the reporting period

## Anticipated financial effects

The entity discloses information about the planned purchases of energy-efficient equipment and carbon credits and related sources of funding, including quantitative information

## Other disclosures

The entity provides information about its transition plan and its net-zero target, including:

- how the entity plans to achieve its net-zero target and its gross GHG emissions target
- that its net-zero target covers gross Scope 1 and Scope 2 GHG emissions and that the entity plans to use carbon credits to offset any remaining such emissions



To note

An entity need not provide quantitative information about anticipated financial effects if the entity does not have the skills, capabilities or resources to provide that quantitative information

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## Illustrating reported information—20X5—Accounting

### Effects on recognition and measurement

Energy-efficient equipment is recognised as an asset and depreciated over its useful life

### Disaggregated information

An entity disaggregates information about energy-efficient equipment if that information is material in the context of the financial statements

### Related disclosures

The entity discloses the purchases of equipment as additions to each class of property, plant and equipment as part of their carrying amount reconciliation



# Illustrating reported information—20X5—Sustainability

## Current financial effects

The entity discloses information about purchases of the energy-efficient equipment, the carrying amount of that equipment and related depreciation expense

## Anticipated financial effects

The entity discloses information about the planned purchases of energy-efficient equipment and carbon credits and related sources of funding, including quantitative information



To note

An entity need not provide quantitative information about anticipated financial effects if the entity does not have the skills, capabilities or resources to provide that quantitative information

## Other disclosures

The entity discloses information about the transition plan and the net-zero target, including information about:

- the progress in executing the transition plan
- its performance against its net-zero target
- the planned use of carbon credits, including information about the credibility and integrity of those credits

# Closing remarks

- Financial statements and sustainability-related financial disclosures provide **complementary perspectives** on a reporting entity
- Applying IFRS Standards together enables the provision of **complementary and connected information** for investors and other capital market participants
- **Collaboration** between the boards and their technical staff is a foundational activity that underpins everything we do



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