



Australian Government

Australian Accounting Standards Board

Application of IFRS Practice Statement 2: *Making Materiality Judgements* to reporting climate related and other emerging risk issues on financial statements

Presented by:

**Australian Accounting
Standards Board**

2 April 2019

What have we heard?

- Existing and potential investors are increasingly demanding more specific information about an entity's exposure to, and management of, climate-related risks
- Investors have specifically identified climate-related risks as being used in their decision making, but not being adequately addressed in annual reports

Vanguard, BlackRock, HSBC call for climate risk disclosure

Katie Kross · November 13, 2017

- BlackRock**, the world's largest asset manager, called for investors to factor climate change risk into investment decisions in a much publicized move in 2016. [Read more >](#)
- Vanguard Group** announced in Aug. that it is urging companies to disclose how climate change could affect their business and asset valuations. [Read more >](#)
- In Nov., **HSBC** announced it will provide \$100 billion in financing by 2025 for clean energy and lower-carbon technologies and that it will adopt the recommendations of the Task Force on Climate-related Financial Disclosures. [Read more >](#)

Notice of annual general meeting

Whitehaven Coal Limited ACN 124 425 396



Briefing Paper on the 2018 Global Investor Statement to Governments on Climate Change

This Briefing Paper accompanies the 2018 Global Investor Statement to Governments on Climate Change. It has been prepared by seven investor organizations including the Asia Investor Group on Climate Change (AIGCC, Asia), CDP, Ceres (North America), the Investor Group on Climate Change (IGCC, Australia/New Zealand), the Institutional Investor Group on Climate Change (IIGCC, Europe), Principles for Responsible Investment (PRI) and the UN Environment Finance Initiative (UNEP FI). These groups collectively represent hundreds of investors worldwide with billions of dollars in assets under management.

BLACKROCK

BlackRock Investment Stewardship's approach to engagement on climate risk

We have received a number of inquiries from clients and others about how BlackRock Investment Stewardship analyzes and engages companies on climate risk. The following is intended to explain our approach to a broader audience.



Glencore to cap global coal output after climate change pressure

Super funds demand climate reporting as one of their own faces court action

CBA hit with climate change court action from shareholders (Australian Financial Review)

By EJA Comms | August 8, 2017



Australian Government

Australian Accounting Standards Board

What?

- Investors publicly stating that their decisions are being impacted by climate-related risks
- Climate-related risks and other emerging risks are currently predominantly discussed outside the financial statements
- Entities can no longer treat climate-related risks as merely a matter of corporate social responsibility and **should consider them also in the context of their financial statements.**

So what:

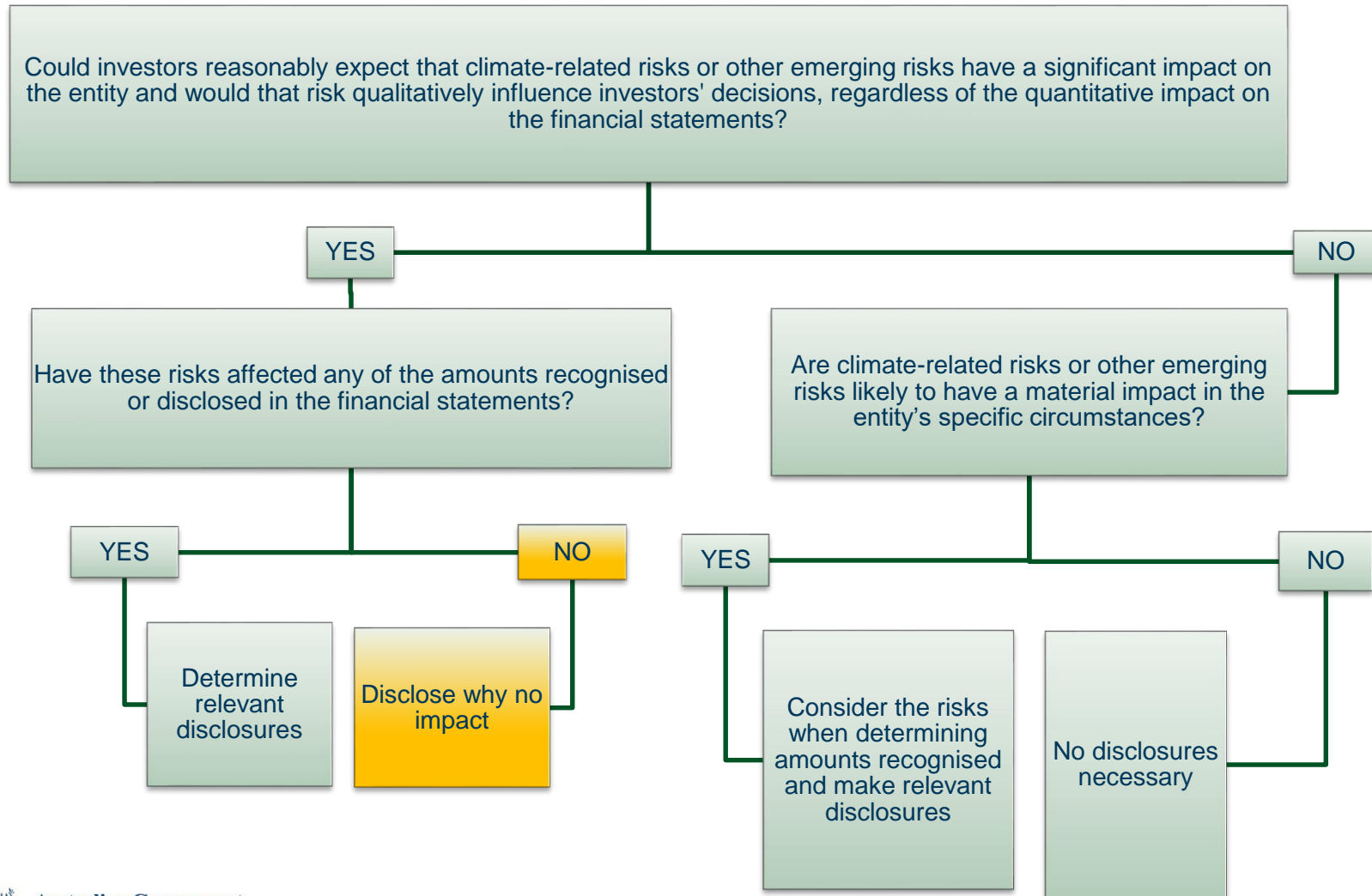
- The AASB and AUASB has issued a bulletin on **Climate-related and other emerging risks disclosures: assessing financial statement materiality using IFRS Practice Statement 2** which guides directors, preparers and auditors when preparing and auditing financial statements.



Now what?

- The AASB and AUASB expect that directors, preparers and auditors will be considering IFRS Practice Statement 2 *Making Materiality Judgements*, when preparing and auditing financial statements for their next half and full year ends.

How does PS 2 apply to disclosing climate-related and other emerging risks in financial statements?



High-level review of “climate” related content in annual reports for 2018 of listed entities by the AASB

What does latest research indicate?

Report on Climate Risk Disclosure Barometer 2018 published by EY

Only 8% of ASX100 entities and 2% of ASX101-200 entities have disclosed some form of climate-related contents within the financial statements

Less than 10 companies out of 144 companies subject to review had climate-related risks disclosures within the financial Statements

What's next?

Create awareness

Lead to new and extra disclosures

Monitor the change in the future

Summary of feedback received



Investors are already asking questions on impact of climate-related and other risks on the entity from the sustainability team

Shareholders are asking questions on impact of climate-related and other risks from the directors and auditors at the AGM

Not only investors, creditors, insurers and customers are also questioning the entity

We have received positive feedback from:

- regulators
- the IASB and the other standard setters eg. FRC UK Reporting Lab
- Lawyers, investors, preparers and sustainability practitioners

The dividing line on what's in financials appears blue

Sustainability team and finance team should work together when assessing impact

Directors have a responsibility to disclose this information in the financial statements

If there is no impact, that fact should be disclosed

PS 2 cannot be ignored because it is "non-mandatory"

If climate-related risk information included outside the FS, that indicates the fact that it needs to be considered in the context of FS as well

Question 1

Do you agree with the application of IFRS Practice Statement 2 to disclosing climate-related and other emerging risk issues in the financial statements?

Question 2

Do you think we have got balance right in encouraging extra disclosures without saying have to include climate-related risks in assumptions?

Question 3

Are there any similar recent developments in ASAF member jurisdictions in response to the increasing demand for climate-related and other emerging risks disclosures?

